



September 16, 2002

VIA FEDERAL EXPRESS

Merit Energy Co.
12222 Merit Dr., Ste. 1500
Dallas, TX 75251-3284
Attn: Ms. Anna M. McMinn

Re: Denton Canyon
660' FSL & 1,980' FWL
Section 23, T14S, R37E
Lea County, New Mexico

972-383-~~6515~~
6515

for 972-960-1252
Jay Moore

Dear Ms. McMinn:

Ocean Energy, Inc. ("Ocean") hereby proposes to drill a 12,700' test at a location 660' FSL and 1980' FWL of Section 23, T14S, R37E, Lea County, New Mexico. It appears Merit Energy Co. ("Merit") owns leasehold interest in the W/2 of said Section 23.

Ocean respectfully requests that Merit either participate for its proportionate interest in the proposed well, or in the alternative, grant Ocean a term assignment covering all of Merit's interest in the W/2 of Section 23, T14S, R37E, Lea County, New Mexico, based upon the following general terms:

1. \$100.00 per mineral acre
2. One year primary term
3. Your reservation of an overriding royalty interest equal to the difference between 20% and existing lease burdens, proportionally reduced

Enclosed for your review and execution are two (2) original AFEs for the above captioned well. You will be provided an operating agreement covering the W/2 of said Section 23 upon your expression of interest in participating in the proposed well. Should Merit elect to participate in the proposed well, please execute and return one (1) copy of this letter, one (1) AFE well cost estimate, and one (1) copy of the Operating Agreement. Also, please provide your well information requirements along with names of who should receive reports. Should Merit elect to grant Ocean a term assignment, please make the appropriate election in the space provided below, and return one (1) fully executed copy of this letter to the undersigned. Upon receipt of your election a term assignment will be prepared and forwarded for your execution, along with a draft for the appropriate bonus amount.

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT

5B

Thank you for your consideration of this proposal, and if you have any questions, please call me at (713) 265-6897.

Yours very truly,

OCEAN ENERGY, INC.

Derold Maney
Derold Maney *by LA*
Senior Land Advisor

- ☐ MERIT ENERGY CO. ELECTS TO PARTICIPATE in the Denton Canyon Well
- ☐ MERIT ENERGY CO. ELECTS NOT TO PARTICIPATE in the Denton Canyon Well

By: _____

Title: _____

Date: _____

- ☐ MERIT ENERGY CO. hereby elects to grant Ocean Energy, Inc., a term assignment covering Merit Energy Co.'s interest in the W/2 of Section 23, T14S, R37E, Lea County, New Mexico based upon the aforementioned terms.

By: _____

Title: _____

Date: _____