

District I

1625 N. French Dr., Hobbs, NM 88240

District II

811 South First, Artesia, NM 88210

District III

1000 Rio Brazos Road, Aztec, NM 87410

District IV

1220 S. St. Francis Dr., Santa Fe, NM 87504

State of New Mexico
Energy Minerals and Natural ResourcesOil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87504

Form C-104A

August 11, 2000

Submit 1 copy of the final affected wells
list along with 2 copies of this form per
number of wells on that list to
appropriate District Office**Change of Operator**

Previous Operator Information:

New Operator Information:

OGRID: 147179
Name: Chesapeake Operating, Inc.
Address: P. O. Box 18496
Address: _____
City, State, Zip: Oklahoma City, OK 73154-0496Effective Date: 02/01/02
New Ogrid: _____
New Name: DKD, L.L.C.
Address: P. O. Box 682
Address: _____
City, State, Zip: Tatum, NM 88267

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the attached list of wells is true and complete to the best of my knowledge and belief.

New Operator

Signature: _____

Printed name: DANNY R. WATSONTitle: PRES.Date: 4/1/02Phone: (505) 398-3490

Previous operator complete below:

Previous

Operator: Chesapeake Operating, Inc.

Previous

OGRID: 147179

Signature: _____

Printed

Name: Douglas J. Jacobson**NMOCD Approval**

Signature: _____

Printed

Name: _____

District: _____

Date: _____

Sr. Vice Pres. - Acq. & Divest.

BEFORE THE OIL CONSERVATION
COMMISSION

Santa Fe, New Mexico

Case No. 12905 (De Novo) Exhibit No. 1Submitted by: DKD LLCHearing Date: March 20, 2003

ASSIGNMENT, BILL OF SALE AND CONVEYANCE

STATE OF NEW MEXICO)

* L 4 3 6 4 5

COUNTY OF LEA)

) SS:

This Assignment, Bill of Sale and Conveyance ("Assignment") dated effective as of December 1, 2001, at 7:00 a.m. Central Standard Time (the "Effective Time") is made by CHESAPEAKE OPERATING, INC., CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, CHESAPEAKE INVESTMENTS AND TLW INVESTMENTS, INC., NORTHPORT PRODUCTION COMPANY, VESTIGE, INC., AND ANSON ENERGY CORPORATION, (herein referred to as "Assignors") to DKD, L.L.C., (herein referred to as "Assignee") located at P.O. Box 682, Tatum, New Mexico 88267.

For and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignors do hereby GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER AND DELIVER unto Assignee, insofar as they have a right to do so, and subject to the terms and reservations hereof, all of Assignors' interest in the following described properties and rights, INsofar AND ONLY INsofar as said interests cover the Well and Leases described or named on the attached Exhibit "A" (herein collectively referred to as the "Interests"):

- (1) All of Assignors' undivided right, title and interest (including all working interests, net revenue interests, farmout or farmin rights, royalty, overriding royalty or other non-working or carried interests, operating rights and other mineral rights of every nature) in and to the Oil, Gas and Mineral (or Oil and Gas) Leases described in Exhibit "A" attached hereto and made a part hereof, as extended or amended (hereinafter referred to as the "Leases"), insofar as such Leases cover the lands described in such Exhibit.
- (2) All of Assignors' undivided right, title and interest in and to all presently existing unitization and pooling agreements and statutorily, judicially or administratively created drilling, spacing and/or production units, whether recorded or unrecorded, which relate to the Leases, and all of Assignors' interest in and to the properties covered or units created thereby which are attributable to the Interests;
- (3) All of Assignors' undivided right, title and interest in and to all presently existing and valid oil, casinghead gas and gas sales, operating, farmout, pooling, purchase, exchange and processing contracts and agreements, partnership and joint venture agreements and any other contracts, agreements and instruments which pertain to the Interests or any properties pooled or unitized therewith;
- (4) All of Assignors' undivided interests in and to all oil and gas and associated hydrocarbons stored upon or produced from the Interests or any property pooled or unitized therewith from and after the Effective, which are attributable to the Interests;
- (5) All of Assignors' undivided right, title and interest in and to all easements, permits, licenses, servitudes, rights of way, pipelines, power lines, telephone and telegraph lines, communications' facilities and all other rights and appurtenances situated on or used in connection with the Interests or any properties pooled or unitized therewith; and
- (6) All of Assignors' undivided right, title and interest in and to the Interests, all tangible personal property, equipment, fixtures, improvements, easements, permits, licenses, servitudes and other appurtenances including, but not by way of limitation, all injections wells, salt water disposal facilities, well heads, casing, tubing, pumps, motors, gauges, valves, heaters, treaters, gathering lines, flow

lines, gas lines, gas processing and compression facilities (specifically including the existing processing and compression facility), water lines, vessels, tanks, boilers, separators, fixtures, platforms, machinery, tools, treating equipment, compressors and other equipment, pipelines, powerlines, telephone and telegraph lines, transportation and communication facilities, and other appurtenances situated upon the lands covered by the Leases conveyed herein or any land or lands pooled or unitized therewith or used or obtained in connection with the production, treating, storing or transportation of oil, gas and other hydrocarbons or minerals therefrom:

* **L 436 45**

- 7) All rights, obligations, liabilities and responsibilities as to gas imbalances, if any, attributable to the Properties as of the Effective Time;

Assignee accepts the Interests subject to the obligations remaining under said Lease to properly plug and abandon all wells, restore the surface, and all other obligations of the Lease.

TO HAVE AND TO HOLD all and singular the Interests together with all rights: titles, interests, estates, remedies, powers and privileges thereunto appertaining unto Assignee and Assignee's successors and assigns forever; subject, to the following matters:

- (a) all Lessors' royalties, overriding royalties and other burdens, reversionary interests and similar burdens as shown of record;
- (b) all easements, rights-of-way, servitudes, permits, surface leases and other rights in respect of surface operations;
- (c) the terms and conditions of the Leases and other agreements affecting the Interests;
- (d) all rights reserved to or vested in any municipality or governmental, tribal, statutory or public authority to control or regulate any of the Interests in any manner, and all applicable laws, rules and orders of governmental and tribal authority; and
- (e) all gas contracts, crude oil purchase contracts, operating agreements, division orders and transfer orders affecting the Interests.

Assignors also hereby grant and transfer to Assignee, its successors and assigns, to the extent so transferable, the benefit of and the right to enforce the covenants and warranties, if any, which Assignors are entitled to enforce with respect to the Interests against Assignors' predecessors in title to the Interests.

It is expressly understood and agreed that (i) Assignors shall be responsible for, and shall indemnify and hold Assignee harmless from, all claims, costs, expenses and liabilities which arise or accrue prior to the Effective Time with respect to the Interests; (ii) Assignee shall be responsible for, and shall indemnify and hold Assignors harmless from, all claims, costs, expenses and liabilities which arise or accrue after the Effective Time with respect to the portion of the Interests assigned hereunder; (iii) Assignors shall be entitled to receive all revenues attributable to oil, gas or hydrocarbons produced from the Interests prior to the Effective Time; and (iv) Assignee shall be entitled to receive all revenues attributable to oil, gas or other hydrocarbons produced from the portion of the Interests assigned hereunder to Assignee after the Effective Time.

THIS ASSIGNMENT, BILL OF SALE AND CONVEYANCE IS MADE (i) WITHOUT ANY WARRANTY OR REPRESENTATION OF TITLE, EITHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, (ii) WITHOUT ANY EXPRESS, IMPLIED, STATUTORY OR OTHER WARRANTY OR REPRESENTATION AS TO THE CONDITION, QUANTITY, QUALITY, FITNESS FOR A PARTICULAR PURPOSE, CONFORMITY TO MODELS OR SAMPLES OF MATERIALS OR MERCHANTABILITY OF ANY OF THE PROPERTIES OR THEIR FITNESS FOR ANY

PURPOSE; AND (iii) WITHOUT ANY OTHER EXPRESS, IMPLIED, STATUTORY OR OTHER WARRANTY OR REPRESENTATION WHATSOEVER.

This Assignment shall bind and inure to the benefit of Assignors and Assignees and their respective affiliates, subsidiaries, successors and assigns.

EXECUTED this 15th day of May 2002, but effective for all purposes as of the Effective Time.

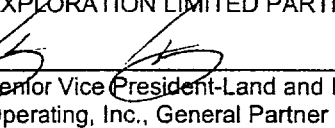
ASSIGNORS:

CHESAPEAKE OPERATING, INC.

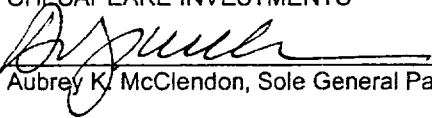
- L436 45


Henry J. Hood, Senior Vice President-Land and Legal

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP


Henry J. Hood, Senior Vice President-Land and Legal
of Chesapeake Operating, Inc., General Partner

CHESAPEAKE INVESTMENTS


Aubrey K. McClendon, Sole General Partner

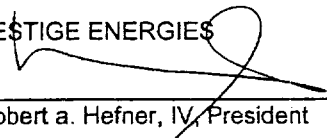
TLW INVESTMENTS INC.


Tom. L. Ward, President

NORTHPORT PRODUCTION COMPANY


Tony Viale, President

VESTIGE ENERGIES

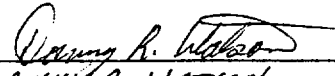

Robert a. Hefner, IV, President

ANSON ENERGY CORPORATION


Carl B. Anderson, President

ASSIGNEE:

DKD, L.L.C.


By: DANNY R. WATSON
Title: PRESIDENT

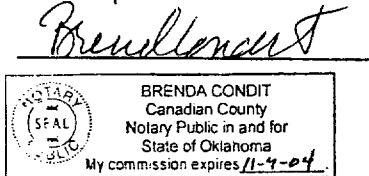
ACKNOWLEDGMENTS

STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA)

* L436 45

This instrument was acknowledged before me on this 1st day of May 2002 by Henry J. Hood, as Senior Vice President-Land and Legal of Chesapeake Operating, Inc., and Oklahoma corporation.

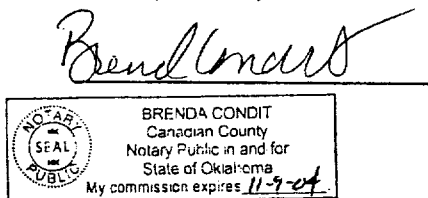
My Commission Expires: 11/9/04



STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on this 1st day of May 2002 by Henry J. Hood, as Senior Vice President-Land and Legal of Chesapeake Operating, Inc., as General Partner of Chesapeake Exploration Limited Partnership.

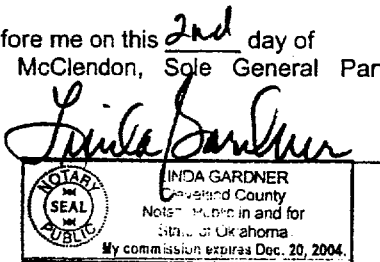
My Commission Expires: 11/9/04



STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on this 2nd day of May 2002 by Aubrey K. McClendon, Sole General Partner of Chesapeake Investments.

My Commission Expires:



STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA)

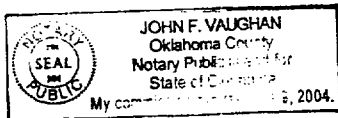
This instrument was acknowledged before me on this 1st day of May 2002 by Tom L. Ward, President of TLW Investments Inc., an Oklahoma corporation.

My Commission Expires: 2/12/04

STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on this 22nd day of April 2002 by Tony Viele, President of Northport Production Company.

My Commission Expires:



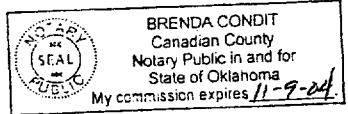
STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA)

L 436 45

This instrument was acknowledged before me on this 1st day of May 2002 by Robert A. Hefner, IV, President of Vestige Energies:

My Commission Expires: 11/9/04 Brenda Condit

STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA)



This instrument was acknowledged before me on this 22 day of April 2002 by Carl B. Anderson, President of Anson Energy Corporation.

My Commission Expires: 1-26-2005 Brenda A. Condit

STATE OF NEW MEXICO)
COUNTY OF LEA)

This instrument was acknowledged before me on this 3rd day of April 2002 by Danny R. Watson of DKD, LLC

My Commission Expires: Nov. 19, 2005 Kyra Stevens

EXHIBIT "A"

L436 45

ATTACHED HERETO AND MADE PART OF THAT CERTAIN ASSIGNMENT, BILL OF SALE AND CONVEYANCE BETWEEN CHESAPEAKE OPERATING, INC., CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, CHESAPEAKE INVESTMENTS, TLW INVESTMENTS INC., NORTHPORT PRODUCTION COMPANY, VESTIGE, INC., AND ANSON ENERGY CORPORATION, AS ASSIGNOR, AND DKD, L.L.C. AS ASSIGNEE, EFFECTIVE FEBRUARY 1, 2002.

LEASE NO: NM7000094-000
LESSOR: State of New Mexico - Lease No. V04886 0000
LESSEE: Chesapeake Operating, Inc.
DATE: June 1, 1996
RECORDED: 800/156
DESCRIPTION: Lots 13 and 14 of Section 6, Township 16 South, Range 36 East, Lea County, New Mexico, as further described in said lease.

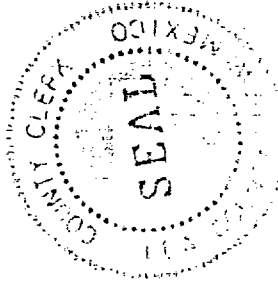
INSOFAR AND ONLY INSOFAR AS SAID LEASES COVER LANDS CONTAINED WITHIN THE SURFACE BOUNDARIES OF THE 76.65 ACRE WATSON 1-6 UNIT, AS MORE FULLY DESCRIBED AS LOTS 13 AND 14 OF SECTION 6, TOWNSHIP 16 SOUTH, RANGE 36 EAST, LEA COUNTY, NEW MEXICO.

Record & Return To:
Chesapeake Operating, Inc.
P.O. Box 18496
Oklahoma City, OK 73154

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

MAY 14 2002

at 1:55 o'clock P M
and recorded in Book _____
Page _____
Melinda Hughes, Lea County Clerk
By _____ Deputy



ATTEST:
Certified this 6th day of September
2002, as true and correct copy of
the original on file in this office.

MELINDA HUGHES, LEA COUNTY CLERK

Deputy



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Betty Rivera
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

ADMINISTRATIVE ORDER SWD-834

APPLICATION OF DKD, LLC FOR SALT WATER DISPOSAL, LEA COUNTY, NEW MEXICO.

BEFORE THE OIL CONSERVATION
COMMISSION
Santa Fe, New Mexico
Case No. 12905 (De Novo) Exhibit No. 2
Submitted by: DKD LLC
Hearing Date: March 20, 2003

ADMINISTRATIVE ORDER OF THE OIL CONSERVATION DIVISION

Under the provisions of Rule 701(B), DKD, LLC made application to the New Mexico Oil Conservation Division on March 27, 2002, for permission to re-enter for produced water disposal its Watson 6 Well No. 1 (API No. 30-025-34197) located 2857 feet from the South line and 1417 feet from the West line (Unit N) of Section 6, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico.

THE DIVISION DIRECTOR FINDS THAT:

- (1) The application has been duly filed under the provisions of Rule 701(B) of the Division Rules and Regulations;
- (2) Satisfactory information has been provided that all offset operators and surface owners have been duly notified;
- (3) The applicant has presented satisfactory evidence that all requirements prescribed in Rule 701 will be met; and
- (4) No objections have been received within the waiting period prescribed by said rule.

IT IS THEREFORE ORDERED THAT:

DKD LLC is hereby authorized to re-enter its Watson 6 Well No. 1 (API No. 30-025-34197) located 2857 feet from the South line and 1417 feet from the West line (Unit N) of Section 6, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, in such a manner as to permit the injection of produced water for disposal purposes into the Cisco and Canyon (Pennsylvanian) formations from a depth of 10340 feet to 11062 feet through 2 7/8 inch plastic-lined tubing set in a packer located approximately at 10280 feet.

IT IS FURTHER ORDERED THAT:

The operator shall take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface.

The casing shall be pressure tested from the surface to the packer setting depth to assure the integrity of said casing.

The casing-tubing annulus shall be loaded with an inert fluid and equipped with a pressure gauge at the surface or left open to the atmosphere to facilitate detection of leakage in the casing, tubing, or packer.

The injection well or system shall be equipped with a pressure limiting device which will limit the wellhead pressure on the injection well to no more than 2068 psi.

The Director of the Division may authorize an increase in injection pressure upon a proper showing by the operator of said well that such higher pressure will not result in migration of the injected fluid from the injection formation. Such proper showing shall consist of a valid step-rate test run in accordance with and acceptable to this office.

The operator shall notify the supervisor of the Hobbs District Office of the Division of the date and time of the installation of disposal equipment and of any mechanical integrity test so that the same may be inspected and witnessed.

The operator shall immediately notify the supervisor of the Hobbs District Office of the Division of the failure of the tubing, casing, or packer in said well and shall take such steps as may be timely and necessary to correct such failure or leakage.

PROVIDED FURTHER THAT, jurisdiction is retained by the Division for the entry of such further orders as may be necessary for the prevention of waste and/or protection of correlative rights or upon failure of the operator to conduct operations (1) to protect fresh water or (2) consistent with the requirements in this order, whereupon the Division may, after notice and hearing, terminate the injection authority granted herein.

The operator shall submit monthly reports of the disposal operations on Division Form C-115, in accordance with Rule Nos. 706 and 1120 of the Division Rules and Regulations.

The injection authority granted herein shall terminate one year after the effective date of this order if the operator has not commenced injection operations into the subject well, provided however, the Division, upon written request by the operator, may grant an extension thereof for good cause shown.

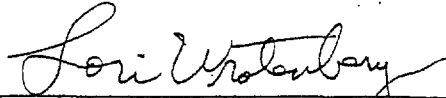
Administrative Order SWD-834

DKD, LLC

April 26, 2002

Page 3

Approved at Santa Fe, New Mexico, on this 26th day of April 2002.

A handwritten signature in cursive script, reading "Lori Wrotenbery", written over a horizontal line.

LORI WROTENBERY, Director

LW/WVJ

cc: Oil Conservation Division – Hobbs

LEASE NO: V04886 0000

Application No:

OIL AND GAS LEASE
(Discovery Form)

THIS AGREEMENT, dated June 01, 1996, between the state of New Mexico, acting by and through its commissioner of public lands, hereinafter called the "lessor", and

CHESAPEAKE OPERATING, INC.
P. O. BOX 18496
OKLAHOMA CITY, OK 73154-0496

hereinafter called the "lessee",

Record & Return To:
Chesapeake Operating, Inc.
P.O. Box 18496
Oklahoma City, OK 73154

WITNESSETH:

WHEREAS, the lessee has filed in the office of the commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment; and

WHEREAS, all of the requirements of law relative to the application and tender have been duly complied with,

THEREFORE, in consideration of the premises as well as the sum of TWO HUNDRED TWO THOUSAND and 00/100 dollars (\$202,000.00), the same being the amount of the tender above mentioned, and the further sum of \$30.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and helium), or both thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone lines, tanks, power houses, stations, gasoline plants and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas or water from said lands, but not from lessor's water wells, and with the right of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the covenants and conditions hereinafter set out, the following described land situated in the county(xies) of LCA, state of New Mexico, and more particularly described as follows:

Subdivisions	Section	Twp	Rge	Acres	Institution
LOT(S) 11(40.00), 12(36.71), 13(36.65), 14(40.00), E2SW4	6	16S	36E	233.36	MH

Said lands having been awarded to lessee and designated as Tract No. V0-O-0011 at public sale held by the commissioner of public lands on May 21, 1996.

To have and to hold said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five years from the date hereof, and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land by lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one-sixth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipeline, if the oil be run into a pipeline, or into storage tanks, if the oil is stored.

2. Subject to the free use without royalty, as hereinbefore provided, at the option of the lessor at any time and from time to time, the lessee shall pay the lessor as royalty one-sixth part of the gas produced and saved from the leased premises, including casing-head gas. Unless said option is exercised by lessor, the lessee shall pay the lessor as royalty one-sixth of the cash value of the gas, including casing-head gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the net proceeds derived from the sale of such gas in the field; provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

BEFORE THE OIL CONSERVATION
COMMISSION

Santa Fe, New Mexico

Case No. 12905 (De Novo) Exhibit No. 3

Submitted by: DKD LLC

Hearing Date: March 20, 2003

BOOK 800 PAGE 156

#700

Notwithstanding the foregoing provisions, the lessor may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof, in the field) if the commissioner of public lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas or in the public interest.

This lease shall not expire at the end of the primary term hereof if there is a well capable of producing gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in due to the inability of the lessee to obtain a pipeline connection or to market the gas therefrom and if the lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of ninety days from the date said well was shut-in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable hereunder to the lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leasehold premises and through no fault of the lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as herein provided. The amount of any annual royalty payable under this section shall equal twice the annual rental due to the lessor under the terms of this lease but not less than three hundred twenty dollars (\$320) per well per year, provided, however, that any such annual royalty for any year beginning on or after ten years from the date hereof shall equal four times the annual rental due by the lessee under the terms of this lease but not less than two thousand dollars (\$2,000) per well per year, provided further that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by lessor and if such other lease includes lands communitized with lands granted hereunder for the purpose of proportionally sharing in the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after five years from the date hereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the commissioner of public lands, in his discretion, grants such a continuance.

3. Lessee agrees to make full settlement on the twentieth day of each month for all royalties due to the lessor for the preceding month under this lease, and to permit the lessor or its agents, at all reasonable hours to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. An annual rental at the rate of \$1.00 per acre shall become due and payable to the lessor by the lessee upon each acre of the land above described and then claimed by such lessee, and the same shall be due and payable in advance to the lessor on successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than forty dollars (\$40.00).

In the event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the lessor a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to the lessor a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the lessor all amounts then due as provided herein and the further sum of forty dollars (\$40.00), surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms expressed or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, at the office of the commissioner of public lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor shall have the rights to assign this lease in whole or in part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as in such tracts.

8. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land which is draining the leased premises, lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the lessor and the lessee.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor.

If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when lessor deems it to be in the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agree to pay of all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of Paragraph 10 above.

13. Upon failure or default of the lessee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee so defaulting, by registered or certified mail, addressed to the post-office address of such lessee as shown by the records of the state land office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

14. If this lease shall have been maintained in accordance with the provisions hereof and if at the expiration of the primary term provided for herein oil or gas is not being produced on said land but lessee is then engaged in bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities, or either of them, is produced from said land; provided, however, such operations extending beyond the primary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all such operations shall be made by the lessee to the lessor every thirty days and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

If during the drilling or reworking of any well under this section, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, then within twenty days after the abandonment of said operations, lessee may commence another well within three hundred thirty feet of the lost or junked hole or well and drill the same with due diligence.

Operations commenced and continued as herein provided shall extend this lease as to all lands as to which the same is in full force and effect as of the time said drilling operations are commenced; provided, however, this lease shall be subject to cancellation in accordance with Paragraph 13 hereof for failure to pay rentals or file reports which may become due while operations are being conducted hereunder.

15. Should production of oil and gas or either of them in paying quantities be obtained while this lease is in force and effect and should thereafter cease from any cause after the expiration of five years from the date hereof this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than twenty consecutive days, and if such operations result in the production of oil or gas in paying quantities, so long thereafter as oil or gas in paying quantities is produced from said land; provided, however, written notice of intention to commence such operations shall be filed with the lessor within thirty days after the cessation of such production, and a report of the status of such operations shall be made by the lessee to the lessor every thirty days, and the cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

16. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder, however, this clause is enforceable by the lessor in any manner provided in this lease or by law.

17. Should lessor desire to exercise its rights to take in-kind its royalty share of oil, gas or associated substances or purchase all or any part of the oil, gas or associated substances produced from the lands covered by this lease, the lessee hereby irrevocably consents to the lessor exercising its right. Such consent is a consent to the termination of any supplier/purchaser relationship between the lessor and the lessee deemed to exist under federal regulations. Lessee further agrees that it will require any purchaser of oil, gas or associated substance to likewise waive any such rights.

18. Lessor reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or any part of the minerals (oil and gas) that will be produced from the lands covered by this lease.

19. Lessor reserves the right to execute leases for geothermal resource development and operation thereon; the right to sell or dispose of the geothermal resources of such lands; and the right to grant rights-of-way and easements for these purposes.

20. All terms of this agreement shall extend to and bind the heirs, executors, administrators, successors and assigns of the parties hereto.

In witness whereof, the party of the first part has hereunto signed and caused its name to be signed by its commissioner of public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

STATE OF NEW MEXICO

By: [Signature]
Commissioner of Public Lands, Lessee

[Signature]

(Seal)

Lessee

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ ss.

COUNTY OF _____ ss.

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

My commission expires: _____

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF _____ ss.

COUNTY OF _____ ss.

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

as attorney-in-fact in behalf of _____

My commission expires: _____

STATE OF NEW MEXICO
COUNTY OF LEA

Notary Public

FILED

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF Oklahoma ss.

COUNTY OF Oklahoma ss.

The foregoing instrument was acknowledged before me this 20th day of June, 1996, by _____

Aubrey K. McClendon

(Name)

President of Chesapeake Operating, Inc.

(Title)

(Corporation)

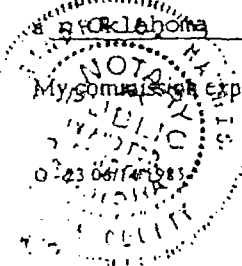
Oklahoma corporation, on behalf of said corporation.

My commission expires: April 26, 1998

[Signature]
Notary Public

MAY 22 1997
at 1:03 o'clock P M
and recorded in Book _____
Page _____
Pat Chappelle, Notary Clerk
By [Signature] Deputy

7361



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Hobbs, N.M. 88240
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E-Mail: ew@ewtitle.com

ELLIOTT & WALDRON TITLE & ABSTRACT CO., INC.

January 6, 2003

Danny Watson
P.O. Box 682
Tatum, NM 88267

Dear Mr. Watson


We have made a search of our records and the records of the Lea County Clerk from January 1, 2002 to January 3, 2003 and we find no assignment out of Chesapeake Operating, Inc., Chesapeake Exploration Limited Partnership and/or Chesapeake Investments as to State of New Mexico Lease No. VO4886 covering Lots 11, 12, 13, 14, E/2 SW/4 Section 6, Township 16 South, Range 36 East, N.M.P.M., Lea County, New Mexico filed of record except for the Assignment you are aware of to DKD, L.L.C. recorded 5/14/02 in Book 1146 Page 724, Lea County Records, Lea County, New Mexico.

Please let us know if we can be of any other assistance.

Sincerely,

Elliott & Waldron Title & Abstract Co., Inc.

By:


Kay Hardin, Assistant Secretary

BEFORE THE OIL CONSERVATION
COMMISSION
Santa Fe, New Mexico
Case No. 12905 (De Novo) Exhibit No. 4
Submitted by: DKD LLC
Hearing Date: March 20, 2003

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ELLIOTT & WALDRON TITLE & ABSTRACT CO., INC.

March 10, 2003

Danny Watson
P.O. Box 682
Tatum, NM 88267

Dear Mr. Watson,

We have made a search of our records from January 1, 2002 to February 13, 2003 at 7:00 A.M. and we find no assignment out of Chesapeake Operating, Inc., Chesapeake Exploration Limited Partnership and/or Chesapeake Investments as to State of New Mexico Lease No. VO4886 covering Lots 11, 12, 13, 14, E/2 SW/4 of Section 6, Township 16 South, Range 36 East, N.M.P.M., Lea County, New Mexico filed of record except for the Assignment you are aware of to DKD, L.L.C. recorded 5/14/02 in Book 1146 Page 724, Lea County Records, Lea County, New Mexico.

Please let us know if we can be of any other assistance.

Sincerely,

Elliott & Waldron Title & Abstract Co., Inc.

By: *Dawn Dye*
Dawn Dye, Abstracter