

ORIGINAL

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Form 3110-2 (January 1978)

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BUREAU OF LAND MGMT
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UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIVED MAR 3 1980

STATE OFFICE
SANTA FE, N.M.
LEASE FOR OIL AND GAS
(Sec. 17 Noncompetitive Public Domain Lease)
Act of February 25, 1920 (41 Stat. 437), as amended (30 U.S.C. 181-263)

Name
Street
City
State
Zip Code
Don Wright
P. O. Box 5771
Abilene, Texas 79605
Abilene

NM 38636
(Serial Number)

This oil and gas lease is issued for a period of ten (10) years to the above-named lessee pursuant and subject to the provisions of the Mineral Leasing Act and subject to all rules and regulations of the Secretary of the Interior now or hereafter in force, when not inconsistent with any express and specific provisions herein, which are made a part hereof.

Lands included in the lease: State: New Mexico County: Eddy

- T. 26 S., R. 29 E., NMPM
- Sec. 27: N $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$, N $\frac{1}{2}$ S $\frac{1}{2}$, SW $\frac{1}{2}$ SW $\frac{1}{4}$
(excluding 38.08 acres lying within the Red Bluff Reservoir)
- 28: All (excluding 203.9 acres lying within the Red Bluff Reservoir)
- 29: N $\frac{1}{2}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{2}$ SE $\frac{1}{4}$

LANDS IN OFFER WERE NOT WITHIN
A KNOWN GEOLOGICAL STRUCTURE
ON

JAN 11 1980
M.T. Wingard
Acting Area Geologist
For The Director
U. S. Geological Survey

NOTED
S/R
HI
MTP
CG 1/25/80
USE
COAL
FOT
GEO

Containing a total of 1,318.02 acres Annual Rental \$ 1,319.00

This lease is issued to the successful drawee pursuant to his "Simultaneous Oil and Gas Entry Card" application filed under 43 CFR 3112, and is subject to the provisions of that application and those specified on the reverse side hereof.

Effective date of lease: FEB - 1 1980

THE UNITED STATES OF AMERICA
By *Paul E. Martine*
(Signature of Signing Officer)
Chief, Oil & Gas Section
(Title)

JAN 23 1980
(Date)

NOTED
S/R
HI
MTP
CG
USE
COAL
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GEO

1301
has been
met
pg 10

2-16-80
Bureau of Land Management
Date: NMSO

I hereby certify that this reproduction is a copy of the original record on file in this office. Consists of 4 pages.
Shirley Ann [Signature]
Authorized Signatory

RECEPTION 951996
MALLON OIL CO
999 18th ST STE 1700
DENVER CO 80202

CC: Gen. Carl Amador, TX

Oil Conservation Division
Case No. 2
Exhibit No. 2

Sec. 1. Rights of lessee.—The lessee is granted the exclusive right and privilege to drill for, mine, extract, remove, and dispose of all the gas and oil and other substances in the lands leased, together with the right to construct and maintain thereupon, all works, buildings, plants, waterways, roads, telegraph or telephone lines, pipelines, reservoirs, tanks, pumping stations, and other structures necessary for the full enjoyment thereof, for a period of 10 years, and so long thereafter as oil or gas is produced in paying quantities; subject to any unit agreement heretofore or hereafter approved by the Secretary of the Interior in the provisions of an agreement between the landowner and the lessee which is not inconsistent with the provisions of this lease.

Sec. 2. The lessee agrees:

(1) To file any bond required by this lease and the current regulations and to maintain such bond in full force and effect on the land under this lease. (2) To maintain any bond furnished by the lessee as a condition for the issuance of this lease. (3) To furnish a bond in a sum double the amount of \$2 per acre annual rental but not less than \$1,000 nor more than \$10,000, upon the inclusion of any part of the leased land within the known geologic structure of a producing oil or gas field. (4) To furnish prior to beginning of drilling operations and maintain at all times thereafter as required by the lessor a bond in the penal sum of \$10,000 with approved corporate surety, or with deposit of United States bonds as surety therefor, conditioned upon compliance with the terms of this lease, unless a bond in such amount is already being maintained or unless such a bond furnished by an operator of the lease is accepted. (5) Until a general lease bond is filed to furnish and maintain a bond in the penal sum of not less than \$1,000 in those cases in which a bond is required by law for the protection of the public safety rights. In lieu of any of the bonds described herein, the lessee may file such other bond as the regulations may permit.

(6) **Cooperative or unit plan.**—Within 30 days of demand, or, if the leased land is committed to an approved cooperative or unit plan for the operation and production of oil or gas, to subscribe to and operate under such reasonable cooperative or unit plan for the operation and production of oil or gas, or pool, or part thereof, embracing the lands included herein as the Secretary of the Interior may then determine to be practicable and necessary or advisable, which plan shall adequately protect complete operations of the well, including the interests of all men and lessees; and to pay all royalties and rentals as paid into different funds than are those of this lease; or in lieu of any part of such drilling and production, with the consent of the Director of the Geological Survey, to compensate the lessee in full each month for the estimated loss of royalty through drainage in the amount determined by said Director; (2) at the election of the lessee, to drill and produce other wells in conformity with any unit plan or other plan which is authorized and sanctioned by applicable law or by the Secretary of the Interior; and (3) promptly after due notice in writing to drill and produce such other wells as the Secretary of the Interior may reasonably require in order that the leased premises may be properly and timely developed and produced in accordance with good operating practice.

(7) **Rentals and royalties.**—(1) To pay rentals and royalties in amounts or value of production removed or sold from the leased lands as follows:

- Rentals.**—To pay the lessor in advance an annual rental at the following rates:
- (a) If the lands are wholly outside the known geologic structure of a producing oil or gas field:
 - (i) For each lease-year a rental of \$1.00 per acre or fraction of an acre.
 - (b) If the lands are wholly or partly within the known geologic structure of a producing oil or gas field:
 - (i) Beginning with the first lease year after 30 days' production on all or part of the land included in such a structure and for each year thereafter, prior to a discovery of oil or gas on the lands leased, \$2 per acre or fraction of an acre.
 - (ii) If this lease is committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, the rental payable for the respective lease year in each paragraph (a) of this section, shall apply to the acreage not within a participating area.

Minimum royalty.—Commencing with the lease year beginning on or after a discovery on the leased lands, the lessee in lieu of rental, a minimum royalty of \$1 per acre or fraction thereof at the expiration of each lease year, or the difference between the actual royalty paid during the year if less than \$1 per acre, and the prescribed minimum royalty of \$1 per acre, provided that if this lease is unitized, the minimum royalty shall be payable only on the participating acreage and rental shall be payable on the nonparticipating acreage as provided in subparagraph (b)(ii) above.

Royalty on production.—(1) To pay the lessor 12 1/2 percent royalty on the production removed or sold from the leased lands computed in accordance with the Oil and Gas Operating Regulations (30 CFR Pt. 221).

(2) It is expressly agreed that the Secretary of the Interior may establish reasonable minimum values for purposes of computing royalty on any or all oil, gas, natural gasoline, and other products obtained from gas, due consideration being given to the highest price paid for a part or for a majority of production of like quality in the same field, to the price received by the lessee, to posted prices, and to other relevant matters and, whenever appropriate, after notice and opportunity to be heard.

(3) When paid in value, such royalties on production shall be due and payable monthly on the last day of the calendar month next following the calendar month in which produced. When paid in amount of production, such royalty production shall be delivered in merchantable condition on the premises where produced without cost to lessor, unless otherwise agreed to by the parties hereto, at such times and in such quantities as may be reasonably required by the lessor, but in no case shall the lessee be required to hold such royalty oil or other products in storage beyond the last day of the calendar month next following the calendar month in which produced nor be responsible or held liable for the loss or destruction of royalty oil or other products in storage from causes over which he has no control.

(4) Rentals or minimum royalties may be waived, suspended or reduced, and royalties on the entire leasehold or any portion thereof aggregated for royalty purposes may be reduced if the Secretary of the Interior finds that, for the purpose of encouraging the greatest ultimate recovery of oil or gas and in the interest of conservation of natural resources, it is necessary, in his judgment, to do so in order to promote development, or because the lease cannot be successfully operated under the terms fixed herein.

(5) **Payments.**—Unless otherwise directed by the Secretary of the Interior, to make rental, royalty, or other payments to the lessor, to the order of the Bureau of Land Management at the places mentioned in the regulations in 43 CFR 3102.2. If there is no well on the leased lands capable of producing oil or gas in paying quantities, the failure to pay rental on or before the anniversary date shall automatically terminate the lease by operation of law. However, if the time for payment falls on a day in which the proper office to receive payment is closed, payment shall be deemed timely if made on the next official working day.

(6) **Contracts for disposal of products.**—To file with the Oil and Gas Supervisor of the Geological Survey not later than 30 days after the effective date thereof any contract, evidence of such arrangement, for the sale or disposal of oil, gas, natural gasoline, and other products of the leased lands; provided, that nothing in any such contract or other arrangement shall be construed as modifying any of the provisions of this lease, including but not limited to, provisions relating to gas waste, taking royalty in kind, and the method of computing royalties due as based on a minimum valuation and in accordance with the Oil and Gas Operating Regulations.

(7) **Statements, plats and reports.**—At such times and in such form as the lessor may prescribe, to furnish detailed statements showing the amounts and quality of all products removed and sold from the lease, the proceeds therefrom, and the amount used for production purposes or unavailably lost; that show development work and improvements on the leased lands; and a report with respect to stockholders, investments, depreciation and costs.

(8) **Well records.**—To keep a daily drilling record, a log, and complete information on all well surveys and tests in form acceptable to or prescribed by the lessor of all wells drilled on the

leased lands, and an acceptable record of all subsurface investigations affecting said lands, and to furnish them, or cause them to be made, to the lessor when required. All information obtained under this paragraph, upon the request of the lessor, shall be open to inspection by the public until the expiration of the lease.

(9) **Inspection.**—To keep open at all reasonable times for the inspection of any duly authorized officer of the Department of the Interior the leased premises and all wells, improvements, machinery, and fixtures thereon and all books, accounts, maps and records relating to the operations and surveys or investigations on the leased lands or under the lease. All information obtained pursuant to any such inspection, upon the request of the lessee, shall not be open to inspection by the public until the expiration of the lease.

(10) **Diligence, prevention of waste, health and safety of workmen.**—To exercise reasonable diligence in drilling and producing the wells herein provided for unless consent to suspend operations temporarily is granted by the lessor; to carry on all operations in accordance with approved methods and practice as required in the Oil and Gas Operating Regulations, having due regard for the prevention of waste of oil or gas or damage to deposits or formations containing oil, gas, or water or to coal measures or other mineral deposits; for conservation of gas energy, for the preservation and conservation of the property for future productive operations, and for the health and safety of workmen and employees; to improve and effectively seal all wells drilled in accordance with the provisions of this lease or of any prior lease or permit upon which the right to this lease was based before abandoning the same; to carry out at expense of the lessee all operations necessary to carry out the provisions of this paragraph, and that on failure of the lessee so to do the lessor shall have the right to enter on the property and to accomplish the purpose of such orders at the lessee's expense. Provided, that the lessee shall be held responsible for delays or casualties occasioned by causes beyond lessee's control.

(11) **Taxes and wages, freedom of purchase.**—To pay when due all taxes lawfully assessed and levied under the laws of the State or the United States upon improvements, oil, and gas produced from the lands hereunder, or other rights, property, or assets of the lessee; to accord all workmen and employees complete freedom of purchase, and to pay all wages due workmen and employees at least twice each month in the lawful money of the United States.

(12) **Equal Opportunity clause.**—During the performance of this lease, the lessee agrees as follows:

(1) **Equal Opportunity clause.** During the performance of this lease, the lessee agrees as follows:

(1) The lessee will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. It is the policy of the lessee to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but is not limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training or apprenticeship. The lessee agrees to post notices in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this Equal Opportunity clause.

(2) The lessee will, in all solicitations or advertisements for employees placed by or on behalf of the lessee, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(3) The lessee will send to each labor union or representative of workers whose solicitation or recruitment agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the lessee's commitments under this Equal Opportunity clause, and a copy of the notice in conspicuous places available to employees and applicants for employment.

(4) The lessee will comply with all provisions of Executive Order No. 11246 of September 24, 1965, as amended, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The lessee will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, as amended, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to such information and reports by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the lessee's noncompliance with the Equal Opportunity clause of this contract or with any of the said rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, as amended, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, as amended, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The lessee will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, as amended, so that such provisions will be binding upon each subcontractor or vendor. The lessee will take such action with respect to any subcontract or purchase order as the contracting agency may direct or require in order to carry out the provisions including sanctions for noncompliance. Provided, however, that in the event the lessee becomes involved in a lawsuit or is threatened with a lawsuit by a subcontractor or vendor as a result of such direction by the contracting agency, the lessee may request the United States to enter into such litigation to protect the interests of the United States.

(8) **Assignment of oil and gas lease or interest therein.**—As required by applicable law, to file for approval by the lessor any instrument of transfer made of this lease or any interest therein, including assignments of record title, operating agreements and subleases, working or royalty interests, within 90 days from the date of final execution thereof.

(9) **Pipelines to purchase or convey at reasonable rates and without discrimination.**—If owner, or operator, or owner of a controlling interest in any pipeline or of any company operating the same which may be operated accessible to the oil or gas derived from lands under this lease, to accept and convey and, if a purchaser of such products, to purchase at reasonable rates and without discrimination any oil or gas for the use of the lessee, or for the use of any other person, or for the use of any other citizen or company not the owner of any pipeline, operating a lease or purchasing or selling oil, gas, natural gasoline, or other products under the provisions of the act, or under the provisions of the act of August 7, 1947 (16 U.S.C. Sec. 480).

(10) **Lands patented with oil and gas deposits reserved to the United States.**—To comply with all statutory requirements and regulations thereunder, if the lands embraced herein have been shall hereafter be disposed of under the laws relating to the United States the deposits of oil and gas therein, subject to such conditions as are or may hereafter be provided by the laws reserving such oil or gas.

(11) **Reserved or segregated lands.**—If any of the land included in this lease is embraced in a reservation or segregated for any particular purpose, to conduct operations thereunder in conformity with such requirements as may be made by the Director, Bureau of Land Management, or the Secretary of the Interior of the land for the purpose for which it was reserved or segregated, so far as may be consistent with the use of the land for the purpose of this lease which latter shall be regarded as the dominant use unless otherwise provided herein or separately stipulated.

(12) **Protection of surface, natural resources, and improvements.** The lessee agrees to take such reasonable steps as may be necessary to prevent operations from being conducted in a manner which will cause or contribute to soil erosion or damage crops, including forage, and timber growth thereon or on Federal or non-Federal lands in the vicinity; (2) polluting air or water; (3) damaging improvements owned by the lessee or other parties; (4) destroying, damaging or removing fossils, or other prehistoric ruins, or artifacts upon any part of or

total relinquishment or the cancellation or expiration of this lease; or at any other time prior thereto when required and to the extent deemed necessary by the lessor to fill any pits, ditches and other excavations, remove or cover all debris, and so far as reasonably possible, restore the surface of the leased land and access roads to their former condition, including the removal of structures as and if required. The lessor may prescribe the steps to be taken and restoration to be made with respect to the leased lands and improvements thereon whether or not owned by the lessee, and the lessee shall be held responsible for the cost thereof. When American antiquities or other objects of historic or scientific interest including but not limited to historic or prehistoric ruins, fossils or artifacts are discovered in the performances of this lease, the lessee shall immediately bring to the attention of the contracting officer or his authorized representative.

(13) **Overriding royalties.**—Not to create overriding royalties in excess of five percent except as otherwise authorized by the regulations.

(14) **Deliver premises in cases of forfeiture.**—To deliver up to the lessor in good order and condition the land leased including all improvements which are necessary for the preservation of producing wells.

Sec. 3. The lessee reserves:

(1) **Estates and right-of-way.**—The right to permit for joint or several use of the surface and subsurface of the lands, easements in tunnels upon, through, or in the lands leased, occupied, or used as may be necessary or appropriate to the working of the mine or of other lands containing the deposits described in the act, and the treating of the lands, or the lands owned or under authority of the Government, its lessees or permittees, and for other public purposes.

(2) **Disposition of surface.**—The right to lease, sell, or otherwise dispose of the surface of the leased lands under any law or laws hereafter enacted, insofar as said surface is, not necessary for the use of the lessee in the extraction and removal of the oil and gas therein, or to dispose of any resources in such lands which will not necessarily interfere with operations under this lease.

(3) **Monopoly and fair prices.**—Full power and authority to promulgate and enforce all orders necessary to insure the sale of the leased lands to the public at reasonable prices, to protect the interests of the United States, to prevent monopoly, and to safeguard the public welfare.

(4) **Helium.**—Pursuant to Section 1 of the act as amended, the ownership of helium and the right to extract or have it extracted from all gas produced under this lease, subject to such regulations as shall be prescribed by the Secretary of the Interior. If the lessor elects to take the helium, the lessee shall deliver all or any portion of gas containing the same to the lessor, in the manner required by the lessor, at any point on the leased lands, or, if the area is saved for the production of oil or gas by a gas-gathering system owned or operated by the lessee, at any point in that system specified by the lessor, for extraction of the helium by such means as the lessor may provide. The residue shall be delivered to the lessee, within a substantial time after the delivery of the gas produced from the well to the owner or purchaser thereof. Save for the value of the helium extracted, the lessee shall not suffer a diminution of the value of the gas produced from the well, or loss otherwise, including any expense caused solely by the requirement of the delivery of the gas to permit the extraction of helium, for which he is not reasonably compensated. The lessor reserves the right to erect, maintain, operate any and all reduction necessary for extraction of helium on the leased premises. The lessee further agrees to include in any contract of sale of gas from the lands subject to this lease provisions setting forth that the lessor owns, and retains the right to extract or have extracted, any helium contained in the gas, and that the lessor may take the gas from a pipeline carrier or any other gas-gathering system and extract the helium and return the gas to the owner thereof, without delay other than that necessary for the extraction process, and that the lessor shall not suffer any diminution of the value of the gas from which helium has been extracted, or any other loss arising from the extraction of helium, including any expense caused solely by the requirement of the delivery of the gas to permit the extraction of helium, for which he is not reasonably compensated. It is further agreed that any rights reserved vest in the lessor under this paragraph shall also run to any agent or assignee of the lessor or any purchaser of the leased lands.

(5) **Taking of royalties.**—All rights pursuant to section 36 of the act to take royalties in amount or in value of production.

(6) **Severance.**—All rights pursuant to section 40 of the act to purchase, severance, and lease the leased lands.

Sec. 4. Drilling and producing restrictions.—It is agreed that the rate of prospecting and developing and the quantity and rate of production from the lands covered by this lease shall be subject to control in the public interest by the Secretary of the Interior, and in the exercise of his judgment the Secretary may take into consideration, among other things, Federal laws, State laws and regulations issued thereunder, or lawful agreements among operators regulating either drilling or production or both. After utilization, the Secretary of the Interior, or any person, committee, or State or Federal officer or agency so authorized in the unit plan, may alter or modify from time to time, the rate of prospecting and development, and the quantity and rate of production from the lands covered by this lease.

Sec. 5. Surrender and termination of lease.—The lessee may surrender this lease or any legal subdivision thereof by filing in the proper land office a written relinquishment or abandonment which shall be effective as of the date of filing subject to the continued obligation of the lessee and his surety to make payment of all accrued rentals and royalties and to place all wells on the land to be relinquished in condition for suspension or abandonment in accordance with the applicable lease terms and regulations.

Sec. 6. Purchase of materials, etc., on termination of lease.—Upon the expiration of this lease, or the earlier termination of the lease, or the expiration of the last producing period, the lessee shall have the privilege at any time within a period of 90 days thereafter of removing from the premises all machinery, equipment, and other improvements and improvements necessary for producing wells. Any materials, structures, and equipment subject to removal as above provided, which are allowed to remain on the leased lands shall become the property of the lessor on the expiration of the 90-day period or such extension thereof as may be granted because of adverse climatic conditions throughout said period; provided, that the lessee shall remove any or all of such property where so directed by the lessor.

Sec. 7. Proceedings in case of default.—If the lessee shall not comply with any of the provisions of the act or the regulations thereunder or of the lease, or shall make default in the performance or observance of any of the terms hereof (except that of payment of annual rental which results in the automatic termination of the lease), and such default shall continue for a period of 30 days after service of written notice thereof by the lessor, the lessor may cause the lease to be cancelled by the Secretary of the Interior in accordance with section 31 of the act, and this cancellation shall not be construed to prevent the exercise of any legal or equitable remedy which the lessor might otherwise have.

Upon cancellation of this lease, any casing, material, or equipment determined by the lessor to be necessary for use in plugging or preserving any well drilled on the leased lands shall become the property of the lessor. A waiver of any particular cause of cancellation and forfeiture shall not prevent the cancellation and forfeiture of the lease for any other cause of cancellation and forfeiture, or for the same cause occurring at any other time.

Sec. 8. Heirs and successors-in-interest.—It is further agreed that such obligation hereunder shall extend to and be binding upon and every benefit hereunder shall inure to the heirs, executors, administrators, successors, or assigns of the respective parties hereto.

Sec. 9. Unlawful interest.—It is also further agreed that no Member of, or Delegate to, Congress, or Resident Commissioner, or any other person, shall be eligible for election or appointment or after he has qualified and during his continuance in office, and that no officer, agent, or employee of the Department of the Interior, except as provided in 43 CFR 7446(a)(1), shall be admitted to any share or part in this lease, or in any other lease that may arise therefrom; and the provisions of Sec. 3741 of the Revised Statutes of the United States, as amended (41 U.S.C. Sec. 22) and Secs. 431, 432, and 433, Title 18 U.S.C., relating to contracts, enter into and form a part of this lease as if the same may be applicable.

NONCOMPETITIVE OFFER TO LEASE FOR OIL & GAS

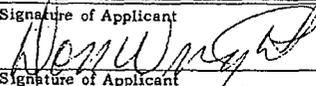
Undersigned offers to lease for oil and gas all or any portion of the identified parcel of land which may be available for noncompetitive leasing, and certifies: (1) applicant is a citizen of the United States, an association of such citizens, a partnership, a corporation, or a municipality organized under the laws of the United States or any State thereof; (2) applicant's interests in oil and gas offers to lease, leases, and options do not exceed the limitation provided by 43 CFR 3101.1-5; (3) applicant has not filed any other entry card for the parcel involved; and (4) applicant is the sole party in interest in this offer and the lease if issued, or if not the sole party in interest, that the names and addresses of all other interested parties are set forth below. The undersigned agrees that the successful drawing of this card will bind him to a lease, on Forms 3110-2 or 3110-3, and the appropriate stipulations as provided in 43 CFR 3109.4-2 and the posted notice.

INSTRUCTIONS

This card must be fully completed, signed, and sent to the appropriate Office of the Bureau of Land Management. It must be accompanied by a \$10 filing fee. Compliance must also be made with the provisions of 43 CFR 3102. If qualifications of association or corporation have been filed previously, identify serial record involved.

If you are successful in the drawing, you will be required to pay the first year's rental of \$1.00 per acre or fraction thereof prior to issuance of lease. No copies or facsimiles of this form will be accepted.

Other parties in interest - All interested parties named below must furnish evidence of their qualifications to hold such lease interest. See 43 CFR 3102.7.

Signature of Applicant 	Date 9-19-79	Other parties in interest
Signature of Applicant	Date	

Title 18 U.S.C., Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction. **IF YOU FILE MORE THAN ONE CARD FOR THE SAME PARCEL, YOU ARE AUTOMATICALLY DISQUALIFIED**

Form 3112-1
(April 1978)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240

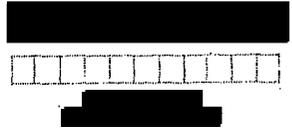
38636
POSTAGE AND FEES PAID
U. S. DEPARTMENT OF THE INTERIOR
INT 415



SIMULTANEOUS OIL AND GAS DRAWING ENTRY CARD

Print or type

W	R	I	G	H	T							D	O	M									
Last name												First name						Middle initial					
Last name												First name						Middle initial					
B	O	X				2	2	8	3														
Street Address																							
O	D	E	S	S	A					T	E	X	A	S					7	9	7	6	0
City												State						Zip code					



Parcel number applied for WPM 1299

The return of this card indicates that you were *not* successful in the drawing and your offer is rejected.

NM 38636

UNITED STATES
 DEPARTMENT OF THE INTERIOR
 BUREAU OF LAND MANAGEMENT
 SURFACE DISTURBANCE STIPULATIONS

Area Oil and Gas Supervisor or
 District Engineer (Address, include zip code)

District Engineer
 U. S. Geological Survey
 P. O. Drawer U
 Artesia, NM 88210

Management Agency (name)

District Manager
 Bureau of Land Management
 P. O. Box 1397
 Roswell, NM 88201

Address (include zip code)

1. Notwithstanding any provision of this lease to the contrary, any drilling, construction, or other operation on the leased lands that will disturb the surface thereof or otherwise affect the environment, hereinafter called "surface disturbing operation," conducted by lessee shall be subject, as set forth in this stipulation, to prior approval of such operation by the Area Oil and Gas Supervisor in consultation with appropriate surface management agency and to such reasonable conditions, not inconsistent with the purposes for which this lease is issued, as the Supervisor may require to protect the surface of the leased lands and the environment.

2. Prior to entry upon the land or the disturbance of the surface thereof for drilling or other purposes, lessee shall submit for approval two (2) copies of a map and explanation of the nature of the anticipated activity and surface disturbance to the District Engineer or Area Oil and Gas Supervisor, as appropriate, and will also furnish the appropriate surface management agency named above, with a copy of such map and explanation.

An environmental analysis will be made by the Geological Survey in consultation with the appropriate surface management agency for the purpose of assuring proper protection of the surface, the natural resources, the environment, existing improvements, and for assuring timely reclamation of disturbed lands.

3. Upon completion of said environmental analysis, the District Engineer or Area Oil and Gas Supervisor, as appropriate, shall notify lessee of the conditions, if any, to which the proposed surface disturbing operations will be subject.

Said conditions may relate to any of the following:

- (a) Location of drilling or other exploratory or developmental operations or the manner in which they are to be conducted;
- (b) Types of vehicles that may be used and areas in which they may be used; and
- (c) Manner or location in which improvements such as roads, buildings, pipelines, or other improvements are to be constructed.

Form 3109-1
(December 1972)
(formerly 3103-1)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

LEASE STIPULATIONS
BUREAU OF RECLAMATION

The lessee agrees to maintain, if required by the lessor during the period of this lease, including any extension thereof, an additional bond with qualified sureties in such sum as the lessor, if it considers that the bond required under Section 2(a) is insufficient, may at any time require:

(a) to pay for damages sustained by any reclamation homestead entryman to his crops or improvements caused by drilling or other operations of the lessee, such damages to include the reimbursement of the entryman by the lessee, when he uses or occupies the land of any homestead entryman, for all construction and operation and maintenance charges becoming due during such use or occupation upon any portion of the land so used and occupied;

(b) to pay any damage caused to any reclamation project or water supply thereof by the lessee's failure to comply fully with the requirements of this lease; and

(c) to recompense any nonmineral applicant, entryman, purchaser under the Act of May 16, 1930 (46 Stat. 367), or patentee for all damages to crops or to tangible improvements caused by drilling or other prospecting operations, where any of the lands covered by this lease are embraced in any non-mineral application, entry, or patent under rights initiated prior to the date of this lease, with a reservation of the oil deposits, to the United States pursuant to the Act of July 17, 1914 (38 Stat. 509).

As to any lands covered by this lease within the area of any Government reclamation project, or in proximity thereto, the lessee shall take such precautions as required by the Secretary to prevent any injury to the lands susceptible to irrigation under such project or to the water supply thereof; provided that drilling is prohibited on any constructed works or right-of-way of the Bureau of Reclamation, and provided, further, that there is reserved to the lessor, its successors and assigns, the superior and prior right at all times to construct, operate, and maintain dams, dikes, reservoirs, canals, wasteways, laterals, ditches, telephone and telegraph lines, electric transmission lines, roadways, appurtenant irrigation structures, and reclamation works, in which construction, operation, and maintenance, the lessor, its successors and assigns, shall have the right to use any or all of the lands herein described without making compensation therefor, and shall not be responsible for any damage from the presence of water thereon or on account of ordinary, extraordinary, unexpected, or unprecedented floods. That nothing shall be done under this lease to increase the cost of, or interfere in any manner with, the construction, operation, and maintenance of such works. It is agreed by the lessee that, if the construction of any or all of said dams, dikes, reservoirs, canals, wasteways, laterals, ditches, telephone or telegraph lines, electric transmission lines, roadways, appurtenant irrigation structures or reclamation works across, over, or upon said lands should be made more expensive by reason of the existence of the improvements and workings of the lessee thereon, said additional expense is to be estimated by the

Secretary of the Interior, whose estimate is to be final and binding upon the parties hereto, and that within thirty (30) days after demand is made upon the lessee for payment of any such sums, the lessee will make payment thereof to the United States, or its successors, constructing such dams, dikes, reservoirs, canals, wasteways, laterals, ditches, telephone and telegraph lines, electric transmission lines, roadways, appurtenant irrigation structures, or reclamation works, across, over, or upon said lands; provided, however, that subject to advance written approval by the United States, the location and course of any improvements or works and appurtenances may be changed by the lessee; provided, further, that the reservations, agreements, and conditions contained in the within lease shall be and remain applicable notwithstanding any change in the location or course of said improvements or works of lessee. The lessee further agrees that the United States, its officers, agents, and employees, and its successors and assigns shall not be held liable for any damage to the improvements or workings of the lessee resulting from the construction, operation, and maintenance of any of the works hereinabove enumerated. Nothing in this paragraph shall be construed as in any manner limiting other reservations in favor of the United States contained in this lease.

THE LESSEE FURTHER AGREES That there is reserved to the lessor, its successors and assigns, the prior right to use any of the lands herein leased, to construct, operate, and maintain dams, dikes, reservoirs, canals, wasteways, laterals; ditches, telephone and telegraph lines, electric transmission lines, roadways, or appurtenant irrigation structures, and also the right to remove construction materials therefrom, without any payment made by the lessor or its successors for such right, with the agreement on the part of the lessee that if the construction of any or all of such dams, dikes, reservoirs, canals, wasteways, laterals, ditches, telephone and telegraph lines, electric transmission lines, roadways, or appurtenant irrigation structures across, over, or upon said lands or the removal of construction materials therefrom, should be made more expensive by reason of the existence of improvements or workings of the lessee thereon, such additional expense is to be estimated by the Secretary of the Interior, whose estimate is to be final and binding upon the parties hereto, and that within thirty (30) days after demand is made upon the lessee for payment of any such sums; the lessee will make payment thereof to the United States or its successors constructing such dams, dikes, reservoirs, canals, wasteways, laterals, ditches, telephone and telegraph lines, electric transmission lines, roadways, or appurtenant irrigation structures across, over, or upon said lands or removing construction materials therefrom. The lessee further agrees that the lessor, its officers, agents, and employees and its successors and assigns shall not be held liable for any damage to the improvements or workings of the lessee resulting from the construction, operation, and maintenance of any of the works herein above enumerated. Nothing contained in this paragraph shall be construed as in any manner limiting other reservations in favor of the lessor contained in this lease.

Additional Stipulations Required for Parcel
No. NM-1299 as to Secs. 27 and 28, T. 26 S.,
R. 29 E., NMPM, NM.

(Signature of Lessee)

(Continued on next page)

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To insure against the contamination of the waters of the Red Bluff Reservoir, Salvage Brantley & Pecos River Basin Water/ Project, State of New Mexico, the lessee agrees that the following further conditions shall apply to all drilling and operations on lands covered by this lease, which lie within the flowage or drainage area of the Red Bluff Reservoir, as such area is defined by the Bureau of Reclamation:

1. The drilling sites for any and all wells shall be approved by the ~~Superintendent~~ Project Manager, Bureau of Basin Water Salvage Reclamation, Brantley & Pecos River / Project, Carlsbad, NM before drilling begins. Sites for the construction of pipe-line rights-of-way or other authorized facilities shall also be approved by the ~~Superintendent~~ Project Manager before construction begins.

2. All drilling or operation methods or equipment shall, before their employment, be inspected and approved by the ~~Superintendent~~ Project Manager of the Basin Water Salvage and approved by the ~~Superintendent~~ Project Manager of the Brantley & Pecos River Basin Water/ Project, Carlsbad, NM, and by the Supervisor of the U. S. Geological Survey having jurisdiction over the area.

Additional Stipulations Required for Parcel No. NM-1299.

No occupancy or other surface disturbance will be allowed within 200 feet of the Pecos River. This distance may be modified when specifically approved in writing by the District Engineer, Geological Survey, with the concurrence of the District Manager, Bureau of Land Management.

THESE STIPULATIONS REQUIRED FOR ALL PARCELS.

This lease is issued pursuant and subject, to the extent applicable, to the terms and provisions of Section 302 of the Department of Energy Organization Act (42 U.S.C. 7152) and to the regulations of the Secretary of Energy promulgated thereunder relating to the:

(1) fostering of competition for Federal leases (including but not limited to, prohibition on bidding for development rights by certain types of joint ventures);

(2) implementation of alternative bidding systems authorized for the award of Federal leases;

(3) establishment of diligence requirements for operations conducted on Federal leases (including, but not limited to, procedures relating to the granting or ordering by the Secretary of the Interior of suspension of operations or production as they relate to such requirements);

(4) setting rates of production for Federal leases; and

(5) specifying the procedures, terms, and conditions for the acquisition and disposition of Federal royalty interests taken in kind.

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Additional Stipulations Required for Parcel No. NM-1299 as to:

T. 26 S., R. 29 E.
Sec. 29: N $\frac{1}{2}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$

ADDITIONAL STIPULATION

The lessee agrees that:

1. Exploration or drilling activities may be prohibited within $\frac{1}{4}$ mile of river channels, marshes reservoirs or riparian habitats.
2. No permanent improvements or operations will be allowed in flood plains without express permission of the District Manager.
3. Power line crossings within $\frac{1}{4}$ mile of reservoir perimeters must be buried.

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THESE STIPULATIONS REQUIRED FOR ALL PARCELS.

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Special Stipulation - Oil and Gas Lease NM 38636

No payment or other consideration will be made to other users, licensees, permittees or lessees for any damage to or loss of natural vegetation, wildlife, mineral material, or for soil disturbance occurring on national resource lands, which result from operation, development or construction activities carried out under the authority of this oil and gas lease.

STATE OF NEW MEXICO)
County of Eddy) ss.

FILED FEB 27 1995 FOR
RECORD

at 9:31 o'clock A.M. and was duly

recorded in BOOK 212 PAGE 568

of the Records of Eddy County

Kare Davis, County Clerk

By: Frederic W. Urick, Deputy



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