



**Southwestern Energy
Production Company**

A subsidiary of Southwestern Energy Company

2350 N. Sam Houston Parkway East
Suite 300
Houston, Texas 77032
(281) 618-4700 FAX: (281) 618-4757

August 2, 1999

VIA CERTIFIED MAIL

Working Interest Owners

Re: Well Proposal – No Bluff State 36-#1
N/2 Sec. 36-17S-27E
Eddy Co., NM

Gentlemen:

Southwestern Energy Production Company, ("SWN"), proposes the drilling of a 10,125' Morrow Test at a legal location 1,350' FWL and 660' FNL of Section 36-17S-27E. The proposed unit would be the N/2 of Section 36.

You will find enclosed our AFE reflecting a dry hole cost of \$470,500 and a completed well cost of \$754,500. If you elect to participate please sign and return one copy of the AFE at your earliest opportunity.

In the event you would rather farmout SWN offers you an ORRI equal to the difference between existing lease burdens and 18.75% with the option to convert your retained ORRI to a 25% WI after payout.

If you need any further information do not hesitate to contact the undersigned landman.

Respectfully,

Samuel Glenn Thompson
Senior Exploration Landman

SGT:sh
Enclosure

RECEIVED
ON 08/02/99
12259

Below Base of
1/8th NW 1/4
1/8th ORA
25

Working Interest Owners

Manix Energy, LLC
P.O. Box 1981
Midland, Texas 79702

Atlantic Richfield Company
P.O. Box 1610
Midland, Texas 79702

Chase Oil Corporation
P.O. box 1767
Artesia, New Mexico 88211

Mack C. Chase
Trustee of the Mack C. Chase and Marilyn Y. Chase Trust
V/T/A Dated November 21, 1983
P.O. box 1767
Artesia, New Mexico 88211

Robert C. Chase
Box 960
Artesia, New Mexico 88211

Richard L. Chase
Box 960
Artesia, New Mexico 88211

Dianne Chase Crouch
Box 960
Artesia, New Mexico 88211

E. Jeffers
c/o w. E. Jeffers
P.O. Box 65
Artesia, New Mexico 88211

Mary D. Fleming
c/o Al Guinn
Walsh & Watts, Inc.
1111 7th Street
Wichita Falls, Texas 76301

Bessie Massey Fleming
c/o Al Guinn
Walsh & Watts, Inc.
1111 7th Street
Wichita Falls, Texas 76301

LAND DEPARTMENT

OCT 11 1999

HOUSTON

MANIX ENERGY, LLC

P.O. Box 2818
Midland, Texas 79702
(915) 682-2554 Office
(915) 682-4081 Fax

October 5, 1999

Southwestern Energy Production Company
2350 N. Sam Houston, Suite 300
Houston, Texas 77032

Attn: Mr. Samuel Glenn Thompson

Via Facsimile (281) 618-4757
and regular mail

Re: No Bluff "36" State Com. Well No. 1
Section 36, Township 17 South, Range 27 East,
N.M.P.M., Eddy County, New Mexico

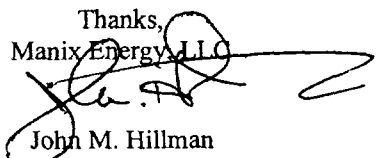
Dear Mr. Thompson:

In our last telephone conversation you indicated that Southwestern Energy Production Company would be sending an offer for a Term Assignment covering our interest in the N/2 Section 36, Township 17 South, Range 27 East, Eddy County, New Mexico. As of this date Manix has not received an offer for a Term Assignment or a Joint Operating Agreement and has only received an AFE under cover letter dated August 2, 1999 and the Application of Compulsory Pooling that we received under cover letter dated September 16, 1999.

Should an offer for a Term Assignment not be forthcoming for our consideration then please let this letter serve as Manix Energy, LLC's election to participate in the drilling of the No Bluff "36" State Com. Well No. 1, subject to the execution of a mutually acceptable Joint Operating Agreement.

Please let me know if you have any questions.

Thanks,
Manix Energy, LLC


John M. Hillman
Vice-President

JMH/cm

cc: Mr. James Bruce
P.O. Box 1056
Santa Fe, New Mexico 87504
Via Facsimile (505) 982-2151

Sam Thompson 10/15/99 03:12 PM

To: John Hilman
cc:
Subject: Term Assignment

Fax 915-682-4081

John:

SWN's offer for a Term Assignment is as follows:

Term: 9 months

Bonus: \$100/acre

Net Revenue Interest: 80%

Title: subject to confirmation

Please let me know if you want to deal.

Respectfully,


Samuel Glenn Thompson
Southwestern Land Department



ARCO Permian
600 N Marienfeld
Midland TX 79701
Post Office Box 1610
Midland TX 79702
Telephone 915 688 5200

October 18, 1999

Southwestern Energy Production Company
2350 North Sam Houston Parkway East
Suite 300
Houston, Texas 77032

Fax No. (281) 618-4757

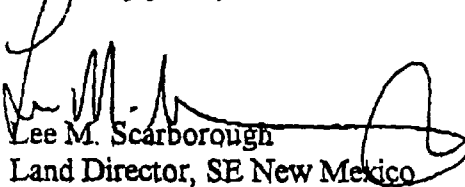
Attention: Mr. Samuel G. Thompson

Re: Farmout Agreement
Township 17 South, Range 27 East
Section 36: SE/4 NW/4, SW/4 NE/4
Eddy County, New Mexico
30-015-003422-000
30-015-03437-000

Dear Mr. Thompson:

This letter will confirm Atlantic Richfield Company's intent to farmout their interest below 5,000' in the acreage referenced above. This interest will be delivered with a seventy-five percent net revenue interest and is subject to a mutually agreeable contract form. (ARCO's Farmout Agreement is enclosed herewith, being sent by mail only.)

Very truly yours,


Lee M. Scarborough
Land Director, SE New Mexico

LMS/sb

Enclosure

Two sig pages

OCT-14-99 THU 04:31 PM
OCT-14-99 THU 16:45

SPARKS OFFICE SUPPLY
WALSH & WATTS, INC.

FAX NO. 15057464996
FAX NO. 940321 58

P. 01
P. 03



**Southwestern Energy
Production Company**

A subsidiary of Southwestern Energy Company

2350 N. Sam Houston Parkway East
Suite 900
Houston, Texas 77032
(281) 616-4700 FAX (281) 616-4757

October 4, 1999

VIA REGULAR MAIL & FACSIMILE TRANSMISSION 940-322-2838

Ms. Mary D. Fleming Walsh
Ms. Bonnie Macey Fleming
c/o Walsh & Watts, Inc.
1111 7th Street
Wichita Falls, Texas 76301
ATTN: Mr. Al Quinn

Mr. W.E. Jeffers
P.O. Box 65
Artesia, NM 88211-0065

Re: Term Assignment
N/2 Sec. 36-17S-27E (NW/4 of NE/4, Sec. 36 - 17S - 27E)
Eddy County, NM

Ladies & Gentlemen:

Pursuant to our recent conversations this letter is written to confirm Southwestern Energy Production Company's offer relative to your acreage in the captioned tract.

Term Assignment: The Term Assignment would be for a primary term of one year from today's date.

Overriding Royalty: You shall retain an overriding royalty interest equal to the difference between existing burdens and 25%, proportionately reduced; the intent being to deliver a 75% net revenue interest, proportionately reduced.

Depth Covered: The Term Assignment shall cover depths below 5,500' down to 100' below the stratigraphic equivalent of the deepest depth drilled during the term of the Term Assignment.

If you agree please sign and return one copy of this letter by October 14, 1999 or our offer shall be deemed to be withdrawn.

Respectfully,

Gerald Glenn Thompson
Senior Exploration Landman

SGT:ah
Enclosures

AGREED TO and ACCEPTED on this 14th day of October, 1999.

By: _____
Name: Mary D. Fleming Walsh
Title: _____

By:
Name: W.E. Jeffers
Title: _____

* **Drilling Information.**
Availability:

You shall have access to the derrick floor during drilling of our well and will be furnished copies of all Oil Conservation Dept. forms, electric logs, mud logs, and all other information in connection with drilling, completion, or abandonment.

DRAFT - FARMOUT AGREEMENT - DRAFT

This agreement, when accepted by Southwestern Energy Production Company, whose mailing address is 2350 N. Sam Houston Parkway East, Suite 300, Houston, Texas 77032, hereinafter called "Grantee," shall evidence your right, upon your fulfilling all the requirements, conditions, and obligations contained herein, to earn from Chase Oil Corporation and the other signatory parties hereto, hereinafter called "Grantor," an assignment of an interest in the following described leases, hereinafter called "said lease":

Oil and Gas Lease No. B-11538 dated October 10, 1944, from the State of New Mexico, as Lessor, to Southern Union Gas Company, as Lessee.

Oil and Gas Lease No. VB-0481 dated April 1, 1996, from the State of New Mexico, as Lessor, to Chase Oil Corporation, as Lessee.

The acreage and depths subject to this agreement are hereinafter referred to as "said land," located in Eddy County, New Mexico, and described as follows:

T-17-S, R-27-E, N.M.P.M.

Section 36: E/2 NE/4, NE/4 NW/4 only as to those depths below the base of the Wolfcamp formation.

I. TEST WELL:

This agreement shall terminate unless on or before April 15, 2000, hereinafter referred to as "primary termination date," Grantee commences, at Grantor's sole cost, risk and expense, the actual drilling of a well, hereinafter referred to as "said well," at a legal location in the NW/4NW/4 of Section 36, T17S, R27E, Eddy County, New Mexico, with a rig capable of drilling to total depth. Once timely commenced, said well shall be drilled with due diligence to a depth sufficient to thoroughly test the Morrow formation, hereinafter referred to as "objective depth."

If said well or any subsequent well drilled under the terms of this agreement fails to reach the depth necessary to satisfy the requirements hereof, either because of mechanical difficulties or because the well encounters excessive waterflow, loss of circulation, excessive pressures, cavities, caprock, salt or salt dome material, heaving shale or other practicably impenetrable conditions which would, in the opinion of a prudent operator, render further drilling impracticable, then you may at your election, commence actual drilling of a substitute well at approximately the same location with the same objective depth within thirty (30) days after abandonment of the well being replaced and thereupon the substitute well shall be considered and treated for all purposes as though the same were the well for which it is a substitute.

II. CONTINUOUS DEVELOPMENT:

After said well is completed as a producer or plugged as a dry hole, Grantee shall continuously develop the N/2 of said Section 36 in the manner hereinafter provided. Each subsequent well shall be drilled to the same objective depth as said well. The actual drilling of the first subsequent well shall be commenced on or before 120 days after (1) the date said well reaches total depth or (2) the primary termination date, whichever is the later. The actual drilling of additional subsequent wells shall be commenced on or before 120 days from the date the most immediately preceding well reached total depth.

III. ASSIGNMENT:

In the event that a well is completed as a well capable of producing oil and/or gas in paying quantities and in accordance with all of the terms and conditions of this agreement, and Grantee has submitted evidence that all costs with respect thereto have been paid, Grantor shall assign to Grantee all of Grantor's interest in the oil and gas held under said lease insofar and only insofar, as said lease covers said land within the such well's proration unit. All assignments earned by Grantee shall be effective as of the date hereof and shall be limited in depth from the base of the Wolfcamp formation down to (1) the base of the deepest producing formation or (2) 100 feet below the total depth drilled, whichever is lesser, but in no event to exceed the base of the

Morrow formation. Said Assignment shall also reserve to Grantor an overriding royalty interest equal to the difference between twenty five percent (25%) and lease burdens existing as of the effective date hereof.

IV. COMPLIANCE:

In the event Grantee fails either timely to commence actual drilling on or timely to complete the drilling of any well, then all of its rights under this agreement shall, upon and at the time of such failure, ipso facto terminate and be at an end, and any and all right, title, and interest acquired by or conveyed to Grantee hereunder shall revert to Grantor, except, however, as to each proration unit of said land upon which Grantee has completed a well capable of producing oil or gas in paying quantities in compliance with all the terms and provisions of this agreement.

V. INFORMATION:

You will allow Grantor and its representatives full access to all wells drilled hereunder, including access to the records thereof and to the derrick floor, at Grantor's sole risk and expense, and Grantor shall be promptly furnished with samples or copies of all cores, cuttings, logs, drilling data, testing and completing data, and all other information obtained by you pertaining to any well drilled hereunder. Until further notice you shall furnish all information required under this paragraph as shown on the attached Exhibit "A."

VI. RIGHTS RESERVED:

Grantor does expressly reserve all oil and gas rights except the depths described as said land and all other mineral rights at any depths and all rights of ingress, egress, use, occupancy, and any and all other surface rights granted by said lease necessary or convenient to exercise and enjoy all oil, gas and mineral rights reserved to Grantor.

VII. WARRANTY:

This agreement is made subject to all the terms and provisions of said lease and any amendments, extensions or renewals thereof. This agreement is made without express or implied warranty of any kind. Grantor makes no representations or warranties regarding Grantee's right of ingress and egress to said land from or across adjacent or adjoining lands.

VIII. PLUGGING WELLS:

Grantee shall properly plug all wells located on said land drilled by Grantee and either not capable or no longer capable of producing oil or gas in paying quantities unless the well is taken over by Grantor. Grantee shall restore the surface of said land around any plugged well. In the event Grantee fails to plug any well or fails to properly restore the surface, then Grantor, at its option, may plug any such well and restore such surface to its satisfaction, and Grantee shall reimburse it for any and all sums of money expended in connection therewith. Grantee shall comply with all statutory requirements and governmental rules and regulations in effect at the time of plugging any well and comply with the terms of said lease and any amendments thereto or other agreements. Grantee agrees to fully defend, protect, indemnify, and hold Grantor harmless from and against each and every claim, demand or cause of action, expense or liability arising from Grantee's failure to plug or properly plug any well or restore the surface of said land.

IX. RENEWALS AND EXTENSIONS:

This agreement shall be binding upon the parties hereto, their devisees, heirs, legal representatives, executors, administrators, successors and assigns.

X. OTHER TERMS AND PROVISIONS:

- Grantee shall perform all work with reasonable diligence, prudence, and in a workmanlike manner. Grantee shall drill all wells with no cessation of over thirty (30) consecutive days. Grantee shall perform all work necessary to complete any well as a well capable of producing oil and/or gas in paying quantities from the objective depth provided that, after Grantee has tested such depth, Grantee may complete it in any other formation previously encountered within the depth restrictions of said land or plug it as a dry hole. Grantee shall complete all wells within forty-five (45) days from the date each well reaches total depth and the completion date shall be deemed to be the date approved

by the applicable regulatory body as the completion date or the date of plugging and abandonment, as the case may be.

- Grantee agrees that it has read all the terms and provisions of this agreement before signing it, and it is understood and agreed by Grantee that no employee, agent, servant, or representative of Grantor has authority to make any written or oral statement, remark, understanding, or agreement in regard to the subject matter hereof which is not expressed herein and that no such extraneous matter will be recognized or binding on Grantor, unless such agreement is in written form and signed by Grantor or its duly authorized attorney-in-fact.

This agreement is dated and effective October 15, 1999. If this correctly sets forth your understanding of our agreement, please signify your acceptance in the space provided below and return one executed copy to Grantor, at P.O. Box 1767, Artesia, New Mexico 88211 within thirty (30) days from the date hereof or Grantor, at its option, may declare this agreement null and void.

GRANTOR

Chase Oil Corporation

Mack C. and Marilyn Y. Chase Trust
w/t/a dated November 21, 1983

Robert C. Chase, President

Mack C. Chase, Trustee

Robert C. Chase

Deb E. Chase

Richard L. Chase

Karla Chase

Gercne Dianne Chase Crouch

Rebecca S. Ericson, Attorney-in-Fact

GRANTEE

Southwestern Energy Production
Company

By:
Title:

EXHIBIT "A"

GEOLOGICAL REQUIREMENTS

1. Daily Drilling Report to Mack Energy Corporation, Artesia, New Mexico, by telephone, 505- 748-1288, Crissa Carter or you may fax the report to our fax machine number 505-746-9539, and mail a copy to Mack Energy Corporation, P.O. Box 960, Artesia, New Mexico, 88211-0960.
2. Name, address and telephone number of Mack Energy Corporation representatives:

Robert C. Chase	(505) 748-1288 (Ofc.)	(505) 746-9570 (Home)
Tony Hall	(505) 748-1288 (Ofc.)	(505) 746-4107 (Home)
Tommy Fletcher	(505) 748-1288 (Ofc.)	(505) 746-9050 (Home)
3. Copies of Forms, Reports and Surveys as follows:

	<u>Number</u>
A. All state and/or federal forms	3
B. Core Analysis	1 Preliminary 2 Final
C. Drill Stem Test Pressure Charts	2
D. Water Analysis from DST or other sources	2
E. Electric, Radioactivity, Acoustic logs, etc.	2 Field (5"=100') 2 Final (5"=100') 2 Final (2.5"=100')
F. Mud or Hydrocarbon log (if run)	1 Daily (5"=100') 2 Final (5"=100') 1 Final (2.5"=100')
<u>or</u> if no hydrocarbon log run, Drilling time on 10' intervals	2 Final
G. Dipmeter log (if run)	2 Final 1 Computed
H. A copy of <u>all</u> digital data (magnetic tapes, floppy disks, etc.) if recorded, of well logs, mud logs, drill times, formation pressures, DST data, core analysis, fluid analysis, etc., should be sent to Mack Energy Corporation, Attn: Robert C. Chase, P.O. Box 960, Artesia, New Mexico 88211-0960.	
4. Continuous core slab or extra set of cuttings samples, if requested.
5. Ten foot (10') samples, delivered to Mack Energy Corporation, P.O. Box 960, Artesia, New Mexico 88211-0960.