

last lease 1/4 & 3/16ths

BLAINE HESS OIL PROPERTIES

FACSIMILE TRANSMITTAL SHEET

TO:	Ms. Karen Miller	FROM:	Chris Anderson
COMPANY:	Bank One Trust, Trustee of the Benjamin F. Nysewander III Trust	PHONE NUMBER:	(505) 623-5400
FAX NUMBER:	(817) 884-5458	FAX NUMBER:	(505) 623-4916
PHONE NUMBER:	(817) 884-4000	DATE	9/6/2002
RE:	Mineral Interest in Section 23: NW/4 of T-14-S, R-37-E, N.M.P.M.	TOTAL NO. OF PAGES INCLUDING COVER:	7 6.9559 of 11/24

*5.100333 net acres OK 1.6% WI
PU*

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

Ms. Miller:

We wish to extend you a lease offer on the above minerals in Lea County, New Mexico. Our records indicate the Nysewander Trust owns approximately 5.1 net mineral acres, or 3.1877% of 160.00 acres in the NW/4 of Section 23. We are offering \$75/acre on a paid-up lease with a three-year term. The royalty is 3/16ths. Mr. Hess also asked that you consider the enclosed revisions to your lease form. Thank you.

Sincerely,

Chris Anderson

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT

POST OFFICE BOX 326
ROSWEEL, NEW MEXICO 88202-0326
TELEPHONE (505) 623-5400

Blaine Hess

From: <karen_l_miller@bankone.com>
To: <bhop@dfn.com>
Sent: Tuesday, October 08, 2002 9:37 AM
Attach: 225lease.rtf
Subject: Nysewander Lea Co. Lease -

Blaine -

attached is the previous lease form for your review. I don't know about the changes - we'll have to see. Also - I'll need \$150/ac with the 3/16 and 1 yr. (See attached file: 225lease.rtf)

Karen L. Miller
Mineral Property Manager
817-884-4287
Karen_L_Miller@Bankone.com

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Blaine Hess

From: "Blaine Hess" <bhop@dfn.com>
To: <karen_l_miller@bankone.com>
Sent: Wednesday, October 16, 2002 1:32 PM
Attach: 225lease.doc
Subject: OIL AND GAS LEASE

Dear Karen,

I am sending your lease form with my changes. I have bolded those words that I would like to add. Also, I have bolded and underlined those provisions that I would like to strike.


I know your not going to be happy with some of the changes, but I ask you to review and please call me to discuss.

Thanks,

Blaine Hess

OIL CONSERVATION DIVISION

CASE NUMBER _____

 EXHIBIT _____

PAID-UP
OIL AND GAS LEASE

THIS AGREEMENT, made and entered into this 17th day of October, 2002, by and between the undersigned parties designated as Lessor on the signature page of this Lease (such parties are hereafter called "Lessor") and the undersigned parties designated as Lessee on the signature page of this Lease (such parties are hereafter called "Lessee").

1. Grant of Interest/Description. Lessor, in consideration of a cash bonus in hand paid, of the royalties herein provided, and of the agreements of Lessee hereinafter contained, hereby grants, leases, and lets exclusively unto Lessee for the sole purpose of exploring for, drilling, operating, and producing oil and/or gas and of laying pipelines, temporarily storing oil, building tanks (but not tank farms), power stations, telephone lines, roads and structures thereon necessary to produce, save, care for, treat and transport the oil and/or gas produced from the land leased hereunder, the following described land situated in Lea County, State of New Mexico, (sometimes referred to hereinafter as the "leased premises") to wit:

NW/4 Section 23, Township 14 South, Range 37 East, N.M.P.M.

For the purposes of calculating any delay rental or shut-in royalty payments as provided herein, the leased premises shall be deemed to contain 160 acres, regardless of whether it actually contains more or less.

2. Term. Subject to the provisions hereinafter contained, this Lease shall be for a term of one year from this date (called "primary term"), and so long thereafter as oil and gas, or either of them, is produced in paying quantities from the leased premises or lands with which the leased premises are pooled pursuant to the provisions of this Lease, or operations are conducted as hereinafter provided. Upon the termination or any partial termination of this Lease, Lessee shall prepare, execute and deliver to Lessor a recordable release of such acreage in accordance with Section 21 of this Lease.

At the expiration of the primary term, this Lease shall have an option for one additional year, and then automatically terminate as to all lands except those included in a governmental proration unit attributable to a well then producing oil and/or gas in paying quantities unless operations are then being conducted in accordance with the Continuous Development provisions of Section 4 below or the Additional Drilling or Reworking provisions of Section 5 below, in which case the terms of Sections 4 and 5 shall control.

If at the expiration of one (1) year after the end of the primary term, this Lease is perpetuated by production of oil and/or gas in paying quantities, then, with respect to each governmental proration unit on the leased premises or lands pooled therewith, this Lease shall automatically terminate as to all rights granted by this Lease below 100 feet below the deepest depth from which oil and/or gas is then being produced. Provided, however, if at the expiration of one (1) year after the end of the primary term, Lessor is engaged in drilling an additional well or wells pursuant to the provisions of Section 4 of this Lease, then this Lease shall not terminate with respect to the depths described in this paragraph so long as development continues in accordance with the terms of Section 4 of this Lease. Furthermore, if at the expiration of one (1) year after the end of the primary term, Lessee is engaged in deepening an existing well, then for purposes of this paragraph only, the deepening of an existing well will be considered a continuous development operation under Section 4 of this Lease, and so long as Lessee continues developing the leased premises in accordance with the terms of Section 4, the rights to the depths described in this paragraph will not terminate.

If at any time after the expiration of the primary term, any governmental proration unit assigned to a well should be reduced in size, then the Lessee shall have sixty (60) days to commence the drilling of another well or wells as described in Section 4 of this Lease, or this Lease shall automatically terminate with regard to the acreage no longer contained within the applicable proration unit. If at any time after one (1) year after the expiration of the primary term, should the deepest producing horizon attributable to any governmental proration unit on this Lease cease to produce, then Lessee shall have sixty (60) days to begin either deepening that well or commencing the drilling of another well or wells on that proration unit in accordance with the provisions of Section 4 of this Lease, or this Lease, insofar as it covers such proration unit, shall automatically terminate with regard to all depths below 100 feet below the deepest depth from which oil and/or gas is then being produced.

To the extent that any part of this Lease remains in effect, then Lessee shall retain such easements across the terminated portions of the Lease as shall be reasonably necessary for ingress and egress to enable Lessee to develop and operate the remaining portion of this Lease. Lessee shall not be required to remove or relocate any pipelines, tanks, separators, or other equipment or machinery used in connection with production on the portion of this Lease that remains in effect.

3. Delay Rentals. If actual drilling is not commenced on the leased premises or on any lands pooled therewith on or before twelve (12) months from the date of this Lease, this Lease shall automatically terminate, unless on or before such anniversary date Lessee shall pay to Lessor or to the credit of Lessor at Bank One, Texas, N.A., the sum of This is a paid-up lease and all references to delay rentals in this document are to be considered null and void. DOLLARS (\$ 00) (hereinafter called "rental") which shall cover the privilege of deferring commencement of drilling operations for a period of twelve (12) months. In like manner, and upon like payments annually, the commencement of drilling operations may be further deferred for successive periods of twelve (12) months each during the primary term. The payment of rentals may be made by the check of Lessee delivered to Lessor or to said bank on or before such date of payment. If the rental is not paid on or before the date it is due, then this Lease will automatically terminate. Upon termination, Lessee shall prepare, execute and deliver to Lessor a recordable release covering the leased premises in accordance with Section 21 of this Lease. Lessee may at any time or times execute and deliver to Lessor or to the depository above, a release or releases of this Lease as to all or any part of the leased premises, and thereby be relieved of all obligations as to the released land or interest, except for the indemnification obligations described in Sections 22 and 26 and the plugging obligations in Section 28 of this Lease. If a portion of the lands covered by this Lease is released, the rentals and shut-in royalty payments computed in accordance therewith shall be reduced by the proportion that the number of surface acres within such released portion bears to the total number of surface acres which were covered by this Lease immediately prior to such release. The bonus paid hereunder is consideration for this Lease and not rental for a period.

4. Continuous Development. Upon the completion of any well as a well capable of producing oil or gas in paying quantities or as a dry hole (completion being the release of the completion rig, or if the well is a dry hole, the release of the drilling rig), Lessee shall, within one hundred twenty (120) days thereafter, commence the drilling of another well or wells on the leased premises (commencement being the actual spudding of the succeeding well), or, if it be within the primary term, Lessee shall commence or resume the payment of delay rentals for all acreage not otherwise being maintained under the provisions of this Lease, within one hundred twenty (120) days from the date of completion and abandonment of said dry hole or holes or the cessation of production. Failure to commence such additional well or wells within the time herein provided, or failure to resume the payment of delay rentals within the time herein provided, shall terminate this Lease ipso facto as to all lands except those included within the surface boundaries of any governmental proration unit otherwise being maintained under the provisions of this Lease. Nothing herein shall be construed to limit or modify Lessee's obligation to drill any offset wells provided for herein.

5. Additional Drilling or Reworking. If, at the expiration of the primary term, oil and/or gas are being produced in paying quantities, but production thereafter ceases from any cause, this Lease shall not terminate as to the governmental proration unit attributable to the well or wells affected thereby if Lessee commences reworking or additional actual drilling within sixty (60) days thereafter, and such reworking or additional drilling is diligently prosecuted with no cessation of more than (60) consecutive days, and production in paying quantities thereafter resumes.

If, at the expiration of the primary term oil and/or gas are not then being produced from any well or wells on the leased premises or any lands pooled therewith, but Lessee is then engaged in operations (as defined hereinafter) on any such well or wells, this Lease shall remain in force for so long as such operations are diligently prosecuted with no cessation of more than sixty (60) consecutive days between such cessation and the resumption of such operations. If such operations result in the production of oil or gas in paying quantities, this Lease shall not terminate as to the governmental proration unit attributable to the well or wells then producing oil or gas in such quantities; but this Lease shall terminate as to all other acreage unless Lessee shall have commenced drilling a new well or wells in accordance with the Continuous Development provisions of Section 4 of this Lease. Wherever used in this Lease the word "operations" shall mean operations for and any of the following: actual drilling, testing, completing, sidetracking, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil or gas in paying quantities.

6. Royalties. As royalty, Lessee covenants and agrees:

A. Oil To deliver free of cost to Lessor at the wells or to the credit of Lessor at the pipeline to which the wells may be connected, 3/16 of all oil and other liquid hydrocarbons (recovered or separated on the leased premises) produced and saved from the leased premises or lands pooled therewith; or, at the Lessor's option, which may be exercised from time to time, Lessee shall pay to Lessor the same percentage of the market value at the well for such oil and other liquid hydrocarbons of like grade and gravity prevailing in the area on the day such oil and other hydrocarbons are run from the lease stock tanks in the field, which means the general area in which the land covered by this Lease is located; provided however, there shall be no deduction from the value of Lessor's royalty by reason of any processing, treatment, trucking, transportation or other cost to market such oil and other liquid hydrocarbons.

B. Gas To pay the Lessor:

i) On gas produced from the leased premises or lands pooled therewith which is processed in a processing plant in which Lessee or any parent or subsidiary of Lessee has a direct or indirect interest, Lessor shall receive the higher of a) 3/16 of the market value of such gas at the inlet to the processing plant, or b) 3/16 of the market value of all processed liquids saved from said gas at the plant, plus 3/16 of the market value of all residue gas at the point of sale, use or other disposition.

ii) On gas produced from the leased premises or lands pooled therewith, which is processed in facilities other than a processing plant in which Lessee or any parent or subsidiary of Lessee has a direct or indirect interest, Lessor shall receive 3/16 of the market value at the plant of all processed liquids credited to the account of Lessee and attributable to such gas, plus 3/16 of the market value of all residue gas at the point of sale, use or other disposition.

iii) On all gas produced from the leased premises or lands pooled therewith, and sold by Lessee or used on or off the leased premises, but not including gas reinjected under a pressure maintenance program, and to which the preceding subparagraphs (i) and (ii) above do not apply, Lessor shall receive 3/16 of the market value at the point of sale, use or other disposition of all such gas. On any gas paid for but not taken pursuant to a gas contract containing a take-or-pay clause or similar provision, Lessor shall receive its proportionate share of such payment; provided, however, if such gas is subsequently taken, Lessor shall only receive its proportionate share of any payments made for make-up gas taken pursuant to such take-or-pay clause or similar provision.

C. The market value of all gas shall be determined at the specified location and by reference to the gross heating value (measured in British thermal units) and quality of the gas. The market value used in the calculation of all royalty under this Lease shall never be less than the total proceeds received by Lessee in connection with the sale, use or other disposition of oil or gas produced or sold from the leased premises. If Lessee receives from a purchaser of oil or gas any reimbursement for all or any part of severance or production taxes, the proportionate part of such reimbursement amount shall be added to the total proceeds received by Lessee for purposes of this subsection. STRIKE If Lessee realizes proceeds of production after deduction for any expenses of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage or marketing, then the proportionate part of such deductions shall be added to the total proceeds received by Lessee for purposes of this subparagraph.

D. STRIKE Notwithstanding anything to the contrary, Lessor's royalty shall never bear, either directly or indirectly, any part of the costs or expenses of production, separation, gathering, dehydration, compression, transportation, trucking, processing, treatment, storage or marketing of the oil or gas produced from the leased premises or lands pooled therewith, nor any part of the costs of construction, operation or depreciation of any plant or other facilities or equipment used in the handling of oil or gas produced from the leased premises or lands pooled therewith. Royalty shall be payable on oil, gas and other products produced from the leased premises or lands pooled therewith and consumed by Lessee on the leased premises or lands pooled therewith, whether for compression, dehydration, fuel or other uses, but not including gas reinjected under a pressure maintenance program.

E. If the gas produced from the leased premises is sold by Lessee pursuant to an arms-length contract with a purchaser which is not an affiliate of Lessee, and the contract provides for (i) net proceeds to be paid to Lessee which equal or exceed the market value of the gas at the point of delivery to such purchaser at the time such contract is entered into, and (ii) a term no longer than that which is usual and customary in the industry at the time the contract is made, then the market value of the gas sold pursuant to such contract shall be the total proceeds received by Lessee in such sale, subject to the provisions of Subsection 6(C) above. "Affiliate" as herein used means (i) another corporation, joint venture, partnership, or other entity which owns more than ten percent (10%) of the outstanding voting securities or interest of Lessee or in which Lessee owns more than ten percent (10%) of the outstanding voting securities or interest; or (ii) another corporation, joint venture, partnership, or other entity in which, together with Lessee, more than ten percent (10%) of the outstanding voting securities or interest of both Lessee and such other corporation, joint venture, partnership, or other entity are owned or controlled by the same persons or group of persons.

F. Notwithstanding the above provisions, if either oil or gas is sold by the first purchaser to a third party and title to such oil or gas passes to such third party in the county where the land covered by this lease is located, the royalties received by Lessor shall be the higher of the amount Lessor would otherwise receive under the formula set forth above or the price which such third party pays the first purchaser for the oil and gas produced.

7. Payment of Royalties. With respect to each well on the leased premises or on land pooled therewith, initial royalty payments for oil and or gas shall be made on or before the end of the third calendar month following the month of first production. Thereafter, all royalties which are required to be paid hereunder to Lessor shall be due and payable in the following manner: Royalty on oil shall be due and payable on or before the end of the first calendar month following the month of production, and royalty on gas shall be due and payable on or before the end of the second calendar month following the month of production. Each royalty payment shall be accompanied by a check stub, schedule, summary or remittance advice identifying the Lease and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas. Upon written request by Lessor, a copy of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts shall be delivered to Lessor within thirty (30) days after entering into or making such contracts, agreements or amendments. The books, accounts and all other records pertaining to production, transportation, sale and marketing of oil or gas from the leased premises shall at any time during normal business hours be subject to inspection and examination by Lessor. STRIKE If payments to be made by Lessee to Lessor are not made when due for whatever reason, the unpaid portion shall bear interest at the lower of the prime rate at Bank One, Texas N.A. plus 2%, or the highest rate allowed by law. If Lessee is in default hereunder and this matter is turned over to an attorney for collection, or is collected by suit, Lessee agrees to pay all attorney fees incurred by Lessor. Payments may be remitted to Lessor annually for the aggregate of up to twelve months' accumulation of proceeds if the total amount owed is \$100.00 or

8. Limitation to Oil and Gas. This Lease is intended to cover only oil and gas, but some other substances (including helium and sulphur) may be produced necessarily with and incidental to the production of oil or gas from the leased premises; and, in such event, this Lease shall also cover all such other substances so produced. On all such substances so produced under and by virtue of the terms of this Lease, Lessor shall receive a royalty of 3/16 of all such substances so produced and saved, same to be delivered to Lessor, free of all costs; or, at Lessor's election, Lessor's 3/16 of such substances shall be sold by Lessee with Lessee's portion of such substances and at the same profit realized by Lessee for its portion of such substances.

9. Gas Contracts. Lessee agrees that it will not enter into any contracts for the sale of production from this Lease which shall extend more than three (3) years from the effective date of such contract, unless such contract has adequate provisions for redetermination of price at least every three (3) years to assure the production from this Lease is not being sold for less than the then current fair market value of the production being sold.

10. Separation of Liquids. All gas produced from the leased premises or lands pooled therewith shall, before the same is sold or used for any purpose or is transported from the leased premises or pooled unit, be passed through a mechanical separator system situated on the leased premises or on any lands pooled therewith, designed and operated to effect the maximum economical recovery of liquid hydrocarbons therefrom. All condensate, distillate, natural gasoline, kerosene, and all other liquid hydrocarbons and mixtures thereof produced with gas from the leased premises or lands pooled therewith and separated from such shall be considered oil for all purposes of Subsection 6(A) above.

11. Right to Take Production in Kind. Lessor shall always have the right, at any time and from time to time, upon reasonable written notice to Lessee, to take Lessor's share of oil, gas and processed liquids in kind. Lessor may elect to take Lessor's gas in kind at the well, or at the point of delivery where Lessee delivers Lessee's gas to any third party. If gas is processed, Lessor may elect to take Lessor's share of the residue gas attributable to production from the leased premises, at the same point of delivery where Lessee receives its share of residue gas or has its share of residue gas delivered to a third party. Lessor may elect to have its royalty share of processed liquids stored in tanks at the plant or delivered into pipelines on the same basis as Lessee's share of liquids is stored or delivered. Lessor shall reimburse Lessee for all reasonable costs incurred by Lessee in installing, operating or maintaining additional facilities necessary for Lessor's royalty gas and processed liquids to be separately metered, accounted for, and delivered to a third party. ~~STRIKE but Lessor shall not be charged for any expense in the production, gathering, dehydration, separation, compression, transportation, treatment, processing or storage of Lessor's share of gas and processed liquids along with Lessee's share of gas and processed liquids.~~

12. Shut-in Payments. While there is a well on the leased premises or lands pooled therewith capable of producing gas in paying quantities but the production thereof is shut-in, shut-down or suspended for lack of a market, available pipeline, or because of government restrictions or, if it is economically inadvisable for both the Lessor and Lessee to sell gas for a time as evidenced by a written agreement signed by both parties, then, and in any such event, Lessee may pay as shut-in royalty on or before ninety (90) days after the date on which (1) production from any such well is shut-in, shut-down or suspended; or (2) this Lease is no longer maintained by compliance with one of the other preservation provisions hereof, whichever is the later date, and thereafter at annual intervals the sum of Twenty-Five Dollars (\$25.00) per net mineral acre per proration unit per well, or Fifty Dollars (\$50.00) per well whichever is greater, for each and every shut-in, shut-down or suspended well. If such payment is made in accordance with the terms hereof, this Lease shall not terminate, but shall continue in force for a period of one (1) year from the date of making such shut-in payment (subject to the exceptions set out hereafter) and it will be considered that gas is being produced from the leased premises in paying quantities within the meaning of each pertinent provision of this Lease, it being understood and agreed that such payment shall be in lieu of and excuse the payment of the annual delay rentals which may have otherwise accrued and become payable under the terms and provisions hereof. Provided, however, in no event shall shut-in well payments maintain this Lease in force for a period exceeding two (2) years past the date of the first shut-in period, or two (2) years past the primary term of this lease, whichever is longer. The depository bank for shut-in payments is Bank One, Texas, N.A. P.O. Box 2605, Fort Worth, Texas 76113. Any shut-in royalty payment shall not be a credit against production nor be credited with prior production royalty. In the event that production is begun or resumed during the year following the payment of a shut-in royalty payment and is subsequently shut-in, during such year the second annual shut-in payment shall be due and payable on the anniversary date of the first payment. If there is production on such first anniversary date and the well is subsequently shut-in, shut-down or suspended, then the second shut-in payment shall be made on or before ninety (90) days after such new shut-in date or the Lease shall terminate. Notwithstanding anything to the contrary set out above, should the shut-in period extend beyond the expiration of the primary term such shut-in provision will maintain the rights granted by this Lease only to the producing units and horizons of such gas well(s) as if they were producing gas in paying quantities pursuant to Section 2 above. Should such shut-in royalty payments not be made in a timely manner as provided for above, then, in that event, it shall be considered for all purposes that there is no production of gas from any such well or wells and, unless this Lease is being maintained by any other preservation provision hereof, this Lease shall terminate automatically at midnight on the last day provided for the payment of such shut-in royalties, and Lessee shall thereupon furnish to Lessor a release of all of its interest in and to this Lease as provided in Section 21. ~~STRIKE Notwithstanding anything to the contrary set out above, should Lessee be entitled to pay shut-in royalty payments on more than one well or unit on or pooled with this Lease, then Lessee's failure to make such shut-in royalty payment on one well or unit for which Lessee has not executed a release in accordance with the terms of Section 21 of this Lease, shall be deemed a failure to timely make all shut-in royalty payments permitted hereunder and this Lease shall automatically terminate except as to all or any portion of this Lease which is maintained by any other provision hereof.~~

13. Pooling. Lessee, upon the prior written consent of Lessor which shall not be unreasonably withheld, is hereby given the right and power to pool or combine the acreage covered by this Lease or any portion thereof as to oil and gas, or either of them, with any other and covered by this lease, and/or with any other land, lease or leases in the immediate vicinity thereof to the extent hereinafter stipulated, when it is necessary or advisable to do so in order to properly explore, or develop, produce and operate said leased premises in compliance with the spacing rules of the appropriate lawful authority, or when to do so would promote the conservation of oil and gas in and under and that may be produced from said premises. In the absence of field rules, units pooled for oil hereunder shall not substantially exceed 40 acres each in area plus a tolerance of ten percent (10%) thereof, and units pooled for gas hereunder shall not substantially exceed in area 320 acres each plus a tolerance of ten percent (10%) thereof, provided that should governmental authority having jurisdiction prescribe the creation of units larger than those specified, for the drilling or operations of a well at a regular location or for obtaining maximum allowable from any well to be drilled, drilling or already drilled, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this Lease or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this Lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing the pooled acreage as a pooled unit. In this regard, Upon written request by Lessor, Lessee shall provide Lessor with a copy of any and all documents filed with any regulatory authority or recorded in the records of any county. STRIKE within thirty (30) days of filing such documents. Upon the recordation of the unit in the county records ~~STRIKE and the timely furnishing of the copies required herein to Lessor~~ the unit shall be effective as to all parties hereto, their heirs, successors, and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty or other rights in land included in such unit. Lessee may at its election exercise its pooling option before or after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. In the event of operations for drilling on or production of oil or gas from any part of a pooled unit which includes all or a portion of the land covered by this Lease, such operations shall be considered as operations for drilling on or production of oil and gas from land covered by this Lease whether or not the well or wells be located on

the premises covered by this Lease and in such event operations for drilling shall be deemed to have been commenced on said land within the meaning of this Lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them shall be entitled on production of oil and gas, or either of them, there shall be allocated to the land covered by this Lease and included in said unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) a pro rata portion of the oil and gas, or either of them, produced from the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be on oil and gas, or either of them, so allocated to the land covered by this Lease and included in the unit just as though such production were from such land. The production from an oil well will be considered as production from this Lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from this Lease or gas pooled unit from which it is producing and not from an oil pooled unit. The formation of any unit hereunder shall not have the effect of changing the ownership of any delay rental or shut-in production royalty which may become payable under this Lease. If this Lease now or hereafter covers separate tracts, no pooling or unitization of royalty interest as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this Lease but Lessee shall nevertheless have the right to pool as provided above with consequent allocation of production as provided above. As used in this paragraph, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

14. Assignability. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto; provided, however, that any such assignment by Lessee shall require the prior written consent of Lessor, which consent shall not be unreasonably withheld. Lessor's consent to any assignment shall not constitute consent to any other assignment. ~~STRIKE Any assignment made without Lessor's consent shall be void and shall constitute a material breach of this Lease.~~ Lessee shall furnish Lessor a copy of any assignment made pursuant to this section, with the recording data reflected thereon (if recorded). Assignment of this Lease or any part thereof shall not relieve Lessee, its assignees, or any subassignees of any obligations hereunder, theretofore accrued or to accrue in the future; and any assignee of Lessee shall, by acceptance of such assignment, be bound by all terms and provisions hereof. The term "assignment" as used herein, shall include, without limitation, any sublease, farmout, operating agreement, pooling agreement, unitization agreement, or any other agreement by which any share of the operating rights granted by this Lease are assigned or conveyed, or agreed to be assigned or conveyed, to any other party. ~~STRIKE If Lessee fails to furnish Lessor a copy of any assignment complying with the requirements of this section within thirty (30) days after Lessor's demand therefore, then Lessee shall pay Lessor an amount equal to Five Dollars (\$5.00) per acre per day for each acre of the leased premises that has been assigned, beginning with the 30th day after the date of Lessor's request and continuing until such assignment has been executed and delivered to Lessor. It is agreed that actual damages to Lessor for Lessee's failure to deliver such assignment are difficult to ascertain with any certainty, and that the payments herein provided are a reasonable estimate of such damages and shall be considered liquidated damages and not a penalty.~~

No change or division in ownership of the leased premises, rentals or royalties however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee, nor shall any such change or division be binding upon Lessee for any purpose until the person acquiring any interest has furnished Lessee with a certified copy of the instrument or instruments constituting his chain of title from Lessor. In the event of an assignment of this Lease to a segregated portion of the leased premises, the delay rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area owned by each. If Lessee or any assignee of a segregated part or parts hereof shall fail or make default in the payment of the proportionate part of the delay rentals due from such Lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this Lease insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall make payment of said delay rental and comply with all other provisions hereof.

15. Duty to Develop. The drilling of a well or wells within the broad language of this Lease shall not be construed as an agreement or construction on the part of Lessor that such drilling would constitute reasonable development of the leased premises, and Lessee agrees to drill any and all wells on the leased premises, or such portion or portions thereof as may be in force from time to time, as may be necessary to reasonably explore and develop the same for the production of oil and gas. In the event a well or wells producing oil or gas should be brought in on adjacent land and draining the leased premises, Lessee agrees to drill such offset wells as a reasonable prudent operator would drill under the same or similar circumstances. If oil and/or gas are discovered on the land covered by this Lease, or on land pooled therewith, Lessee agrees to further develop said land covered by this Lease as a reasonable prudent operator would under the same or similar circumstances.

16. Damages and Restoration. If Lessor is also the owner of the surface, then Lessee shall pay Lessor for all damages and losses caused by operations hereunder to timber, permanent pastures, livestock, growing crops, fences, water and irrigation wells, including but not limited to damages for roads, locations, pipelines, etc. on or across the lands and to any physical structures on the land caused by any and all operations under this Lease. Damages will be the greater of the market value or replacement cost of the item diminished or destroyed or the normal amount for damages in the area for like items. Lessee will restore the land to its former condition as nearly as possible after the completion and after the plugging and abandonment of each well, and after the abandonment of this Lease. In addition, and not in lieu of recompense provided elsewhere in this Section 16, at least ten (10) days prior to the drilling of any well on the leased premises, Lessee shall pay Lessor \$ N/A for every well location. [At least ten (10) days prior to any road or pipeline construction, Lessee shall pay Lessor \$ N/A per rod of such road or pipeline.]

17. Water. Lessee shall have the free use of water from the leased premises except fresh water from Lessor's wells, tanks, creeks, rivers, streams and springs, for all operations solely on the leased premises, provided that no surface water or underground fresh water from this Lease will be used for water flood or pressure maintenance purposes. Lessee shall comply with all applicable rules in disposition (by reinjection or otherwise) of salt water, brine or other fluids utilized in or resulting from operations, and shall not cause or permit any such substances to damage or pollute the surface of the leased premises or any fresh water sands lying thereunder.

18. Division Order Title Opinions. If a well is a producer, upon written request by Lessor, Lessee shall ~~STRIKE automatically~~ deliver to Lessor a copy of any Division Order title opinions and any revisions or supplements thereto. ~~STRIKE within thirty (30) days of receipt of same by Lessee.~~

19. Notifications Required. ~~STRIKE Lessee shall advise Lessor in writing of the location of each well to be drilled upon the leased premises or on land pooled therewith on or before seven (7) days after commencement of operations, and shall advise Lessor in writing the date of completion and/or abandonment of each well drilled on the leased premises or on land pooled therewith (such notice shall include furnishing Lessor a copy of the applicable completion or plugging report filed with any governmental or regulatory agency) within thirty (30) days after completion or abandonment. As to any well drilled under the provisions of this Lease, Lessor, or Lessor's representatives, or any one or more of the same, shall have access to such well and upon request shall be furnished with copies of daily drilling reports. STRIKE Such reports and information shall be furnished within seven (7) days after the same are obtained or compiled by Lessee. In addition, Lessee shall upon written request furnish Lessor within thirty (30) days from the date of the request the following data: STRIKE or thirty (30) days from the date that the data is received by Lessee;~~

A. Plats or maps showing the location of the well on this Lease or lands pooled therewith.

B. The details of any drillstem tests taken in said well, and the results of any core analysis or analyses which shall be run on any cores taken while drilling said well.

C. Upon commencement of any drilling or reworking operations on this Lease or lands pooled therewith with copies of all reports filed with the appropriate governmental authority or other governmental agency having jurisdiction in connection with such operation.

D. Upon completion of any drilling or reworking operations on this Lease or lands pooled therewith, with copies of all logs

run in such well and copies of core or other type of formation analysis subject to a confidentiality obligation on Lessor's part if filed as confidential with the appropriate governmental authority.

E. A summary report, to be made annually on the anniversary date of this Lease and commencing upon the expiration of the primary term of this Lease, to include (1) lease number assigned by the Railroad Commission; (2) on the reporting date the number of producing wells and the number of wells not producing but not plugged; (3) the number of wells that were plugged during the previous twelve (12) months; and (4) a map denoting the location of each of these wells on the leased premises.

F. It is understood and agreed that all information provided Lessor herein is proprietary and is to be held in confidence. ~~STRIKE If Lessee fails to comply with any of the provisions of this Section 19, then Lessee shall pay Lessor an amount equal to fifty dollars (\$50.00) per day for each day such failure continues. It is agreed that actual damages to Lessor for Lessee's failure to comply with the provisions of this Section 19 are difficult to ascertain with any certainty, and that the payments herein provided are a reasonable estimate of such damages and shall be considered liquidated damages and not a penalty.~~

20. **Force Majeure.** Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder due to force majeure. The term "force majeure" shall mean: Any act of God including but not limited to storms, floods, washouts, landslides, and lightning; act of the public enemy; wars, blockades, insurrection or riots; strikes or lockouts; epidemics or quarantine regulations; laws, acts, orders or requests of Federal, State, Municipal or other governments or governmental officers or agents under the color of authority requiring, ordering or directing Lessee to cease drilling, reworking or producing operations; freight embargoes or failures; exhaustion or unavailability or delays in delivery of any product, labor, service or material. The term "force majeure" shall not include lack of markets for production or any other events affecting only the economic or financial aspects of drilling, development or production. For a period of sixty (60) days after termination of an event of force majeure, each and every provision of this Lease that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this Lease shall continue in full force provided, however, that in no event will the primary term be extended unless Lessee has begun the actual drilling of a well prior to the date of the expiration of the primary term.

21. **Releases Required.** Within thirty (30) days after the partial termination of this Lease as provided under any of the terms and provisions of this Lease, Lessee shall deliver to Lessor a plat showing the production units designated by Lessee, copies of logs showing depths to be retained within each unit, and a fully executed, recordable release properly describing by metes and bounds the lands and depths to be retained by Lessee around each producing well. If this Lease terminates in its entirety, then Lessee shall deliver a complete, fully executed, recordable release to Lessor within thirty (30) days. If such release complies with the requirements of this section, Lessor shall record such release. ~~STRIKE If Lessee fails to deliver a release complying with the requirements of this section within thirty (30) days after Lessor's demand therefore, then Lessee shall pay Lessor an amount equal to Five Dollars (\$5.00) per acre per day for each acre of the leased premises that should have been released, beginning with the 30th day after the date of Lessor's request and continuing until such release has been executed and delivered to Lessor. It is agreed that actual damages to Lessor for Lessee's failure to deliver such release are difficult to ascertain with any certainty, and that the payments herein provided are a reasonable estimate of such damages and shall be considered liquidated damages and not a penalty. Furthermore, Lessor is hereby authorized to execute and file of record an affidavit stating that this Lease has expired and the reason therefor, and such affidavit shall constitute prima facie evidence of the expiration of this Lease or any part of this Lease.~~

22. **Indemnification.** Lessee, its successors and assigns, agrees to indemnify, defend and hold harmless the parties herein designated Lessor, and each of them, from and against any and all claims, losses, liabilities, fines, costs, expenses (including attorneys fees and expenses) resulting from or arising out of or in connection with operations of or for Lessee, its agents, contractors, or subcontractors hereunder, regardless of the cause of such claims, losses, liabilities, fines, costs, or expenses. This provision and its indemnities shall survive the termination of this Lease and shall inure to the successor, heirs and assigns of Lessor and Lessee.

23. **No Warranties of Title.** This lease is made without warranties of any kind, either express or implied. Lessor agrees that Lessee, at its option after Lessee has given Lessor sixty (60) days' written notice, may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in the event Lessee does so, it shall be subrogated to such lien with right to enforce same, subject to any defenses of Lessor, and apply royalties accruing hereunder toward satisfying same.

24. **Proportionate Reduction for less than Entire Interest.** It is agreed that if Lessor owns an interest in oil and gas in and under any of the leased premises which is less than the entire oil and gas fee simple estate, then the royalties and all other benefits to accrue or to be paid to Lessor hereunder as to such lands shall each be reduced to the proportion thereof which the mineral fee estate of Lessor in such land bears to the entire mineral fee estate, provided that in no event shall there be any refund of any amounts previously paid to Lessor as bonus or delay rentals.

25. **Related Parties/ Conflict of Interest.** Lessee in accepting this Lease represents and warrants that Lessee is not (or in the event Lessee is a corporation, partnership, joint venture or other entity, no employee, officer, partner, director, owner or controlling person of Lessee) an employee, officer, director or controlling person of Bank One, Texas, N.A., or any subsidiary or affiliate of Bank One, Texas, N.A. The Lessee in accepting this Lease further warrants that it has no intention to assign this Lease to any party known by the Lessee to be an employee, officer, director or controlling person of Bank One, Texas, N.A. or any subsidiary or affiliate of Bank One, Texas, N.A.

26. **Compliance with Environmental Laws and Regulations.** Lessee, its successors and assigns, by its acceptance of this lease, hereby agrees to comply with all applicable laws, rules and regulations and hereby assumes full responsibility for, and agrees to indemnify, defend and hold harmless, Lessor from and against any loss, liability, claim, fine, expense cost (including attorneys fees and expenses) and cause of action caused by or arising out of the violation (or defense of the alleged violation) of any federal, state or local laws, rules or regulations applicable to any waste material, drilling matter fluid or any hazardous substances released or caused to be released by Lessee or Lessee's agents, or independent contractors from the land leased hereunder into the atmosphere or into or upon the land or any water course or body of water, including ground water. Additionally, upon receiving any notice regarding any environmental, pollution or contamination problem or violation of any law, rule or regulation, Lessee will forward a copy to Lessor by certified mail within thirty (30) days. ~~STRIKE or failing which, Lessor shall have the option to terminate this Lease upon thirty (30) days written notice to Lessee.~~ This provision and its indemnities shall survive the termination of this Lease, and shall enure to the successors, heirs and assigns of Lessor and Lessee.

27. **No Salt Water or Waste Injection Wells.** If Lessor is also the owner of the surface, Lessee shall not be permitted to dispose of salt water or produced wastes or wastes of any kind into any formation or strata on this Lease, save and except for the salt water produced from the lands contained in this Lease, but not including any lands pooled herewith.

28. **Timely Plugging and Abandonment of Wells.** Without the prior written consent of the Lessor, Lessee shall not allow any well located on the leased premises to remain in a shut-in, temporarily abandoned or otherwise non-productive state for a period of more than six (6) months from the date of last production or the time permitted by the rules and regulations of the applicable regulatory authority, whichever is less, without beginning plugging and abandonment operations with respect to the well and restoring the location, and providing that these procedures must be completed within two (2) months of their initiation. The only exception to this shall be gas wells capable of production which are shut-in pursuant to the provisions of Section 12 above regarding shut-in royalties, and for which shut-in payments are being made in accordance with those same provisions. Violations of this provision will be considered a material breach and will serve to terminate this lease.

29. **Alteration /Modification.** The terms of this Lease cannot be altered or amended except by a written instrument clearly demonstrating such purpose and effect, and executed by both parties to this Lease. The written instrument shall describe the specific terms or provisions being altered and the proposed modification or change thereto. Any notation or legend attached to a royalty check shall be null and void and without legal significance for the purpose of altering this Lease Agreement.

30. Ancillary Rights. Lessee shall have the right for a period of six (6) months following the expiration of this Lease or the release of any lands covered by this Lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. If not, Lessor shall have the option to either claim the property, in whole or in part, as his own or having the said properties and fixtures removed, in whole or in part, at Lessee's expense. If the property is opted to be removed, additional expenses for surface damages and restoring the land shall be charged to Lessee, provided, however, Lessee shall not be relieved of its liability to plug any well so abandoned.

31. Governmental Proration Unit. The term "governmental proration unit" and/or "proration unit" where used in this lease, absent pooling and field rules, shall mean *i*) forty (40) acres plus a tolerance of ten percent (10%) surrounding each well classified as an oil well by the appropriate governmental authority; and *ii*) three hundred twenty (320) acres plus a tolerance of ten percent (10%) surrounding each well classified as a gas well by the appropriate governmental authority. In the event of pooling, the term "governmental proration unit" and/or "proration unit" shall mean and refer to all lands included within a pooled unit formed under Paragraph 13, hereof.

32. Split Stream Contracts. In the event that gas produced under the terms of this lease is sold under multiple gas purchase contracts, "split stream contracts," Lessor, at its option, may require that all Lessees who are selling gas produced under the terms of this lease designate a single Lessee to pay all royalties due to Lessor under this lease.

33. Most Favored Nation. ~~STRIKE It is agreed and understood between Lessor and Lessee that should Lessee give a greater royalty, or larger bonus per net acre to any other Lessor owning an interest two net mineral acres within the Prospect Area during the primary term of this Lease, then Lessor shall be entitled to such greater royalty or larger bonus as the case may be, and this Lease will be amended to incorporate same. The additional bonus per net acre will be paid to Lessor immediately upon Lessee's payment to the third party lessor. The larger royalty will be effective as of the month following the month Lessee gives a larger royalty to a third party. Prospect Area shall, for purposes of this paragraph, be defined as the county/parish or counties/parishes in which the subject property or a portion thereof is located. If Lessee fails to comply with the requirements of this section, then Lessee shall pay Lessor an amount equal to Five Dollars (\$5.00) per acre per day for each acre of the leased premises, beginning immediately from the date Lessor shall be entitled to such greater royalty or larger bonus as the case may be. It is agreed that actual damages to Lessor for Lessee's failure to comply with the requirements of this section are difficult to ascertain with any certainty, and that the payments herein provided are a reasonable estimate of such damages and shall be considered liquidated damages and not a penalty.~~

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

LESSOR:
Bank One Trust Company, NA, Trustee
Benjamin F. Nysewander III Trust

ATTEST:

By: _____
Karen L. Miller
Its: Vice President

By: _____
Its: Vice President

Address:

TX1-1315
P. O. Box 2605
Fort Worth, Texas 76113-2605

Tax I.D. No. 36-7088507

LESSEE:
Ocean Energy, Inc.

By: _____
Its: _____

Address:
Ocean Energy, Inc.
1001 Fannin, Suite 1600
Houston, TX 77002

THE STATE OF TEXAS §
 §
COUNTY OF TARRANT §

BEFORE ME, the undersigned, a Notary Public, on this day personally appeared Karen L. Miller, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said Bank One, a Texas corporation, and that (s)he has executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

[SEAL]

Notary Public in and for the
State of Texas

My Commission expires:

Print Name of Notary Public Here

THE STATE OF TEXAS §
 §
COUNTY OF _____§

BEFORE ME, the undersigned, a Notary Public, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument and, that (s)he has executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 2001.

[SEAL]

Notary Public in and for the
State of Texas

My Commission Expires:

Print Name of Notary Public Here

THE STATE OF TEXAS §
 §
COUNTY OF _____§

BEFORE ME, the undersigned, a Notary Public, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument and, that (s)he has executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 2001.

[SEAL]

Notary Public in and for the
State of Texas

My Commission Expires:

Print Name of Notary Public Here

Blaine Hess
Oil Properties
Post Office Box 326
Roswell, New Mexico 88202-0326
(505) 623-5400
(505) 623-4916 *facsimile*

October 21, 2002

Ms. Karen L. Miller
Bank One Trust Company, NA
TXI-1315
Post Office Box 2605
Fort Worth, Texas 76113-2605

Re: Bank One Trust Company, NA,
Trustee Benjamin F. Nysewander III Trust
W/2 of Section 23, T-14-S, R-37-E, N.M.P.M.,
Denton Area, Tatum Basin Project
Lea County, New Mexico

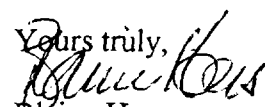
Dear Ms. Miller:

Ocean Energy, Inc. hereby proposes the drilling of the Denton Canyon 23-1 Well in the W/2 of Section 23, T-14-S, R-37-E, N.M.P.M., Lea County, New Mexico. The well will be drilled to a depth of approximately 12,700 feet to test the Atoka formation.

You have previously been extended an opportunity to lease your mineral rights and, having not reached a lease agreement with you, we now request your participation in the above described well. Your election to participate shall be evidenced by your execution of an Authority for Expenditure and Joint Operating Agreement, naming Ocean Energy, Inc. as operator, and payment of your proportionate share of the drilling cost.

We would appreciate your notifying us as to your election on or before November 1, 2002, as we anticipate commencing the well in December 2002. Should you respond affirmatively, Ocean Energy, Inc. will provide a Joint Operating Agreement along with an invoice for your drilling cost.

Thank you for attention to this matter. Should you have any questions, please feel free to contact me.

Yours truly,

Blaine Hess

Bh/arh

Enclosure: AFE dated August 12, 2002
cc: Mr. Derold Maney, Ocean Energy, Inc.

OCEAN ENERGY, INC			EXPLORATION DRILL (DHC only)		
REGION:	Permian	AFE DATE: 8/12/2002	AFE NO:	0	
FIELD:	Morton	LEASE/WELL: Denton Canyon	EST. START DATE	10/01/02	
PROSPECT:	Morton	WORK TYPE: Exploration	ORIG. DEPT:	Drilling	
COUNTY/STATE:	Lea Co., New Mexico	SURFACE LOC: 660' FSL & 1,980' FWL			
PROPERTY NO.:	NA	BTM HOLE LOC: Same	DEPTH:	12700' MD	12700' TVD
OPERATOR:	Ocean Energy Inc.	GEOLOGIC OBJECTIVE: Wolfcamp, Atoka, Austin	COORDINATOR:	R.G. Trueheart	
LEGAL DESCRIPTION:	Sec. 23, T14S R37E				

Drill the Denton Canyon 23-1as an exploration well to 12,700' MD/TVD. The plan call for drilling a 17-1/2" surface hole to 450' and setting 13-3/8" casing. Then drilling a 11" intermediate hole to 5,000' and setting 8-5/8" Casing. Then drilling a 7-7/8" production hole to 12,700'. The well will be evaluated by mud logs, DST's, and wiring logs, and if successful 5-1/2 casing will be set and the well completed conventionally with a packer and 2-3/8 tubing after stimulation. Chlorides to be above 20.000ppm for wireline logs.

ESTIMATED INTANGIBLE EXPENSES						
ACCOUNT	DESCRIPTION	DRILL	Supplement	COMPLETE	Supplement	TOTAL
221 / 222 - 010	LOCATION COSTS	\$39,500	\$0	\$0	\$0	\$39,500
221 / 222 - 020	RIG COSTS	\$300,000	\$0	\$15,000	\$0	\$315,000
221 / 222 - 025	MOB / DEMOB RIG COSTS	\$80,000	\$0	\$0	\$0	\$80,000
221-027	TURNKEY	\$0	\$0			\$0
221 / 222 - 030	SHOREBASE SERVICES	\$0	\$0	\$0	\$0	\$0
221 / 222 - 040	FUEL / LUBE / POWER / WTR	\$60,000	\$0	\$3,000	\$0	\$63,000
221-050	DIRECTIONAL SERVICES	\$0	\$0			\$0
222 - 060	DOWNHOLE COMPLETION SERVICES			\$0	\$0	\$0
221 / 222 - 070	FISHING	\$0	\$0	\$0	\$0	\$0
221 / 222 - 080	CEMENT AND SERVICES	\$29,500	\$0	\$35,000	\$0	\$64,500
222 / 222 - 090	FORMATION EVALUATION	\$46,500	\$0	\$0	\$0	\$46,500
221 - 093	OPEN HOLE LOG / LWD	\$50,000	\$0			\$50,000
221 / 222 - 097	CASED HOLE LOG / MECH WIRELINE	\$0	\$0	\$0	\$0	\$0
221 / 222 - 100	TRANSPORTATION - LAND	\$15,000	\$0	\$10,000	\$0	\$15,000
221-103/222-105	TRANSPORTATION - AIR	\$0	\$0	\$0	\$0	\$0
221-105/222-095	TRANSPORTATION - MARINE	\$0	\$0	\$0	\$0	\$0
221 / 222 - 110	BITS, REAMERS AND STABILIZERS	\$72,000	\$0	\$0	\$0	\$72,000
221 / 222 - 120	EQUIPMENT RENTAL	\$75,000	\$0	\$2,800	\$0	\$77,800
221 / 222 - 130	MUD / FLUIDS / CHEMICALS	\$125,000	\$0	\$0	\$0	\$125,000
221 / 222 - 140	CONTRACT LABOR	\$56,000	\$0	\$11,000	\$0	\$67,000
221 / 222 - 160	COMMUNICATIONS	\$6,000	\$0	\$300	\$0	\$6,300
221 / 222 - 170	OVERHEAD	\$24,000	\$0	\$1,200	\$0	\$25,200
221 / 222 - 180	INSURANCE	\$7,100	\$0	\$0	\$0	\$7,100
221 / 222 - 185	CASING / TUBING / HMR / EQ & SERVICE	\$12,500	\$0	\$12,000	\$0	\$24,500
221 / 222 - 200	MISCELLANEOUS	\$2,000	\$0	\$0	\$0	\$2,000
221 - 210	P&A EXPENSE	\$0	\$0			\$0
221 / 222 - 220	COMPANY LABOR	\$0	\$0	\$0	\$0	\$0
221 / 222 - 230	ENVIRONMENTAL	\$20,000	\$0	\$0	\$0	\$20,000
221 - 240	DRILL SITE G&G	\$4,000	\$0	\$0	\$0	\$4,000
221 / 222 - 250	WEATHER DELAY	\$0	\$0	\$0	\$0	\$0
	SUB-TOTAL INTANGIBLE	\$1,024,100	\$0	\$90,300	\$0	\$1,114,400
5100995	CONTINGENCIES 10% (D) 5% (S)	\$102,410	\$0	\$9,030	\$0	\$111,440
TOTAL INTANGIBLES:		\$1,126,510	\$0	\$99,330	\$0	\$1,225,840

ESTIMATED TANGIBLE EXPENSES							
TUBULARS							
	SIZE	DEPTH	FOOTAGE				
		Caisson		\$0	\$0	\$0	\$0
	0.000	0	0	\$0	\$0		
	20.000	60	60	\$2,100	\$0		
	0.000	0	0	\$0	\$0		
	13.375	450	450	\$6,700	\$0		
	8.625	5000	5000	\$68,000	\$0		
	0.000	0	0	\$0	\$0		
	0.000	0	0	\$0	\$0		
226 - 010	TUBULARS - DRILLING			\$76,800	\$0		\$76,800
	0.000	0	0			\$0	\$0
	5.500	12700	12700			\$105,700	\$0
	0.000	0	0			\$0	\$0
227 - 010	TUBULARS - COMPLETION					\$105,700	\$0
226 / 227 - 020	WELLHEAD EQUIPMENT			\$20,000	\$0	\$20,500	\$0
226 / 227 - 030	DOWNHOLE EQUIPMENT			\$3,000	\$0	\$3,000	\$0
227 - 050	LEASE SURFACE EQUIPMENT					\$0	\$0
227 - 080	VALVES, PIPES AND FITTINGS					\$0	\$0
227 - 100	ARTIFICIAL LIFT					\$0	\$0
227 - 200	MISCELLANEOUS					\$0	\$0
227 - 210	RECOMPLETION TANGIBLES					\$0	\$0
TOTAL TANGIBLES:				\$99,800	\$0	\$129,200	\$0
							\$229,000

DRY HOLE AND COMPLETION COSTS		\$1,226,310	\$0	\$228,530	\$0	\$1,454,840
TIME AND COST TO P&A:	1 days	\$50,000	P&A time and cost not included in DHC estimate above			
ESTIMATED DRILLING DAYS	40	COST/DAY	\$30,658	COST/FT	\$97	
ESTIMATED COMPLETION DAYS	2	COST/DAY	\$114,265	COST/FT	\$17.99	

For Non-Operator only:

I E I ECT TO PARTICIPATE AND ACCEPT THE WELL CONTROL INSURANCE COVERAGE.

Approval _____ Company Name or Individual (PLEASE PRINT) _____ Date _____

I E I ECT TO PARTICIPATE AND DO NOT ACCEPT THE WELL CONTROL INSURANCE COVERAGE.

Approval _____ Company Name or Individual (PLEASE PRINT) _____ Date _____

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:

Ms. Karen L. Miller
Bank One Trust Company, NA
TXI-1315
Post Office Box 2605
Fort Worth, TX 76113-2605

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) **Lazarus Irah** B. Date of Delivery **OCT 2 5 2002**

C. Signature

X

D. Is delivery address different from item 1? If YES, enter delivery address below:

☐ Agent
☐ Mailbox
☐ Yes
☐ No

OCT 2 5 2002

3. Service Type

☒ Certified Mail ☐ Express Mail
☐ Registered ☐ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

5. Article Number (Copy from service label)

7000 0520 0025 2611 6552

July 1999

Domestic Return Receipt

102535-00-M-0952

U.S. Postal Service

CERTIFIED MAIL RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

FORT WORTH, TX 76113

Postage \$ 0.37

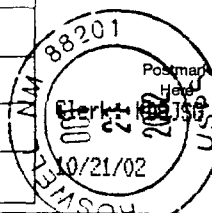
UNIT ID: 0602

Certified Fee 2.30

Return Receipt Fee (Endorsement Required) 1.75

Restricted Delivery Fee (Endorsement Required)

Total Postage & Fees \$ 4.42



Recipient's Name (Please Print Clearly) (To be completed by mailer)

Ms. Karen L. Miller; Bank One Trust Co.

Street, Apt. No., or PO Box No.

TXI-1315; P.O. Box 2605

City, State, ZIP+4

Fort Worth, TX 76113-2605

PS Form 3800, February 2000

See Reverse for Instructions

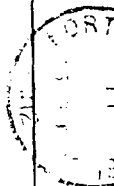
POSTAL SERVICE



First-Class Mail
Postage & Fees Paid
USPS
Permit No. G-10

Please print your name, address, and ZIP+4 in this box •

Blaine Hess Oil Properties
Post Office Box 326
Roswell, NM 88202-0326



Blaine Hess
Oil Properties
Post Office Box 326
Roswell, New Mexico 88202-0326
(505) 623-5400
(505) 623-4916 *facsimile*

October 25, 2002

Ms. Karen L. Miller
Bank One Trust Company, NA
TXI-1315
Post Office Box 2605
Fort Worth, Texas 76113-2605

Re: Bank One Trust Company, NA,
Trustee Benjamin F. Nysewander III Trust
W/2 of Section 23, T-14-S, R-37-E, N.M.P.M.,
Denton Area, Tatum Basin Project
Lea County, New Mexico

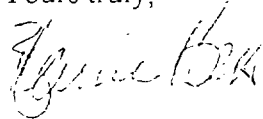
Dear Ms. Miller:

In my letter of October 21, 2002, I said that "Ocean Energy, Inc. hereby proposes the drilling of the Denton Canyon 23-1 Well in the W/2 of Section 23, T-14-S, R-37-E, N.M.P.M., Lea County, New Mexico. The well will be drilled to a depth of approximately 12,700 feet to test the Atoka formation."

I want to clarify that the well will be drilled to a depth of approximately 12,700 feet to test the Austin or the top of the Mississippian Lime formation.

Should you have any questions, please feel free to contact me.

Yours truly,



Blaine Hess

Bh/arh

cc: Mr. Derold Maney, Ocean Energy, Inc.

Blaine Hess
Oil Properties
Post Office Box 326
Roswell, New Mexico 88202-0326
(505) 623-5400
(505) 623-4916 *facsimile*

November 5, 2002

Ms. Karen L. Miller
Bank One Trust Company, NA
TXI-1315
Post Office Box 2605
Fort Worth, Texas 76113-2605

Re: Bank One Trust Company, NA,
Trustee Benjamin F. Nysewander III Trust
W/2 of Section 23, T-14-S, R-37-E, N.M.P.M.,
Denton Area, Tatum Basin Project
Lea County, New Mexico

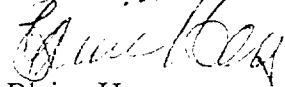
Dear Ms. Miller:

I just wanted to inform you that we have changed the name of Denton Canyon 23-1 well to the Brickyard 23-1 well.

Also, there is the possibility we may move the location of the Well due to the original location being in the way of an irrigation system. If this is the case, the new location will be 330 feet FSL and 2,310 feet FWL of Section 23, T-14-S, R-37-E, N.M.P.M., Lea County, New Mexico. If the location is moved we will have to directional drill the well resulting in the estimated cost to drill the well increasing approximately \$75,000.00.

Should you have any questions, please feel free to contact me.

Yours truly,



Blaine Hess

Bh/arh

cc: Mr. Derold Maney, Ocean Energy, Inc.

OIL CONSERVATION DIVISION

CASE NUMBER _____

EXHIBIT _____