



WESTERN DIVISION

MIDLAND DISTRICT, BRIERCROFT SAVINGS BUILDING • (915) 682-7316
MAILING ADDRESS P O DRAWER 1828 MIDLAND, TEXAS 79702-1828

BEFORE ENGINEER QUINTANA OIL CONSERVATION DIVISION
PENNZOIL TRACT NO. 11
CASE NO. 8727

Certified Mail
Return Receipt Requested

September 23, 1985

Pat Alston Ward
c/o Bill Ward
5050 E. University, Suite 9B
Odessa, Texas 79761

Re: B. E. Shipp Estate #1 & #2 Wells
NE/4 of Section 4-17S-37E
Lea County, New Mexico

Dear Mrs. Ward:

Pennzoil Company plans to drill two (2) 11,500' Strawn tests on the captioned lands in the near future. The B. E. Shipp Est. #1 well will be located 1930' FNL & 1980' FEL of Section 4-17S-37E and the B. E. Shipp Est. #2 well will be located 660' FNL & 810' FEL of Section 4-17S-37E.

Our records reflect that you own an undivided 22/1024 unleased mineral interest in the NE/4 of Section 4-17S-37E. Inasmuch as we could not extend the lease you had granted W. C. Kimball, we ask that you grant Pennzoil a six (6) month lease providing for no bonus consideration and 1/4 royalty. Or, should you decide to participate in the drilling of these wells, please return an executed copy of the enclosed AFE for each well.

We wish to inform you that we have made two (2) separate applications to the Oil Conservation Division of New Mexico for an order pooling all mineral interests underlying the W/2 NE/4 (Shipp #1) and E/2 NE/4 (Shipp #2) of Section 4-17S-37E. As an owner of unleased minerals, if you are forced pooled, you would have the option of either participating or going non-consent. During the payout of the non-consent penalty, you would receive a 1/8 royalty interest and after payout has been reached, you would convert your royalty interest to a working interest.

Should you decide to lease, please execute the enclosed Paid-Up Oil and Gas Lease in the presence of a notary and return to the undersigned.

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

Very truly yours,

Greg Davis
Landman

GD/mk/enclosures

OIL & GAS LEASE

THIS AGREEMENT made this 23rd day of September 1985 between Pat Alston Ward, a married woman dealing in her sole and separate property

5050 E. University, Suite 9B of Odessa, Texas 79761 (Post Office Address)

Pennzoil Company, P. O. Box 1828, Midland, Texas 79702

herein called lessor (whether one or more) and Lessee: 1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, excepting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Lea County, New Mexico, to-wit:

T17S-R37E

Section 4: Lots 1, 2, S/2 NE/4 (NE/4)

Said land is estimated to comprise 161.80 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of six (6) months from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well 1/4 of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 1/4 of the gas used,

provided that on gas sold on or off the premises, the royalties shall be 1/4 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other and, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter, if any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator and, such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this 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 properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

Pat Alston Ward, a married woman dealing in her sole and separate property. SS#

STATE OF _____
County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____
19 85 by Pat Alston Ward, a married woman dealing in her sole and separate property

My Commission expires _____, 19____ Print Name: _____ Notary Public

STATE OF _____
County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____
19____ by _____

My Commission expires _____, 19____ Notary Public

STATE OF _____
County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____
19____ by _____

My Commission expires _____, 19____ Notary Public

STATE OF _____
County of _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____
19____ by _____

My Commission expires _____, 19____ Notary Public

No. _____

OIL AND GAS LEASE
NEW MEXICO

FROM _____

TO _____

Date _____, 19____

Section _____, Township _____, Range _____

No. of Acres _____

County, New Mexico

Term _____

STATE OF NEW MEXICO

COUNTY OF _____

I hereby certify that this instrument was filed for record on the _____ day of _____, A. D., 19____, at _____ o'clock _____ m., and was duly recorded in Book _____ at Page _____ of the Records of said County.

County Clerk

By _____ Deputy

STATE OF _____
County of _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____
by _____, President
of _____ a _____ corporation.
on behalf of said corporation.

My Commission Expires: _____ Notary Public

STATE OF _____
County of _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____
by _____, President
of _____ a _____ corporation.
on behalf of said corporation.

My Commission Expires: _____ Notary Public

1 1 CF

WELLS

Play No. AFE No. AFE Title or Location Name (25)
 B. E. SHIPP, ESTATE, NO. 1.

ANY 0 DIVISION Western DISTRICT Midland

NAME AND NO. Shipp Estate No. 1 FIELD OR AREA UNDEVELOPED LEASE NO.

ATOR 0 COUNTY OR PARISH Lea STATE New Mexico

JECT DESCRIPTION Drill, complete and equip an LEASE NAME AND NO. Shriners' Hospital 63819-00-02-07-08
 500' straw development well in the SW/4 of PROPOSED FORMATION Strawn
 of Section 4, T-17S, R-37E.

Triple Oil Gas Expl. Dev. New Workover Deepen
 Bay Yes No
 Gulf DATE TO START DATE TO COMPLETE DAYS TO DRILL 35 PROPOSED DEPTH 11,500

Gross Net Budget Code Ls./Assoc. Prop. No. Assoc. AFE No. Joint Venture Operator
 No Yes 2-Co. 3-Overd.

Civil Disc. Conveyed Report to Code Costing Location Mktg Environmental Cost % Air % Water % Land - Other % Sal and Hi
 Yes No

IFICATION

TANGIBLES		SUB	DRY HOLE	COMPLETION	TOTAL
CONTRACT DRILLING	11,500	ft. Cs 18.00 /ft.	489	207,000	207,000
DAY WORK		days Cs /day	490		
DRILLING			490		
CORING AND DRILL STEM TEST	3	days Cs 4,500 /day	490	13,500	13,500
LOGGING, SFT. AND PERFORATING	1	days Cs 4,500 /day	490	4,500	4,500
OTHER Completior Unit	5	days Cs 1,500 /day	490		7,500
TOTAL CONTRACT DAY WORK			490		7,500
COMPANY PAYROLL			501	5,000	1,000
EMPLOYEE BENEFITS			505	1,500	300
TRANSPORTATION AND HAULING Including Water			545	10,000	5,000
CESS CANAL CONSTRUCTION			476		
CATION, ROADS, PITS OR KEYWAY			472	20,000	5,000
S, COREHEADS, ETC. Provided by Contractor			492		
D MATERIALS			475	17,000	1,500
MENT AND CEMENTING SERVICES			473	20,000	10,000
NTRALIZERS, SHOES, SCRATCHERS AND NON-SALVABLE PACKERS			491	2,000	1,500
D LOGGING \$425/Day			474	8,500	
RMATION TESTING			482	8,000	
GGING AND SIDE WALL CORING			478	25,000	8,000
RFORATING			479		7,000
OL RENTAL INCLUDING SMALL DIAMETER DRILL PIPE			488	10,500	3,000
STING TUBULAR GOODS			484	5,000	3,000
TERNAL COATING			485		
IMULATION TREATMENT			480		4,500
HER SPECIAL WELL SERVICES			494		
CELLANEOUS COSTS AND CONTINGENCIES			599	35,000	5,000
TOTAL INTANGIBLES				381,000	62,300
TANGIBLES					
400 ft. 13 3/8 in. 48 lb. Gr. H-40 Cs			440	7,000	7,000
4,400 8 5/8 24 & 28 K-55 & S-80			440	51,000	51,000
11,500 5 1/2 17 N-80			440		115,000
			440		
11,200 2 7/8 6.5 N-80			443		55,000
			443		
			443		
SING HEADS			444	6,400	5,000
RISTMAS TREE			445		8,000
TRIEVABLE PACKERS			448		4,200
HER WELL EQUIPMENT			469		
TOTAL TANGIBLES				64,400	122,200
TOTAL WELL COST		100.00000 %		445,400	250,500
RODUCTION EQUIPMENT (Detail Attached)		100.00000 %			63,500
OTHER COSTS - NET (Detail Attached)		100.00000 %			
TOTAL COST		100.00000 %		456,900	314,000
ONERSHIP		%	COMPANY COST		%
PROVAL	DATE	APPROVAL	DATE	AUTHORIZATION	

JOINT INTEREST APPROVAL

Play No.	AFE No.	AFE Title or Location Name (25)
B. E. S. H. I. P. P. E. S. T. A. T. E. N. O.		
ANY	DIVISION	DISTRICT
0	Western	Midland
NAME AND NO.	FIELD OR AREA	UNDEVELOPED LEASE NO.
Shipp Estate No. 2		
ATOR	COUNTY OR PARISH	STATE
0	Lea	New Mexico
JECT DESCRIPTION	LEASE NAME AND NO.	
Drill and complete an 11,500' Strawn development well in the NE/4 of NE/4 Section 4, T-17S, R-37E.	Shriners' Hospital 63819-00-02-07-02	
	PROPOSED FORMATION	
	Strawn	
Single <input type="checkbox"/> Triple <input type="checkbox"/>	<input checked="" type="checkbox"/> Oil <input type="checkbox"/> Gas <input type="checkbox"/> Expl. <input checked="" type="checkbox"/> Dev.	<input checked="" type="checkbox"/> New <input type="checkbox"/> Workover
<input type="checkbox"/> Easy <input type="checkbox"/> Gulf	DATE TO START	DATE TO COMPLETE
		DAYS TO DRILL
		35
		PROPOSED DEPTH
		11,500
Gross	Net	Budget Code
		Joint Venture
		<input type="checkbox"/> No <input type="checkbox"/> Yes
		<input type="checkbox"/> 2-Co. <input type="checkbox"/> 3-Co.
Civil Dist.	Conveyed	Report to Code
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
		Costing Location Mktg
		Environmental Cost
		% Air % Water % Land-Over

IFICATION

TANGIBLES		SUB	DRY HOLE	COMPLETION	TOTAL
TRACT DRILLING	11,500 ft. @ \$ 18.00 /ft.	489	207,000		207,000
DAY WORK					
DRILLING	days @ \$ /day	490			
CORING AND DRILL STEM TEST	3 days @ \$ 4,500 /day	490	13,500		13,500
LOGGING, SFT. AND PERFORATING	1 days @ \$ 4,500 /day	490	4,500		4,500
OTHER Completion Unit	5 days @ \$ 1,500 /day	490		7,500	7,500
TOTAL CONTRACT DAY WORK		490			
MPANY PAYROLL		501	5,000	1,000	6,000
PLOYEE BENEFITS		505	1,500	300	1,800
ANSPORTATION AND HAULING Including Water		545	10,000	5,000	15,000
CESS CANAL CONSTRUCTION		476			
CATION, ROADS, PITS OR KEYWAY		472	20,000	5,000	25,000
TS, COREHEADS, ETC. Provided by Contractor		492			
D MATERIALS		475	17,000	1,500	18,500
MENT AND CEMENTING SERVICES		473	20,000	10,000	30,000
NTRALIZERS, SHOES, SCRATCHERS AND NON-SALVABLE PACKERS		491	2,000	1,500	3,500
D LOGGING \$425/Day		474	8,500		8,500
FORMATION TESTING		482	8,000		8,000
GGING AND SIDE WALL CORING		478	25,000	8,000	33,000
RFORATING		479		7,000	7,000
OL RENTAL INCLUDING SMALL DIAMETER DRILL PIPE		488	10,500	3,000	13,500
STING TUBULAR GOODS		484	5,000	3,000	8,000
TERNAL COATING		485			
IMULATION TREATMENT		480		4,500	4,500
HER SPECIAL WELL SERVICES		494			
CELLANEOUS COSTS AND CONTINGENCIES		599	35,000	5,000	40,000
TOTAL INTANGIBLES			381,000	62,300	443,300
TANGIBLES					
CASING	400 ft. 13 3/8 in. 48 lb. Gr. H-40	@ \$ 440	7,000		7,000
	4,400 8 5/8 24 & 28 IK-55 & S-80	@ \$ 440	51,000		51,000
	11,500 5 1/2 17 N-80	@ \$ 440		115,000	115,000
		@ \$ 440			
TUBING	11,200 2 7/8 6.5 N-80	@ \$ 443		55,000	55,000
		@ \$ 443			
		@ \$ 443			
LSING HEADS		444	6,400	5,000	11,400
RISTMAS TREE		445		2,000	2,000
ETRIEVABLE PACKERS		448		4,200	4,200
HER WELL EQUIPMENT		469			
TOTAL TANGIBLES			64,400	128,200	192,600
TOTAL WELL COST	100.00000 %		445,400	250,500	695,900
RODUCTION EQUIPMENT (Detail Attached)	100.00000 %				
OTHER COSTS - NET (Detail Attached)	100.00000 %				
TOTAL COST	100.00000 %		456,900	250,500	707,400
OWNERSHIP	%	COMPANY COST	%		
APPROVAL	DATE	APPROVAL	DATE	AUTHORIZATION	

JOINT INTEREST APPROVAL