

STATE LEASE

MF099055

#	LeaseDate	Acres	Status	CONTROL	BASEFILE	COUNTY
A	May 15 1997	196.80	ACTIVE	07-109924	91290 -	REEVES /195
B	May 15 1997	98.40	ACTIVE	07-109933	96114 -	REEVES /195
C	May 15 1997	98.40	ACTIVE			
D	May 15 1997	86.40	ACTIVE			

SURVEY : T & P RY CO
BLOCK : 54

TOWNSHIP : 05S

SECTION/TRACT: 6

PART : ~~E/2~~ NW/4 N/2

ACRES : 480.00 320

DEPTH LIMITS : NO To 15,210'

Rentals: *Ms*Lease *DR*Admin: *DR*Mineral *DR*Maps: *DR*

LESSEE : PENWELL ENERGY, INC.

LEASE DATE : May 15 1997

PRIMARY TERM : 2 yrs

BONUS (\$) : 0.00

RENTAL (\$) : 5.00

ROYALTY : 0.23000000

VAR ROYALTY :

PARTIAL RELEASE *DR*

©



MF 099055



M-099055

M

0

9

9

0

5

5

CONTENTS OF FILE NO. 99055

1. Bid Application	8-4-97	
2. Lease	5-15-97	
3. Lease	"	
4. Lease	"	
5. Lease	"	
6. Assignment	3/3/03	
7. Division ORDER	3/29/03	
8. Billing to CrownQuest	4/14/04	
9. Letter From CrownQuest	4/21/04	
10. Billing to Pennwell Energy Inc	4/27/04	
11. 2 nd Request letter to Pennwell	6/3/04	
12. Letter + Payment from Pennwell	6/28/04	
13. Drilling Reports	8/14/97	
14. Billing ltr to CrownQuest	8/5/04	
15. Assignment	11/4/04	
16. Ltr + fee	10/11/04	
17. PARTIAL RELEASED	9-26-05	
Scanned sm 10/10/13		
LEASE TERMINATED 9/1/16		
18.) TERMINATION LETTER 10/27/16		
19.) RELEASES 2/23/17		
Scanned sm 3/13/2017		

Mineral Classified Land
Lease Consideration Comparison

County Reeves
Area Sec 6, T5, R54, T5P

M. F.	Acres	Lease Date	Term	Total Bonus	B/Ac	Rental	Comparison
New	480.29	<u>5/14/97</u>	2	28,000	#60	#5	11.52
^{he} 97554	400	10/1/96	3	31,200	#78	#5	5 mi NE 1/8
96490	45	8/12/94	3	2250	#50	#1	4 mi SW 1/10
Rcmd	40	6/10/96	4	2,400	#60	#1	3 mi NE 1/10
Rcmd	100	8/26/96	3	6,000	#60	#1	3 mi NE 1/10

91290 + 96114 + ~~12925.1~~

Remarks:

^{e/2} 07-109924 07-109933 ~~07-109942~~
320 Ac. 160 Ac. ~~80 Ac.~~

Consideration
Recommended CRB 7/15/97
Not Recommended _____

GENERAL LAND OFFICE

GARRY MAURO
COMMISSIONER

MEMORANDUM

DATE:

TO: Garry Mauro, Commissioner
Spencer Reid, Senior Deputy

FROM: Robert Hatter, Director, Mineral Leasing
Peter Boone, Chief Mineral Evaluator

SUBJECT:

County: Reeves
Description: Sec 6, T5, Blk 54, T5P > E/2 + NW/4
Applicant: Pennell Energy
Consideration: \$60, 2YR, \$5, 23%

Consideration
Recommended: CRB 7/15/97
Not Recommend: _____
Comments:

Form
Recommended: ROH 7/16/97
Not Recommend: _____
Recommended, after technical changes: _____
Comments:

Spencer Reid, Senior Deputy

Date: 8/4/97

Recommended: SR
Not Recommend: _____

Garry Mauro, Commissioner

Date: _____

Approved: GM
Not Approved: _____

(12)
File No. 29055
application to Bred

Date Filed: 8-4-97

David Dewhurst, Commissioner

By _____

FILE # 1341

No. 5367--General Land
Office Lease Form Under
Relinquishment Act
Revised, September 1987
GLO-L-19-(9-87)

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 15th day of May 1997, between the State of Texas, acting by and through its agent, Rita Reed George, Sole and Separate Property

of P.O. Drawer 310, Bastrop Texas 78602

said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and Penwell Energy, Inc.

of

600 North Marienfeld, Suite 1100, Midland, Texas 79701

(Give Permanent Address)

hereinafter called Lessee.

1. GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by Lessee under this lease, the State of Texas, acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves County, State of Texas, to-wit:

Block 54, TWP 5, T&P RR Co. Sy.

Section 6: E/2, NW/4

containing 480 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Five Thousand Nine Hundred and Four Dollars and 00/100

Dollars (\$ 5,904.00)

To the owner of the soil: Five Thousand Nine Hundred and Four Dollars and 00/100

Dollars (\$ 5,904.00)

Total bonus consideration: Eleven Thousand Eight Hundred and Eight and 00/100

Dollars (\$ 11,808.00)

The total bonus consideration paid represents a bonus of

Sixty Dollars (\$ 60.00) per acre, on

196.80 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Two (2) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities* from said land.

*As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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Attest: 6-12-1997
Dianne O. Florez, County Clerk
Reeves County, Texas



J. Acosta Deputy

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____ Bank, at _____, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:	Four Hundred Ninety-Two and 00/100
	Dollars (\$492.00)
To the State of Texas:	Four Hundred Ninety-Tow and 00/100
	Dollars (\$492.00)
Total Rental:	Nine Hundred Eighty-Four and 00/100
	Dollars (\$984.00)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

4. PRODUCTION ROYALTIES. When production of oil and/or gas is secured during the term of this lease, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(a) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 23% part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is greatest. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the parties entitled to royalties through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(b) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above; produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 23% part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(c) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 23% part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons

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 Dianne O. Flores, County Clerk
 Reeves County, Texas



J. Austin Deputy

are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons, F.O.B. at the plant in which said gas is processed), whichever is greater.

(d) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 23% part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such product is sold, whichever is greater.

5. MINIMUM ROYALTY. For each calendar year following the date of the expiration of the primary term when this lease is held for any part of such calendar year by production, the royalty received under this lease must not be less than an amount equal to the total annual delay rental provided for in Paragraph 3. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind.

7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.

8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

9. ROYALTY PAYMENTS AND REPORTS. All royalties which are required to be paid to the Commissioner of the General Land Office under this lease shall be due and payable in the following manner: Royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number, the amount of royalty being paid on each lease. If Lessee pays his royalty late but on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% of the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00, whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall

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 Reeves County, Texas



J. Acosta Deputy

bear all responsibility for paying or causing royalties to be paid in the manner prescribed in this paragraph. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value. Penalties due under this paragraph are subject to change in order to conform to any future penalty statutes. The State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure the payment of all unpaid royalty and other sums of money that may become due to the State under this lease.

10. **PERMITS, REPORTS, AND RESERVES.** Lessee shall file all drilling permits in the name of the "State" and require each well and/or tank battery on the leased premises to be designated by the word "State" for identification and reporting to the Railroad Commission or any other governmental agency. Written notice of operations under this lease shall be submitted to the Commissioner of the General Land Office by Lessee five (5) days before spud date, cessation of production, workover, re-entry, temporary abandonment or abandonment of any well, and shall include copies of Railroad Commission forms for application to drill, well tests, completion reports and plugging records. Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after making of said survey. The Commissioner of the General Land Office reserves the right to require Lessee to annually furnish the said Commissioner with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease.

11. **DRY HOLE CLAUSE.** If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if, after discovery and production of oil or gas, the production thereof should cease from any cause, this lease shall not terminate if, on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of said dry hole or cessation of production, Lessee commences additional drilling or reworking operations thereon, or commences or resumes the payment of annual delay rental in the same manner as provided in Paragraph 3 of this lease. If a dry hole be completed and abandoned during the last year of the primary term, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of annual rental in the same manner as provided in Paragraph 3 in this lease on or before the rental paying date next ensuing after sixty (60) days from the date of completion of such shut-in oil or gas well, and upon the failure to make such annual rental payment, this lease shall ipso facto terminate. If at the expiration of the primary term or at any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the provisions of Paragraph 14 of this lease.

12. **DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM.** If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.

13. **CESSATION, DRILLING AND REWORKING.** In the event production of oil or gas on the leased premises after once obtained shall cease from any cause at the expiration of the primary term hereof or at any time or times thereafter, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days thereafter, and the lease shall remain in full force and effect so long as such operations continue in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation; and if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities or payment of shut-in oil or gas royalties or compensatory royalties is made as hereinafter provided or as provided elsewhere in the statutes of the State of Texas. Lessee shall give written notice to the General Land Office within five (5) days of any cessation of production.

14. **SHUT IN ROYALTIES.** If, at the expiration of the primary term or at any time thereafter, a well or wells capable of producing oil or gas in paying quantities is located on the leased premises but oil or gas is not being produced for lack of suitable production facilities or a suitable market, and the lease is not being maintained in force and effect, Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in Paragraph 3 of this lease but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify

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Attest: 6-17- 19 92
Dianne O. Forgy, County Clerk
Reeves County, Texas



By J. Acosta Deputy

a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. Any shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after lessee completes a drilling and reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one (1) year from the end of the primary term or from the first day of the month next succeeding the month in which production ceased and after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four (4) additional and successive periods of one year by paying the same amount each year on or before the expiration of the extended term. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within 1,000 feet of the leased premises and completed in the same producing reservoir or, in any case in which drainage is occurring, the right to continue to extend the lease by paying the shut-in oil or gas royalty shall cease. The lease shall remain effective for the remainder of the year for which the royalty has been paid and for four (4) additional and successive periods of one year each by the Lessee paying compensatory royalty at the royalty rate provided in the lease of the value at the well of production from the well that is causing the drainage or that is completed in the same producing reservoir and within 1,000 feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month next succeeding the month in which the oil or gas is sold and delivered from the well. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within 30 days from the end of the 12-month period. None of these provisions will relieve Lessee of the obligation of reasonable development or the obligation to drill offset wells as provided in Texas Natural Resources Code §52.173.

15. **DEVELOPMENT.** Notwithstanding any provision of this lease to the contrary, after a well producing, or capable of producing, oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the oil and gas produced. In the event this lease is in force and effect three (3) years after the expiration date of the primary term, it shall then terminate as to all of the leased premises, EXCEPT: 1) 40 acres surrounding each producing oil well and 320 acres surrounding each producing gas well (including a shut-in oil or gas well as provided in Paragraph 14 of this lease), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or 2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code §52.151 - §52.153, or 3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. "Producing" as used in this lease means producing in paying quantities. The acreage retained under this provision as to each well shall, as nearly as practical, be in the form of a square with the well located in the center or in such other shape as may be approved by the Commissioner of the General Land Office. Lessee shall execute and record a release or releases containing a satisfactory description of the acreage terminated under this provision, and the recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the prescribed filing fee.

16. **OFFSET WELLS.** Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. To prevent drainage, Lessee is obligated to drill as many wells as the facts may justify and to the depth or depths necessary for effective protection against undue drainage. In addition, if a draining well which is producing in commercial quantities is located within 1,000 feet of the above-described land, or in any case where the above described land is being drained, Lessee is statutorily obligated to drill an offset well on the leased premises within 100 days after the draining well begins production in commercial quantities. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty satisfy obligation to drill an offset well or wells required under this paragraph.

17. **FORCE MAJEURE.** If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

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Attache 6-17-19 92
Dianne O. Flores, County Clerk
Reeves County, Texas

J. Acosta Deputy

18. **WARRANTY CLAUSE.** The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

19. **PROPORTIONATE REDUCTION CLAUSE.** If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.

20. **USE OF WATER.** Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.

21. **AUTHORIZED DAMAGES.** Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.

22. **PIPELINE DEPTH.** When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

23. **WELL LOCATION LIMIT.** No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.

24. **CONSERVATION CLAUSE.** Lessee shall have the exclusive right to build, operate and maintain pits, reservoirs, pickup stations and plants for the purpose of picking up and conserving waste oil that flows down the creeks, ravines and across the leased premises, whether such waste oil is produced from the leased premises or from other lands. Royalties, as provided in this lease for regularly produced oil, are also owed on all such waste oil.

25. **REMOVAL OF EQUIPMENT.** Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.

26. (a) **ASSIGNMENTS.** Under the conditions contained in this paragraph and Paragraph 28 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals; or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect

A CERTIFIED COPY

DATE: 6-17-1992
 Diana O. Flores, County Clerk
 Reeves County, Texas



By: J. Acosta Deputy

this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.

(b) **ASSIGNMENT LIMITATION.** Notwithstanding any provision in Paragraph 26(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;
- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

27. **RELEASES.** Under the conditions contained in this paragraph and Paragraph 28, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.

28. **FILING OF ASSIGNMENTS AND RELEASES.** If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.

29. **LEASE FILING.** It is recognized that before this lease is effective a certified copy of this lease (which is made and certified by the County Clerk from his records) shall be filed in the General Land Office in accordance with Texas Natural Resources Code §52.183, and this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

30. **DISCLOSURE CLAUSE.** All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

31. **FIDUCIARY DUTY.** The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.

32. **FORFEITURE.** If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse

A CERTIFIED COPY
 Attest: 6-19-1992
 Dianne O. Ford, County Clerk
 Reeves County, Texas



By J. Beate Deputy

to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. RAILROAD COMMISSION HEARINGS ON GAS. No natural gas or casinghead gas, including both associated and nonassociated gas, produced from the mineral estate subject to this lease may be sold or contracted for sale to any person for ultimate use outside the State of Texas unless the Railroad Commission, after notice and hearing as provided in Title 3 of the Texas Natural Resources Code, finds that:

- (a) the person, agency, or entity that executed the lease in question does not require the natural gas or casinghead gas to meet its own existing needs for fuel;
- (b) no private or public hospital, nursing home, or other similar health-care facility in this State requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (c) no public or private school in this State that provides elementary, secondary, or higher education requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (d) no facility of the State or of any county, municipality, or other political subdivision in this State requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (e) no producer of food and fiber requires the natural gas or casinghead gas necessary to meet the existing needs of irrigation pumps and other machinery directly related to this production; and
- (f) no person who resides in this State and who relies on natural gas or casinghead gas to provide in whole or part his existing needs for fuel or raw material requires the natural gas or casinghead gas to meet those needs; provided, however, after notice and hearing as provided in Title 3 of the Texas Natural Resources Code the Railroad Commission may grant exceptions to these provisions as set forth in Texas Natural Resources Code §52.296.

34. This lease is issued under the provisions of Texas Natural Resources Code §52.171 through §52.188, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

FOR ADDITIONAL PROVISIONS, SEE "EXHIBIT A" ATTACHED HERETO AND MADE A PART HEREOF FOR ALL PURPOSES.

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

STATE OF TEXAS

BY: *John L. George*
Individually and as agent for the State of Texas

SSN: [REDACTED]

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

A CERTIFIED COPY
Attch: 6-17-1992
Diana O. Flores, County Clerk
Reeves County, Texas



By *J. Dent* Deputy

STATE OF TEXAS
COUNTY OF Bastrop

This instrument acknowledged before me on this the 3rd day of June, 1997, by
Rita Reed George, S.S.P.



Jill Turner Green
Notary Public in and for Bastrop County, Texas
My commission expires: 02/21/2001

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on _____ by

Notary Public in and for _____ County, Texas
My commission expires: _____

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on _____ by

Notary Public in and for _____ County, Texas
My commission expires: _____

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on _____ by

Notary Public in and for _____ County, Texas
My commission expires: _____

A CERTIFIED COPY
6-12-1997
Diana S. Flores, County Clerk
Reeves County, Texas



J. Acosta Deputy

Exhibit A

Attached to and made a part of that certain oil and gas lease dated May 15, 1997 by and between, Rita Reed George, dealing in her sole and separate property, as lessor, and Penwell Energy, Inc., as lessee. Notwithstanding anything to the contrary in the foregoing printed form Oil, Gas and Mineral Lease, it is agreed and understood that the following provisions shall supplement or modify the foregoing as applicable.

35. It is understood and agreed that this lease covers oil and gas only (including with oil and gas, all constituent elements thereof and all other liquid or liquefiable hydrocarbons and products of every kind or character derived therefrom and produced therewith, including sulphur), and all minerals other than oil and gas are excepted herefrom and reserved to Lessor. Including among the minerals reserved to Lessor and excluded from this lease are coal, uranium and lignite.

36 After the end of the primary term, this lease may not be maintained in force solely by reason of shut-in royalty payments, as provided heretofore, for any one shut-in period of more than three (3) years, or, from time to time, for shorter periods which exceed three (3) cumulative years. It is maintained, should a viable market with a willing purchaser for such gas be found by Lessor to exist, Lessor may give Lessee written notice of such market and Lessee shall, after receipt of such notice have sixty (60) days within which to diligently commence the steps prerequisite to marketing such gas or demonstrate to Lessor's reasonable satisfaction that the market is not economically viable or the purchaser is not willing, and Lessee's failure to do one or the other shall be grounds for termination of this lease.

37. Lessee shall pay for all damages to roads, fences, improvements, and growing crops caused by its operations hereunder, and will fill and level all pits and mounds, remove all board roads and board road materials, level and fill all ruts, and restore the surface of the ground to as near its original condition as is reasonably practical within a reasonable period of time after cessation of operations at each well on the leased premises. In addition, Lessee agrees to pay as surface damage \$2500.00 per drill site location, \$2000.00 per well for water used in drilling operations, and \$2.00/yard for caliche used in operations.

38. Notwithstanding any provisions to the contrary, at the expiration of the primary term this lease shall terminate as to all depths 100 feet below the deepest producing formation on the leased premises.

39. If Lessee, its successors or assigns, has completed a well on the leased premises, prior to the expiration of the primary term, which is capable of producing oil and/or gas in paying quantities, or, if at the expiration of the primary term hereof, Lessee is then engaged in actual drilling operations, this lease shall not terminate and shall remain in full force and effect as to all acreage not then held in a governmentally allowed spacing unit so long as actual drilling operations on an additional well are commenced within 120 days following the expiration of the primary term, and this lease shall continue in force for so long thereafter allowing not more than 120 days to elapse between the completion or abandonment of one well and the commencement of drilling operations for another well in a bona fide effort to find oil or gas until such time as the leased premises have been fully developed to a density of one well for each standard spacing or proration unit allowed by any Special Field Rules of the Texas Railroad Commission of Texas, or, if no such Special Field Rules have been adopted by the Railroad Commission, then such spacing or proration unit shall be deemed to be 40 acres as to oil wells and 320 acres for gas wells. If Lessee fails to commence said program or, if having commenced said program fails to continue same, then this lease shall ipso facto terminate as to all acreage covered hereby, except only for a tract surrounding each well then producing, each of such tracts to contain a sufficient number of acres to conform to Railroad Commission Special Field Rules for a standard spacing or proration unit or, if there are no Special Field Rules, to contain the acreage as aforesaid for oil wells and gas wells. Without in any way limiting the rights of Lessor hereunder, if this lease terminates as to any portion or portions of the leased premises, Lessee expressly agrees to execute and deliver to Lessor a properly recordable instrument releasing such portion or portions of the leased premises.

A CERTIFIED COPY

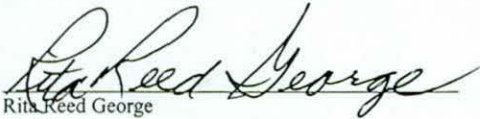
4-12-1997
Diana O. Flores, County Clerk
Abilene County, Texas



J. Acosta Deputy

40. The provisions of paragraph 4 relating to pooling for oil shall only apply when and if an insufficient quantity of the leased premises remains unallocated to existing or drilling oil wells to support the drilling of an additional oil well of the type and depth contemplated by Lessee, and in such event Lessee may pool all of the remainder of the leased premises with other lands as to form a pooled oil unit.
41. In the event a portion or portions of the land herein leased is pooled or unitized with other land so as to form a pooled unit or units, operations on, completion of a well upon, or production from such unit or units will not maintain this lease in force as to the land not included in such unit or units. The lease may be maintained in force as to any land hereby and not included in such unit or units in any manner provided for herein.
42. The only deductions that are to be made on royalties payable hereunder will be for production taxes and severance taxes only.
43. Should Horizontal Drilling operations be utilized on the leased premises or lands pooled herewith, such operations and respective proration units shall be governed by the pertinent Governmental authority having jurisdiction.
44. It is hereby understood and agreed that if production is established on said lands, and Lessee, his heirs, successors, or assigns, assigns away operations (that is a change in operator) then lessee, his heirs, successors, and assigns will notify all royalty owners of any such change.

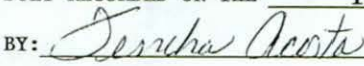
SIGNED FOR IDENTIFICATION:


Rita Reed George

FILE NO. 1341

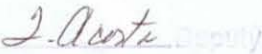
FILED FOR RECORD ON THE 12TH. DAY OF JUNE A.D. 1997 AT 9:50 AM

DULY RECORDED ON THE 13TH. DAY OF JUNE A.D. 1997 AT 2:00 PM

BY:  DEPUTY DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL,
OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
LAW.

A CERTIFIED COPY
4-17-1992
Dianne O. Florez, County Clerk
Reeves County, Texas

 Deputy

2.

File No. 99055
Lease

Date Filed: 5-15-97

David Dewhurst, Commissioner

By _____

**CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES**

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 525 PAGE 506 THRU 516



I hereby certified on 6-17-97

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

By Jenifer Acosta

DEPUTY

FILE # 1351

No. 5367--General Land
Office Lease Form Under
Relinquishment Act
Revised, September 1987
GL0-L-19-(9-87)

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 15th day of May 1997, between the State of Texas, acting by and through its agent, Warren Malcolm Clark, as Trustee of the Warren Malcolm Clark Trust under the Will of Mabel Clark Reed of P.O. Drawer 310, Bastrop Texas 78602

said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and Penwell Energy, Inc.600 North Marienfeld, Suite 1100, Midland, Texas 79701

(Give Permanent Address)

hereinafter called Lessee.

1. GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by Lessee under this lease, the State of Texas, acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves County, State of Texas, to-wit:

Block 54, TWP 5, T&P RR Co. Sy.
Section 6: E/2, NW/4

containing 480 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Thousand Nine Hundred and Fifty-Two and 00/100
Dollars (\$ 2,952.00)

To the owner of the soil: Two Thousand Nine Hundred and Fifty-Two and 00/100
Dollars (\$ 2,952.00)

Total bonus consideration: Five Thousand Nine Hundred and Four and 00/100
Dollars (\$ 5,904.00)

The total bonus consideration paid represents a bonus of Sixty Dollars (\$ 60.00) per acre, on 98.4 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Two (2) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities* from said land.

*As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

A CERTIFIED COPY

Attest: 6-17- 19 97
Dianne O. Florez, County Clerk
Reeves County, Texas

By J. Acosta Deputy

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____ Bank, at _____, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:	<u>Two Hundred Forty-Six and 00/100</u>
	Dollars (\$ <u>246.00</u>)
To the State of Texas:	<u>Two Hundred Forty-Six and 00/100</u>
	Dollars (\$ <u>246.00</u>)
Total Rental:	<u>Four Hundred Ninety-Two and 00/100</u>
	Dollars (\$ <u>492.00</u>)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

4. PRODUCTION ROYALTIES. When production of oil and/or gas is secured during the term of this lease, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(a) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 23% part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is greatest. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the parties entitled to royalties through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(b) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above; produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 23% part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(c) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 23% part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons

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Attest: 6-17-1992
 Dianne O. Florez, County Clerk
 Reeves County, Texas



By J. Acosta Deputy

are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons, F.O.B. at the plant in which said gas is processed), whichever is greater.

(d) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be ~~23%~~ part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such product is sold, whichever is greater.

5. MINIMUM ROYALTY. For each calendar year following the date of the expiration of the primary term when this lease is held for any part of such calendar year by production, the royalty received under this lease must not be less than an amount equal to the total annual delay rental provided for in Paragraph 3. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind.

7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.

8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

9. ROYALTY PAYMENTS AND REPORTS. All royalties which are required to be paid to the Commissioner of the General Land Office under this lease shall be due and payable in the following manner: Royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number, the amount of royalty being paid on each lease. If Lessee pays his royalty late but on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% of the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00, whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall

A CERTIFIED COPY

Attest: 6-17- 19 92
Dianne O. Flores, County Clerk
Reeves County, TexasBy J. Acosta Deputy

bear all responsibility for paying or causing royalties to be paid in the manner prescribed in this paragraph. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value. Penalties due under this paragraph are subject to change in order to conform to any future penalty statutes. The State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure the payment of all unpaid royalty and other sums of money that may become due to the State under this lease.

10. **PERMITS, REPORTS, AND RESERVES.** Lessee shall file all drilling permits in the name of the "State" and require each well and/or tank battery on the leased premises to be designated by the word "State" for identification and reporting to the Railroad Commission or any other governmental agency. Written notice of operations under this lease shall be submitted to the Commissioner of the General Land Office by Lessee five (5) days before spud date, cessation of production, workover, re-entry, temporary abandonment or abandonment of any well, and shall include copies of Railroad Commission forms for application to drill, well tests, completion reports and plugging records. Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after making of said survey. The Commissioner of the General Land Office reserves the right to require Lessee to annually furnish the said Commissioner with its best-possible estimate of oil and gas reserves underlying this lease or allocable to this lease.

11. **DRY HOLE CLAUSE.** If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if, after discovery and production of oil or gas, the production thereof should cease from any cause, this lease shall not terminate if, on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of said dry hole or cessation of production, Lessee commences additional drilling or reworking operations thereon, or commences or resumes the payment of annual delay rental in the same manner as provided in Paragraph 3 of this lease. If a dry hole be completed and abandoned during the last year of the primary term, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of annual rental in the same manner as provided in Paragraph 3 in this lease on or before the rental paying date next ensuing after sixty (60) days from the date of completion of such shut-in oil or gas well, and upon the failure to make such annual rental payment, this lease shall ipso facto terminate. If at the expiration of the primary term or at any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the provisions of Paragraph 14 of this lease.

12. **DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM.** If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.

13. **CESSATION, DRILLING AND REWORKING.** In the event production of oil or gas on the leased premises after once obtained shall cease from any cause at the expiration of the primary term hereof or at any time or times thereafter, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days thereafter, and the lease shall remain in full force and effect so long as such operations continue in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation; and if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities or payment of shut-in oil or gas royalties or compensatory royalties is made as hereinafter provided or as provided elsewhere in the statutes of the State of Texas. Lessee shall give written notice to the General Land Office within five (5) days of any cessation of production.

14. **SHUT IN ROYALTIES.** If, at the expiration of the primary term or at any time thereafter, a well or wells capable of producing oil or gas in paying quantities is located on the leased premises but oil or gas is not being produced for lack of suitable production facilities or a suitable market, and the lease is not being maintained in force and effect, Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in Paragraph 3 of this lease but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify

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 Reeves County, Texas



By J. Acosta Deputy

a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. Any shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after lessee completes a drilling and reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one (1) year from the end of the primary term or from the first day of the month next succeeding the month in which production ceased and after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four (4) additional and successive periods of one year by paying the same amount each year on or before the expiration of the extended term. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within 1,000 feet of the leased premises and completed in the same producing reservoir or, in any case in which drainage is occurring, the right to continue to extend the lease by paying the shut-in oil or gas royalty shall cease. The lease shall remain effective for the remainder of the year for which the royalty has been paid and for four (4) additional and successive periods of one year each by the Lessee paying compensatory royalty at the royalty rate provided in the lease of the value at the well of production from the well that is causing the drainage or that is completed in the same producing reservoir and within 1,000 feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month next succeeding the month in which the oil or gas is sold and delivered from the well. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within 30 days from the end of the 12-month period. None of these provisions will relieve Lessee of the obligation of reasonable development or the obligation to drill offset wells as provided in Texas Natural Resources Code §52.173.

15. **DEVELOPMENT.** Notwithstanding any provision of this lease to the contrary, after a well producing, or capable of producing, oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the oil and gas produced. In the event this lease is in force and effect three (3) years after the expiration date of the primary term, it shall then terminate as to all of the leased premises, EXCEPT: 1) 40 acres surrounding each producing oil well and 320 acres surrounding each producing gas well (including a shut-in oil or gas well as provided in Paragraph 14 of this lease), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or 2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code §52.151 - §52.153, or 3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. "Producing" as used in this lease means producing in paying quantities. The acreage retained under this provision as to each well shall, as nearly as practical, be in the form of a square with the well located in the center or in such other shape as may be approved by the Commissioner of the General Land Office. Lessee shall execute and record a release or releases containing a satisfactory description of the acreage terminated under this provision, and the recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the prescribed filing fee.

16. **OFFSET WELLS.** Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. To prevent drainage, Lessee is obligated to drill as many wells as the facts may justify and to the depth or depths necessary for effective protection against undue drainage. In addition, if a draining well which is producing in commercial quantities is located within 1,000 feet of the above-described land, or in any case where the above described land is being drained, Lessee is statutorily obligated to drill an offset well on the leased premises within 100 days after the draining well begins production in commercial quantities. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty satisfy obligation to drill an offset well or wells required under this paragraph.

17. **FORCE MAJEURE.** If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

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 Dianne O. Flores, County Clerk
 Reeves County, Texas



By J. Acosta Deputy

18. **WARRANTY CLAUSE.** The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

19. **PROPORTIONATE REDUCTION CLAUSE.** If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.

20. **USE OF WATER.** Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.

21. **AUTHORIZED DAMAGES.** Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.

22. **PIPELINE DEPTH.** When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

23. **WELL LOCATION LIMIT.** No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.

24. **CONSERVATION CLAUSE.** Lessee shall have the exclusive right to build, operate and maintain pits, reservoirs, pickup stations and plants for the purpose of picking up and conserving waste oil that flows down the creeks, ravines and across the leased premises, whether such waste oil is produced from the leased premises or from other lands. Royalties, as provided in this lease for regularly produced oil, are also owed on all such waste oil.

25. **REMOVAL OF EQUIPMENT.** Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.

26. (a) **ASSIGNMENTS.** Under the conditions contained in this paragraph and Paragraph 28 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect

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By J. Acosta Deputy

this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.

(b) **ASSIGNMENT LIMITATION.** Notwithstanding any provision in Paragraph 26(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;
- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

27. **RELEASES.** Under the conditions contained in this paragraph and Paragraph 28, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.

28. **FILING OF ASSIGNMENTS AND RELEASES.** If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.

29. **LEASE FILING.** It is recognized that before this lease is effective a certified copy of this lease (which is made and certified by the County Clerk from his records) shall be filed in the General Land Office in accordance with Texas Natural Resources Code §52.183, and this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

30. **DISCLOSURE CLAUSE.** All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

31. **FIDUCIARY DUTY.** The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.

32. **FORFEITURE.** If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse

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6-17-1992
Diana O. Flores, County Clerk
Ravens County, Texas

By J. Acosta Deputy

to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. RAILROAD COMMISSION HEARINGS ON GAS. No natural gas or casinghead gas, including both associated and nonassociated gas, produced from the mineral estate subject to this lease may be sold or contracted for sale to any person for ultimate use outside the State of Texas unless the Railroad Commission, after notice and hearing as provided in Title 3 of the Texas Natural Resources Code, finds that:

- (a) the person, agency, or entity that executed the lease in question does not require the natural gas or casinghead gas to meet its own existing needs for fuel;
- (b) no private or public hospital, nursing home, or other similar health-care facility in this State requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (c) no public or private school in this State that provides elementary, secondary, or higher education requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (d) no facility of the State or of any county, municipality, or other political subdivision in this State requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (e) no producer of food and fiber requires the natural gas or casinghead gas necessary to meet the existing needs of irrigation pumps and other machinery directly related to this production; and
- (f) no person who resides in this State and who relies on natural gas or casinghead gas to provide in whole or part his existing needs for fuel or raw material requires the natural gas or casinghead gas to meet those needs; provided, however, after notice and hearing as provided in Title 3 of the Texas Natural Resources Code the Railroad Commission may grant exceptions to these provisions as set forth in Texas Natural Resources Code §52.296.

34. This lease is issued under the provisions of Texas Natural Resources Code §52.171 through §52.188, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

FOR ADDITIONAL PROVISIONS, SEE "EXHIBIT A" ATTACHED HERETO AND MADE A PART HEREOF FOR ALL PURPOSES.

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

STATE OF TEXAS

BY: *Warren Malcolm Clark*
Individually and as agent for the State of Texas
Agt/Atty/Fact for Warren Malcolm Clark
Warren Malcolm Clark, Trustee
SSN: [REDACTED]

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas
Trustee

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

A CERTIFIED COPY
6-17-1997
Dianne O. Flores, County Clerk
Reeves County, Texas



By *J. Acosta* Deputy

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on this the day of , 1997, by
Warren Malcolm Clark, Trustee of the Warren Malcolm Clark Trust u/w/o Mabel Clark Reed.

Notary Public in and for _____ County, Texas
My commission expires: _____

STATE OF TEXAS
COUNTY OF Bastrop

This instrument acknowledged before me on this the 3rd day of June, 1997 by
Carolyn Clark Oakman, Asst/Atty/Fact for Warren Malcolm Clark.



Jill Green
Notary Public in and for Bastrop County, Texas
My commission expires: 02/21/2001

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on _____ by

Notary Public in and for _____ County, Texas
My commission expires: _____

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on _____ by

Notary Public in and for _____ County, Texas
My commission expires: _____

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Attest: 6-17-1997
Dianna O. Flores, County Clerk
Reeves County, Texas



J. Acosta Deputy

Exhibit A

Attached to and made a part of that certain oil and gas lease dated May 15, 1997 by and between, Warren Malcolm Clark, Trustee of the Warren Malcolm Clark Trust u/w/o Mabel Clark Reed, as lessor, and Penwell Energy, Inc., as lessee. Notwithstanding anything to the contrary in the foregoing printed form Oil, Gas and Mineral Lease, it is agreed and understood that the following provisions shall supplement or modify the foregoing as applicable.

35. It is understood and agreed that this lease covers oil and gas only (including with oil and gas, all constituent elements thereof and all other liquid or liquefiable hydrocarbons and products of every kind or character derived therefrom and produced therewith, including sulphur), and all minerals other than oil and gas are excepted herefrom and reserved to Lessor. Including among the minerals reserved to Lessor and excluded from this lease are coal, uranium and lignite.

36. After the end of the primary term, this lease may not be maintained in force solely by reason of shut-in royalty payments, as provided heretofore, for any one shut-in period of more than three (3) years, or, from time to time, for shorter periods which exceed three (3) cumulative years. It is maintained, should a viable market with a willing purchaser for such gas be found by Lessor to exist, Lessor may give Lessee written notice of such market and Lessee shall, after receipt of such notice have sixty (60) days within which to diligently commence the steps prerequisite to marketing such gas or demonstrate to Lessor's reasonable satisfaction that the market is not economically viable or the purchaser is not willing, and Lessee's failure to do one or the other shall be grounds for termination of this lease.

37. Lessee shall pay for all damages to roads, fences, improvements, and growing crops caused by its operations hereunder, and will fill and level all pits and mounds, remove all board roads and board road materials, level and fill all ruts, and restore the surface of the ground to as near its original condition as is reasonably practical within a reasonable period of time after cessation of operations at each well on the leased premises. In addition, Lessee agrees to pay as surface damage \$2500.00 per drill site location, \$2000.00 per well for water used in drilling operations, and \$2.00/yd for caliche used in operations.

38. Notwithstanding any provisions to the contrary, at the expiration of the primary term this lease shall terminate as to all depths 100 feet below the deepest producing formation on the leased premises.

39. If Lessee, its successors or assigns, has completed a well on the leased premises, prior to the expiration of the primary term, which is capable of producing oil and/or gas in paying quantities, or, if at the expiration of the primary term hereof, Lessee is then engaged in actual drilling operations, this lease shall not terminate and shall remain in full force and effect as to all acreage not then held in a governmentally allowed spacing unit so long as actual drilling operations on an additional well are commenced within 120 days following the expiration of the primary term, and this lease shall continue in force for so long thereafter allowing not more than 120 days to elapse between the completion or abandonment of one well and the commencement of drilling operations for another well in a bona fide effort to find oil or gas until such time as the leased premises have been fully developed to a density of one well for each standard spacing or proration unit allowed by any Special Field Rules of the Texas Railroad Commission of Texas, or, if no such Special Field Rules have been adopted by the Railroad Commission, then such spacing or proration unit shall be deemed to be 40 acres as to oil wells and 320 acres for gas wells. If Lessee fails to commence said program or, if having commenced said program fails to continue same, then this lease shall ipso facto terminate as to all acreage covered hereby, except only for a tract surrounding each well then producing, each of such tracts to contain a sufficient number of acres to conform to Railroad Commission Special Field Rules for a standard spacing or proration unit or, if there are no Special Field Rules, to contain the acreage as aforesaid for oil wells and gas wells. Without in any way limiting the rights of Lessor hereunder, if this lease terminates as to any portion or portions of the leased premises, Lessee expressly agrees to execute and deliver to Lessor a properly recordable instrument releasing such portion or portions of the leased premises.

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Diana O. Flores, County Clerk
Reeves County, Texas



J. Acosta Deputy

40. The provisions of paragraph 4 relating to pooling for oil shall only apply when and if an insufficient quantity of the leased premises remains unallocated to existing or drilling oil wells to support the drilling of an additional oil well of the type and depth contemplated by Lessee, and in such event Lessee may pool all of the remainder of the leased premises with other lands as to form a pooled oil unit.

41. In the event a portion or portions of the land herein leased is pooled or unitized with other land so as to form a pooled unit or units, operations on, completion of a well upon, or production from such unit or units will not maintain this lease in force as to the land not included in such unit or units. The lease may be maintained in force as to any land hereby and not included in such unit or units in any manner provided for herein.

42. The only deductions that are to be made on royalties payable hereunder will be for production taxes and severance taxes only.

43. Should Horizontal Drilling operations be utilized on the leased premises or lands pooled herewith, such operations and respective proration units shall be governed by the pertinent Governmental authority having jurisdiction.

44. It is hereby understood and agreed that if production is established on said lands, and Lessee, his heirs, successors, or assigns, assigns away operations (that is a change in operator) then lessee, his heirs, successors, and assigns will notify all royalty owners of any such change.

SIGNED FOR IDENTIFICATION:

Carolyn Clark Oatman

Warren Malcolm Clark, as Trustee
Warren Malcolm Clark Trust u/w/o Mabel Clark Reed

by Carolyn Clark Oatman
Agt/Atty/Fact for Warren Malcolm Clark

FILE NO. 1351

FILED FOR RECORD ON THE 12TH. DAY OF JUNE A.D. 1997 AT 9:51 AM

DULY RECORDED ON THE 13TH. DAY OF JUNE A.D. 1997 AT 2:00 PM

BY: *Jenisha Acosta* DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL,
OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
LAW.

A CERTIFIED COPY

FILED 6-17- 19 97
Dianne O. Florez, County Clerk
Reeves County, Texas

J. Acosta Deputy

(3)

File No. 99055
Lease

Date Filed: 5-15-97

David Dewhurst, Commissioner

By _____

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 275 PAGE 553 THRU 563.



I hereby certified on 6-17-97

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Tercha Acosta
DEPUTY

FILE # 1332

No. 5367--General Land
Office Lease Form Under
Relinquishment Act
Revised, September 1987
GLO-L-19-(9-87)

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 15th day of May 1997, between the State of Texas, acting by and through its agent, Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust under the Will of Mabel Clark Reed of P.O. Drawer 310, Bastrop Texas 78602

said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and Penwell Energy, Inc.

of

600 North Marienfeld, Suite 1100, Midland, Texas 79701

(Give Permanent Address)

hereinafter called Lessee.

1. GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by Lessee under this lease, the State of Texas, acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves County, State of Texas, to-wit:

Block 54, TWP 5, T&P RR Co. Sy.
Section 6: E/2, NW/4

containing 480 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Thousand Nine Hundred and Fifty-Two and 00/100
Dollars (\$ 2,952.00)

To the owner of the soil: Two Thousand Nine Hundred and Fifty-Two and 00/100
Dollars (\$ 2,952.00)

Total bonus consideration: Five Thousand Nine Hundred and Four and 00/100
Dollars (\$ 5,904.00)

The total bonus consideration paid represents a bonus of Sixty Dollars (\$ 60.00) per acre, on 98.40 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Two (2) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities* from said land.

*As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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Reeves County, Texas



By J. Rosta Deputy

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____ Bank, at _____, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:	<u>Two Hundred Forty-Six and 00/100</u>
	Dollars (\$ <u>246.00</u>)
To the State of Texas:	<u>Two Hundred Forty-Six and 00/100</u>
	Dollars (\$ <u>246.00</u>)
Total Rental:	<u>Four Hundred Ninety-Two and 00/100</u>
	Dollars (\$ <u>492.00</u>)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

4. PRODUCTION ROYALTIES. When production of oil and/or gas is secured during the term of this lease, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(a) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 23% part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is greatest. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the parties entitled to royalties through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(b) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above; produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 23% part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(c) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 23% part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons

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By J. Acosta Deputy

are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons, F.O.B. at the plant in which said gas is processed), whichever is greater.

(d) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be ~~-----23% -----~~ part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such product is sold, whichever is greater.

5. MINIMUM ROYALTY. For each calendar year following the date of the expiration of the primary term when this lease is held for any part of such calendar year by production, the royalty received under this lease must not be less than an amount equal to the total annual delay rental provided for in Paragraph 3. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind.

7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.

8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

9. ROYALTY PAYMENTS AND REPORTS. All royalties which are required to be paid to the Commissioner of the General Land Office under this lease shall be due and payable in the following manner: Royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number, the amount of royalty being paid on each lease. If Lessee pays his royalty late but on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% of the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00, whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall

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By J. A. A. A. Deputy

bear all responsibility for paying or causing royalties to be paid in the manner prescribed in this paragraph. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value. Penalties due under this paragraph are subject to change in order to conform to any future penalty statutes. The State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure the payment of all unpaid royalty and other sums of money that may become due to the State under this lease.

10. **PERMITS, REPORTS, AND RESERVES.** Lessee shall file all drilling permits in the name of the "State" and require each well and/or tank battery on the leased premises to be designated by the word "State" for identification and reporting to the Railroad Commission or any other governmental agency. Written notice of operations under this lease shall be submitted to the Commissioner of the General Land Office by Lessee five (5) days before spud date, cessation of production, workover, re-entry, temporary abandonment or abandonment of any well, and shall include copies of Railroad Commission forms for application to drill well tests, completion reports and plugging records. Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after making of said survey. The Commissioner of the General Land Office reserves the right to require Lessee to annually furnish the said Commissioner with its best possible estimate of oil and gas reserve underlying this lease or allocable to this lease.

11. **DRY HOLE CLAUSE.** If, during the primary term hereof and prior to discovery and production of oil or gas on said land Lessee should drill a dry hole or holes thereon, or if, after discovery and production of oil or gas, the production thereon should cease from any cause, this lease shall not terminate if, on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of said dry hole or cessation of production, Lessee commences additional drilling or reworking operations thereon, or commences or resumes the payment of annual delay rental in the same manner as provided in Paragraph 3 of this lease. If a dry hole be completed and abandoned during the last year of the primary term Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of annual rental in the same manner as provided in Paragraph 3 in this lease on or before the rental paying date next ensuing after sixty (60) days from the date of completion of such shut-in oil or gas well, and upon the failure to make such annual rental payment, this lease shall ipso facto terminate. If at the expiration of the primary term or at any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the provisions of Paragraph 14 of this lease.

12. **DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM.** If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.

13. **CESSATION, DRILLING AND REWORKING.** In the event production of oil or gas on the leased premises after once obtained shall cease from any cause at the expiration of the primary term hereof or at any time or times thereafter, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days thereafter, and the lease shall remain in full force and effect so long as such operations continue in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation; and if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities or payment of shut-in oil or gas royalties or compensatory royalties is made as hereinafter provided or as provided elsewhere in the statutes of the State of Texas. Lessee shall give written notice to the General Land Office within five (5) days of any cessation of production.

14. **SHUT IN ROYALTIES.** If, at the expiration of the primary term or at any time thereafter, a well or wells capable of producing oil or gas in paying quantities is located on the leased premises but oil or gas is not being produced for lack of suitable production facilities or a suitable market, and the lease is not being maintained in force and effect, Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in Paragraph 3 of this lease but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify

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By J. Acosta Deputy

a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. Any shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after lessee completes a drilling and reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one (1) year from the end of the primary term or from the first day of the month next succeeding the month in which production ceased and after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four (4) additional and successive periods of one year by paying the same amount each year on or before the expiration of the extended term. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within 1,000 feet of the leased premises and completed in the same producing reservoir or, in any case in which drainage is occurring, the right to continue to extend the lease by paying the shut-in oil or gas royalty shall cease. The lease shall remain effective for the remainder of the year for which the royalty has been paid and for four (4) additional and successive periods of one year each by the Lessee paying compensatory royalty at the royalty rate provided in the lease of the value at the well of production from the well that is causing the drainage or that is completed in the same producing reservoir and within 1,000 feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month next succeeding the month in which the oil or gas is sold and delivered from the well. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within 30 days from the end of the 12-month period. None of these provisions will relieve Lessee of the obligation of reasonable development or the obligation to drill offset wells as provided in Texas Natural Resources Code §52.173.

15. **DEVELOPMENT.** Notwithstanding any provision of this lease to the contrary, after a well producing, or capable of producing, oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the oil and gas produced. In the event this lease is in force and effect three (3) years after the expiration date of the primary term, it shall then terminate as to all of the leased premises, EXCEPT: 1) 40 acres surrounding each producing oil well and 320 acres surrounding each producing gas well (including a shut-in oil or gas well as provided in Paragraph 14 of this lease), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or 2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code §52.151 - §52.153, or 3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. "Producing" as used in this lease means producing in paying quantities. The acreage retained under this provision as to each well shall, as nearly as practical, be in the form of a square with the well located in the center or in such other shape as may be approved by the Commissioner of the General Land Office. Lessee shall execute and record a release or releases containing a satisfactory description of the acreage terminated under this provision, and the recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the prescribed filing fee.

16. **OFFSET WELLS.** Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. To prevent drainage, Lessee is obligated to drill as many wells as the facts may justify and to the depth or depths necessary for effective protection against undue drainage. In addition, if a draining well which is producing in commercial quantities is located within 1,000 feet of the above-described land, or in any case where the above described land is being drained, Lessee is statutorily obligated to drill an offset well on the leased premises within 100 days after the draining well begins production in commercial quantities. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty satisfy obligation to drill an offset well or wells required under this paragraph.

17. **FORCE MAJEURE.** If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

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By J. Acosta Deputy

18. **WARRANTY CLAUSE.** The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

19. **PROPORTIONATE REDUCTION CLAUSE.** If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.

20. **USE OF WATER.** Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.

21. **AUTHORIZED DAMAGES.** Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.

22. **PIPELINE DEPTH.** When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

23. **WELL LOCATION LIMIT.** No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.

24. **CONSERVATION CLAUSE.** Lessee shall have the exclusive right to build, operate and maintain pits, reservoirs, pickup stations and plants for the purpose of picking up and conserving waste oil that flows down the creeks, ravines and across the leased premises, whether such waste oil is produced from the leased premises or from other lands. Royalties, as provided in this lease for regularly produced oil, are also owed on all such waste oil.

25. **REMOVAL OF EQUIPMENT.** Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.

26. (a) **ASSIGNMENTS.** Under the conditions contained in this paragraph and Paragraph 28 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect

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By J. Acosta Deputy

this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.

(b) **ASSIGNMENT LIMITATION.** Notwithstanding any provision in Paragraph 26(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;
- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

27. **RELEASES.** Under the conditions contained in this paragraph and Paragraph 28, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.

28. **FILING OF ASSIGNMENTS AND RELEASES.** If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.

29. **LEASE FILING.** It is recognized that before this lease is effective a certified copy of this lease (which is made and certified by the County Clerk from his records) shall be filed in the General Land Office in accordance with Texas Natural Resources Code §52.183, and this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

30. **DISCLOSURE CLAUSE.** All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

31. **FIDUCIARY DUTY.** The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.

32. **FORFEITURE.** If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse

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Attest: 6-17-1997
Dianne O. Florez, County Clerk
Reeves County, Texas



By J. Acosta Deputy

to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. RAILROAD COMMISSION HEARINGS ON GAS. No natural gas or casinghead gas, including both associated and nonassociated gas, produced from the mineral estate subject to this lease may be sold or contracted for sale to any person for ultimate use outside the State of Texas unless the Railroad Commission, after notice and hearing as provided in Title 3 of the Texas Natural Resources Code, finds that:

- (a) the person, agency, or entity that executed the lease in question does not require the natural gas or casinghead gas to meet its own existing needs for fuel;
- (b) no private or public hospital, nursing home, or other similar health-care facility in this State requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (c) no public or private school in this State that provides elementary, secondary, or higher education requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (d) no facility of the State or of any county, municipality, or other political subdivision in this State requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (e) no producer of food and fiber requires the natural gas or casinghead gas necessary to meet the existing needs of irrigation pumps and other machinery directly related to this production; and
- (f) no person who resides in this State and who relies on natural gas or casinghead gas to provide in whole or part his existing needs for fuel or raw material requires the natural gas or casinghead gas to meet those needs; provided, however, after notice and hearing as provided in Title 3 of the Texas Natural Resources Code the Railroad Commission may grant exceptions to these provisions as set forth in Texas Natural Resources Code §52.296.

34. This lease is issued under the provisions of Texas Natural Resources Code §52.171 through §52.188, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

FOR ADDITIONAL PROVISIONS, SEE "EXHIBIT A" ATTACHED HERETO AND MADE A PART HEREOF FOR ALL PURPOSES.

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

STATE OF TEXAS
BY: Carolyn C. Oatman, Trustee
Individually and as agent for the State of Texas
Carolyn C. Oatman, Trustee
SSN: [REDACTED]

STATE OF TEXAS
BY: _____
Individually and as agent for the State of Texas

STATE OF TEXAS
BY: _____
Individually and as agent for the State of Texas

STATE OF TEXAS
BY: _____
Individually and as agent for the State of Texas

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Attest: 6-17-1997
Diana O. Flores, County Clerk
Reeves County, Texas
EV J. Acosta Deputy

STATE OF TEXAS
COUNTY OF Bastrop

This instrument acknowledged before me on this the day of , 1997, by
Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust u/w/o Mabel Clark Reed.



Jill Green
Notary Public in and for Bastrop County, Texas
My commission expires: 02/21/2001

STATE OF TEXAS
COUNTY OF

This instrument acknowledged before me on by

Notary Public in and for County, Texas
My commission expires:

STATE OF TEXAS
COUNTY OF

This instrument acknowledged before me on by

Notary Public in and for County, Texas
My commission expires:

STATE OF TEXAS
COUNTY OF

This instrument acknowledged before me on by

Notary Public in and for County, Texas
My commission expires:

A CERTIFIED COPY
Attest: 6-17-, 19 97
Dianne O. Flores, County Clerk
Reeves County, Texas



By J. Acosta Deputy

Exhibit A

Attached to and made a part of that certain oil and gas lease dated May 15, 1997 by and between, Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust u/w/o Mabel Clark Reed, as lessor, and Penwell Energy, Inc., as lessee. Notwithstanding anything to the contrary in the foregoing printed form Oil, Gas and Mineral Lease, it is agreed and understood that the following provisions shall supplement or modify the foregoing as applicable.

35. It is understood and agreed that this lease covers oil and gas only (including with oil and gas, all constituent elements thereof and all other liquid or liquefiable hydrocarbons and products of every kind or character derived therefrom and produced therewith, including sulphur), and all minerals other than oil and gas are excepted herefrom and reserved to Lessor. Including among the minerals reserved to Lessor and excluded from this lease are coal, uranium and lignite.

36. After the end of the primary term, this lease may not be maintained in force solely by reason of shut-in royalty payments, as provided heretofore, for any one shut-in period of more than three (3) years, or, from time to time, for shorter periods which exceed three (3) cumulative years. It is maintained, should a viable market with a willing purchaser for such gas be found by Lessor to exist, Lessor may give Lessee written notice of such market and Lessee shall, after receipt of such notice have sixty (60) days within which to diligently commence the steps prerequisite to marketing such gas or demonstrate to Lessor's reasonable satisfaction that the market is not economically viable or the purchaser is not willing, and Lessee's failure to do one or the other shall be grounds for termination of this lease.

37. Lessee shall pay for all damages to roads, fences, improvements, and growing crops caused by its operations hereunder, and will fill and level all pits and mounds, remove all board roads and board road materials, level and fill all ruts, and restore the surface of the ground to as near its original condition as is reasonably practical within a reasonable period of time after cessation of operations at each well on the leased premises. In addition, Lessee agrees to pay as surface damage \$2500.00 per drill site location, \$2000.00 per well for water used in drilling operations, and \$2.00/yd for caliche used in operations.

38. Notwithstanding any provisions to the contrary, at the expiration of the primary term this lease shall terminate as to all depths 100 feet below the deepest producing formation on the leased premises.

39. If Lessee, its successors or assigns, has completed a well on the leased premises, prior to the expiration of the primary term, which is capable of producing oil and/or gas in paying quantities, or, if at the expiration of the primary term hereof, Lessee is then engaged in actual drilling operations, this lease shall not terminate and shall remain in full force and effect as to all acreage not then held in a governmentally allowed spacing unit so long as actual drilling operations on an additional well are commenced within 120 days following the expiration of the primary term, and this lease shall continue in force for so long thereafter allowing not more than 120 days to elapse between the completion or abandonment of one well and the commencement of drilling operations for another well in a bona fide effort to find oil or gas until such time as the leased premises have been fully developed to a density of one well for each standard spacing or proration unit allowed by any Special Field Rules of the Texas Railroad Commission of Texas, or, if no such Special Field Rules have been adopted by the Railroad Commission, then such spacing or proration unit shall be deemed to be 40 acres as to oil wells and 320 acres for gas wells. If Lessee fails to commence said program or, if having commenced said program fails to continue same, then this lease shall ipso facto terminate as to all acreage covered hereby, except only for a tract surrounding each well then producing, each of such tracts to contain a sufficient number of acres to conform to Railroad Commission Special Field Rules for a standard spacing or proration unit or, if there are no Special Field Rules, to contain the acreage as aforesaid for oil wells and gas wells. Without in any way limiting the rights of Lessor hereunder, if this lease terminates as to any portion or portions of the leased premises, Lessee expressly agrees to execute and deliver to Lessor a properly recordable instrument releasing such portion or portions of the leased premises.

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 Reeves County, Texas



J. Acosta Deputy

40. The provisions of paragraph 4 relating to pooling for oil shall only apply when and if an insufficient quantity of the leased premises remains unallocated to existing or drilling oil wells to support the drilling of an additional oil well of the type and depth contemplated by Lessee, and in such event Lessee may pool all of the remainder of the leased premises with other lands as to form a pooled oil unit.

41. In the event a portion or portions of the land herein leased is pooled or unitized with other land so as to form a pooled unit or units, operations on, completion of a well upon, or production from such unit or units will not maintain this lease in force as to the land not included in such unit or units. The lease may be maintained in force as to any land hereby and not included in such unit or units in any manner provided for herein.

42. The only deductions that are to be made on royalties payable hereunder will be for production taxes and severance taxes only.

43. Should Horizontal Drilling operations be utilized on the leased premises or lands pooled herewith, such operations and respective proration units shall be governed by the pertinent Governmental authority having jurisdiction.

44. It is hereby understood and agreed that if production is established on said lands, and Lessee, his heirs, successors, or assigns, assigns away operations (that is a change in operator) then lessee, his heirs, successors, and assigns will notify all royalty owners of any such change.

SIGNED FOR IDENTIFICATION:

Carolyn C. Oatman, Trustee

Carolyn C. Oatman, Trustee
Carolyn C. Oatman Trust u/w/o Mabel Clark Reed

FILE NO. 1332

FILED FOR RECORD ON THE 12TH. DAY OF JUNE A.D. 1997 AT 9:49 A.M.

DULY RECORDED ON THE 13TH. DAY OF JUNE A.D. 1997 AT 2:00 P.M.

BY: *Jessie Acosta* DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL,
OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
LAW

A CERTIFIED COPY

Attest: 6-17-1992
Dianne O. Florez, County Clerk
Reeves County, Texas



By *J. Acosta* Deputy

(4) File No. 99055
Lease
Date Filed: 5-15-97
David Dewhurst, Commissioner
By _____

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 325 PAGE 409 THRU 459



I hereby certified on 6-17-97

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

By Jennifer Beate
DEPUTY

FILE # 1359

No. 5367--General Land
Office Lease Form Under
Relinquishment Act
Revised, September 1987
GLO-L-19-(9-87)

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 15th day of May, 1997, between the State of Texas, acting by and through its agent, W. W. Oatman of P.O. Drawer 310, Bastrop Texas 78602 said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and Penwell Energy, Inc. of600 North Marienfeld, Suite 1100, Midland, Texas 79701

(Give Permanent Address)

hereinafter called Lessee.

1. GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by Lessee under this lease, the State of Texas, acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves County, State of Texas, to-wit:

Block 54, TWP 5, T&P RR Co. Sy.
Section 6: E/2, NW/4

containing 480 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Thousand Five Hundred and Ninety-Two and 00/100
Dollars (\$ 2,592.00)

To the owner of the soil: Two Thousand Five Hundred and Ninety-Two and 00/100
Dollars (\$ 2,592.00)

Total bonus consideration: Five Thousand One Hundred and Eighty-Four and 00/100
Dollars (\$ 5,184.00)

The total bonus consideration paid represents a bonus of Sixty Dollars (\$ 60.00) per acre, on 86.4 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Two (2) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities* from said land.

*As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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6-17-1992
Blanca O. Flores, County Clerk
Reeves County, Texas



By J. Acosta Deputy

3. **DELAY RENTALS.** If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____ Bank, at _____, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:	Two Hundred Sixteen and 00/100
	Dollars (\$ 216.00)
To the State of Texas:	Two Hundred Sixteen and 00/100
	Dollars (\$ 216.00)
Total Rental:	Four Hundred Thirty-Two and 00/100
	Dollars (\$ 432.00)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

4. **PRODUCTION ROYALTIES.** When production of oil and/or gas is secured during the term of this lease, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(a) **OIL.** Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 23% part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is greatest. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the parties entitled to royalties through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(b) **NON PROCESSED GAS.** Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above; produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 23% part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(c) **PROCESSED GAS.** Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 23% part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons

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6-17-1992
 Daniel G. Flores, County Clerk
 Reeves County, Texas



By J. Acosta Deputy

are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons, F.O.B. at the plant in which said gas is processed), whichever is greater.

(d) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be -----23%----- part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such product is sold, whichever is greater.

5. MINIMUM ROYALTY. For each calendar year following the date of the expiration of the primary term when this lease is held for any part of such calendar year by production, the royalty received under this lease must not be less than an amount equal to the total annual delay rental provided for in Paragraph 3. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind.

7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.

8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

9. ROYALTY PAYMENTS AND REPORTS. All royalties which are required to be paid to the Commissioner of the General Land Office under this lease shall be due and payable in the following manner: Royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number, the amount of royalty being paid on each lease. If Lessee pays his royalty late but on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% of the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00, whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall

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6-17-1992
Dianne C. Floraz, County Clerk
Ravens County, Texas



J. Acosta Deputy

bear all responsibility for paying or causing royalties to be paid in the manner prescribed in this paragraph. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value. Penalties due under this paragraph are subject to change in order to conform to any future penalty statutes. The State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure the payment of all unpaid royalty and other sums of money that may become due to the State under this lease.

10. **PERMITS, REPORTS, AND RESERVES.** Lessee shall file all drilling permits in the name of the "State" and require each well and/or tank battery on the leased premises to be designated by the word "State" for identification and reporting to the Railroad Commission or any other governmental agency. Written notice of operations under this lease shall be submitted to the Commissioner of the General Land Office by Lessee five (5) days before spud date, cessation of production, workover, re-entry, temporary abandonment or abandonment of any well, and shall include copies of Railroad Commission forms for application to drill, well tests, completion reports and plugging records. Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after making of said survey. The Commissioner of the General Land Office reserves the right to require Lessee to annually furnish the said Commissioner with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease.

11. **DRY HOLE CLAUSE.** If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if, after discovery and production of oil or gas, the production thereof should cease from any cause, this lease shall not terminate if, on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of said dry hole or cessation of production, Lessee commences additional drilling or reworking operations thereon, or commences or resumes the payment of annual delay rental in the same manner as provided in Paragraph 3 of this lease. If a dry hole be completed and abandoned during the last year of the primary term, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of annual rental in the same manner as provided in Paragraph 3 in this lease on or before the rental paying date next ensuing after sixty (60) days from the date of completion of such shut-in oil or gas well, and upon the failure to make such annual rental payment, this lease shall ipso facto terminate. If at the expiration of the primary term or at any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the provisions of Paragraph 14 of this lease.

12. **DRILLING AND REMORKING AT EXPIRATION OF PRIMARY TERM.** If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.

13. **CESSATION, DRILLING AND REMORKING.** In the event production of oil or gas on the leased premises after once obtained shall cease from any cause at the expiration of the primary term hereof or at any time or times thereafter, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days thereafter, and the lease shall remain in full force and effect so long as such operations continue in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation; and if such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect so long as oil or gas is produced therefrom in paying quantities or payment of shut-in oil or gas royalties or compensatory royalties is made as hereinafter provided or as provided elsewhere in the statutes of the State of Texas. Lessee shall give written notice to the General Land Office within five (5) days of any cessation of production.

14. **SHUT IN ROYALTIES.** If, at the expiration of the primary term or at any time thereafter, a well or wells capable of producing oil or gas in paying quantities is located on the leased premises but oil or gas is not being produced for lack of suitable production facilities or a suitable market, and the lease is not being maintained in force and effect, Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in Paragraph 3 of this lease but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify

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6-17-1992
Clarence Flores, County Clerk
Raines County, Texas

J. Acosta, Deputy

a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. Any shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after lessee completes a drilling and reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one (1) year from the end of the primary term or from the first day of the month next succeeding the month in which production ceased and after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four (4) additional and successive periods of one year by paying the same amount each year on or before the expiration of the extended term. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within 1,000 feet of the leased premises and completed in the same producing reservoir or, in any case in which drainage is occurring, the right to continue to extend the lease by paying the shut-in oil or gas royalty shall cease. The lease shall remain effective for the remainder of the year for which the royalty has been paid and for four (4) additional and successive periods of one year each by the Lessee paying compensatory royalty at the royalty rate provided in the lease of the value at the well of production from the well that is causing the drainage or that is completed in the same producing reservoir and within 1,000 feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month next succeeding the month in which the oil or gas is sold and delivered from the well. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within 30 days from the end of the 12-month period. None of these provisions will relieve Lessee of the obligation of reasonable development or the obligation to drill offset wells as provided in Texas Natural Resources Code §52.173.

15. **DEVELOPMENT.** Notwithstanding any provision of this lease to the contrary, after a well producing, or capable of producing, oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the oil and gas produced. In the event this lease is in force and effect three (3) years after the expiration date of the primary term, it shall then terminate as to all of the leased premises, EXCEPT: 1) 40 acres surrounding each producing oil well and 320 acres surrounding each producing gas well (including a shut-in oil or gas well as provided in Paragraph 14 of this lease), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or 2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code §52.151 - §52.153, or 3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. "Producing" as used in this lease means producing in paying quantities. The acreage retained under this provision as to each well shall, as nearly as practical, be in the form of a square with the well located in the center or in such other shape as may be approved by the Commissioner of the General Land Office. Lessee shall execute and record a release or releases containing a satisfactory description of the acreage terminated under this provision, and the recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the prescribed filing fee.

16. **OFFSET WELLS.** Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. To prevent drainage, Lessee is obligated to drill as many wells as the facts may justify and to the depth or depths necessary for effective protection against undue drainage. In addition, if a draining well which is producing in commercial quantities is located within 1,000 feet of the above-described land, or in any case where the above described land is being drained, Lessee is statutorily obligated to drill an offset well on the leased premises within 100 days after the draining well begins production in commercial quantities. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty satisfy obligation to drill an offset well or wells required under this paragraph.

17. **FORCE MAJEURE.** If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

A CERTIFIED COPY
 6-17-1992
 Mark J. Flores, County Clerk
 Reeves County, Texas
 2 Acosta Deputy

18. **WARRANTY CLAUSE.** The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

19. **PROPORTIONATE REDUCTION CLAUSE.** If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.

20. **USE OF WATER.** Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.

21. **AUTHORIZED DAMAGES.** Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.

22. **PIPELINE DEPTH.** When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

23. **WELL LOCATION LIMIT.** No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.

24. **CONSERVATION CLAUSE.** Lessee shall have the exclusive right to build, operate and maintain pits, reservoirs, pickup stations and plants for the purpose of picking up and conserving waste oil that flows down the creeks, ravines and across the leased premises, whether such waste oil is produced from the leased premises or from other lands. Royalties, as provided in this lease for regularly produced oil, are also owed on all such waste oil.

25. **REMOVAL OF EQUIPMENT.** Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.

26. (a) **ASSIGNMENTS.** Under the conditions contained in this paragraph and Paragraph 28 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect

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6-17-1992
Diana J. Flores, County Clerk
Harris County, Texas

J. Acosta Deputy

this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.

(b) **ASSIGNMENT LIMITATION.** Notwithstanding any provision in Paragraph 26(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;
- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

27. **RELEASES.** Under the conditions contained in this paragraph and Paragraph 28, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.

28. **FILING OF ASSIGNMENTS AND RELEASES.** If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.

29. **LEASE FILING.** It is recognized that before this lease is effective a certified copy of this lease (which is made and certified by the County Clerk from his records) shall be filed in the General Land Office in accordance with Texas Natural Resources Code §52.183, and this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

30. **DISCLOSURE CLAUSE.** All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

31. **FIDUCIARY DUTY.** The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.

32. **FORFEITURE.** If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse

A CERTIFIED COPY

Attach: 4-17-1992
 Dianne O. Perez, County Clerk
 Reeves County, Texas



J. Acosta Deputy

to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. RAILROAD COMMISSION HEARINGS ON GAS. No natural gas or casinghead gas, including both associated and nonassociated gas, produced from the mineral estate subject to this lease may be sold or contracted for sale to any person for ultimate use outside the State of Texas unless the Railroad Commission, after notice and hearing as provided in Title 3 of the Texas Natural Resources Code, finds that:

- (a) the person, agency, or entity that executed the lease in question does not require the natural gas or casinghead gas to meet its own existing needs for fuel;
- (b) no private or public hospital, nursing home, or other similar health-care facility in this State requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (c) no public or private school in this State that provides elementary, secondary, or higher education requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (d) no facility of the State or of any county, municipality, or other political subdivision in this State requires the natural gas or casinghead gas to meet its existing needs for fuel;
- (e) no producer of food and fiber requires the natural gas or casinghead gas necessary to meet the existing needs of irrigation pumps and other machinery directly related to this production; and
- (f) no person who resides in this State and who relies on natural gas or casinghead gas to provide in whole or part his existing needs for fuel or raw material requires the natural gas or casinghead gas to meet those needs; provided, however, after notice and hearing as provided in Title 3 of the Texas Natural Resources Code the Railroad Commission may grant exceptions to these provisions as set forth in Texas Natural Resources Code §52.296.

34. This lease is issued under the provisions of Texas Natural Resources Code §52.171 through §52.188, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

FOR ADDITIONAL PROVISIONS, SEE "EXHIBIT A" ATTACHED HERETO AND MADE A PART HEREOF FOR ALL PURPOSES.

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

STATE OF TEXAS

BY: [Signature]
Individually and as agent for the State of Texas

CON: [Redacted]

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

A CERTIFIED COPY

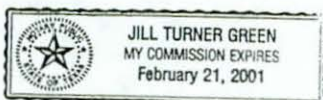
6-17-1997
Clara O. Flores, County Clerk
Reeves County, Texas

2 Acosta Deputy

STATE OF TEXAS
COUNTY OF Bastrop

This instrument acknowledged before me on this the 3rd day of June, 1997, by

W.W. Oatman



Jill Green
Notary Public in and for Bastrop County, Texas
My commission expires: 02/21/2001

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on _____ by

Notary Public in and for _____ County, Texas
My commission expires: _____

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on _____ by

Notary Public in and for _____ County, Texas
My commission expires: _____

STATE OF TEXAS
COUNTY OF _____

This instrument acknowledged before me on _____ by

Notary Public in and for _____ County, Texas
My commission expires: _____

ACKNOWLEDGED COPY
6-17-1997
J. Acosta, County Clerk
Bastrop County, Texas

J. Acosta

Exhibit A

Attached to and made a part of that certain oil and gas lease dated May 15, 1997 by and between, W. W. Oatman, as lessor, and Penwell Energy, Inc., as lessee. Notwithstanding anything to the contrary in the foregoing printed form Oil, Gas and Mineral Lease, it is agreed and understood that the following provisions shall supplement or modify the foregoing as applicable.

35. It is understood and agreed that this lease covers oil and gas only (including with oil and gas, all constituent elements thereof and all other liquid or liquefiable hydrocarbons and products of every kind or character derived therefrom and produced therewith, including sulphur), and all minerals other than oil and gas are excepted herefrom and reserved to Lessor. Including among the minerals reserved to Lessor and excluded from this lease are coal, uranium and lignite.

36. After the end of the primary term, this lease may not be maintained in force solely by reason of shut-in royalty payments, as provided heretofore, for any one shut-in period of more than three (3) years, or, from time to time, for shorter periods which exceed three (3) cumulative years. It is maintained, should a viable market with a willing purchaser for such gas be found by Lessor to exist, Lessor may give Lessee written notice of such market and Lessee shall, after receipt of such notice have sixty (60) days within which to diligently commence the steps prerequisite to marketing such gas or demonstrate to Lessor's reasonable satisfaction that the market is not economically viable or the purchaser is not willing, and Lessee's failure to do one or the other shall be grounds for termination of this lease.

37. Lessee shall pay for all damages to roads, fences, improvements, and growing crops caused by its operations hereunder, and will fill and level all pits and mounds, remove all board roads and board road materials, level and fill all ruts, and restore the surface of the ground to as near its original condition as is reasonably practical within a reasonable period of time after cessation of operations at each well on the leased premises. In addition, Lessee agrees to pay as surface damage \$2500.00 per drill site location, \$2000.00 per well for water used in drilling operations, and \$2.00/yd for caliche used in operations.

38. Notwithstanding any provisions to the contrary, at the expiration of the primary term this lease shall terminate as to all depths 100 feet below the deepest producing formation on the leased premises.

39. If Lessee, its successors or assigns, has completed a well on the leased premises, prior to the expiration of the primary term, which is capable of producing oil and/or gas in paying quantities, or, if at the expiration of the primary term hereof, Lessee is then engaged in actual drilling operations, this lease shall not terminate and shall remain in full force and effect as to all acreage not then held in a governmentally allowed spacing unit so long as actual drilling operations on an additional well are commenced within 120 days following the expiration of the primary term, and this lease shall continue in force for so long thereafter allowing not more than 120 days to elapse between the completion or abandonment of one well and the commencement of drilling operations for another well in a bona fide effort to find oil or gas until such time as the leased premises have been fully developed to a density of one well for each standard spacing or proration unit allowed by any Special Field Rules of the Texas Railroad Commission of Texas, or, if no such Special Field Rules have been adopted by the Railroad Commission, then such spacing or proration unit shall be deemed to be 40 acres as to oil wells and 320 acres for gas wells. If Lessee fails to commence said program or, if having commenced said program fails to continue same, then this lease shall ipso facto terminate as to all acreage covered hereby, except only for a tract surrounding each well then producing, each of such tracts to contain a sufficient number of acres to conform to Railroad Commission Special Field Rules for a standard spacing or proration unit or, if there are no Special Field Rules, to contain the acreage as aforesaid for oil wells and gas wells. Without in any way limiting the rights of Lessor hereunder, if this lease terminates as to any portion or portions of the leased premises, Lessee expressly agrees to execute and deliver to Lessor a properly recordable instrument releasing such portion or portions of the leased premises.

A CERTIFIED COPY

4-17-1997
Dianne D. Flores, County Clerk
Reeves County, Texas

J. Acosta Deputy

40. The provisions of paragraph 4 relating to pooling for oil shall only apply when and if an insufficient quantity of the leased premises remains unallocated to existing or drilling oil wells to support the drilling of an additional oil well of the type and depth contemplated by Lessee, and in such event Lessee may pool all of the remainder of the leased premises with other lands as to form a pooled oil unit.

41. In the event a portion or portions of the land herein leased is pooled or unitized with other land so as to form a pooled unit or units, operations on, completion of a well upon, or production from such unit or units will not maintain this lease in force as to the land not included in such unit or units. The lease may be maintained in force as to any land hereby and not included in such unit or units in any manner provided for herein.

42. The only deductions that are to be made on royalties payable hereunder will be for production taxes and severance taxes only.

43. Should Horizontal Drilling operations be utilized on the leased premises or lands pooled herewith, such operations and respective proration units shall be governed by the pertinent Governmental authority having jurisdiction.

44. It is hereby understood and agreed that if production is established on said lands, and Lessee, his heirs, successors, or assigns, assigns away operations (that is a change in operator) then lessee, his heirs, successors, and assigns will notify all royalty owners of any such change.

SIGNED FOR IDENTIFICATION:

W. W. Oatman
W. W. Oatman

FILE NO. 1359

FILED FOR RECORD ON THE 12TH. DAY OF JUNE A.D. 1997 AT 9:52 A M

DULY RECORDED ON THE 13TH. DAY OF JUNE A.D. 1997 AT 2:00 P M

BY: Janet Acosta DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL,
OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
LAW

A CERTIFIED COPY

Att: 6-17- 19 97
Dianne O. Florez, County Clerk
Reeves County, Texas

J. Acosta

5.

File No. 99055
Lease

Date Filed: 5-15-97

David Dewhurst, Commissioner
By _____



CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 375 PAGE 599 THRU 609.

I hereby certified on 6-12-97

 **DIANNE O. FLOREZ, COUNTY CLERK**
REEVES COUNTY, TEXAS
BY Jenifer Acosta
DEPUTY

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

March 3, 2003

Charlotte Mitchell
Enerquest Oil & Gas, LTD
303 Wall, Suite 1400
P.O. Box 11190
Midland, Texas 79702

RE: Assignment filing; GLO ID 3663

Dear Ms. Mitchell,

The General Land Office received the following instrument(s) and has filed them in the appropriate files. Please see attached "Exhibit A" for reference.

Assignment, Bill of Sale and Conveyance, executed January 28th,
2003, from Penwell Energy, Inc., as Assignor, to EnerQuest
Oil & Gas, Ltd., as Assignee. MF099055.

Filing fees of \$125.00 were received in connection with the above lease. If you have any questions, please feel free to call me at (800) 998-4GLO, or at my direct number at (512) 463-6521.

Sincerely,

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Exhibit "A"

GLO ID

County

Lease

3663

Reeves

MF099055

Monday, March 03, 2003

ENERQUEST

ENERQUEST OIL & GAS, LTD.

February 20, 2003

General Land Office
State of Texas
1700 North Congress Ave.
Austin, TX 78701-1495

Attn: Linda Anderson

RE: Approval of Assignment,
Bill of Sale and Conveyance
Penwell Energy, Inc. to
EnerQuest Oil & Gas, Ltd.
Oatman State #1
Reeves County, Texas

Dear Linda:

Enclosed for your files you will find a Certified Copy of Assignment, Bill of Sale and Conveyance dated effective December 1, 2002, between Penwell Energy, Inc. as Assignor, to EnerQuest Oil & Gas, Ltd., as Assignee, insofar as it concerns the following Leases.

Covering E/2 and NW/4 Sec. 6, Block 54, T-5, T&P Ry. Co. Survey, Reeves Co., TX

- 1) Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust u/w/o Mabel Clark Reed, Assignor (Recorded Bk 575, Pg 449).
- 2) Rita Reed George, SSP, Assignor (Recorded Bk 575, Pg 506).
- 3) Warren Malcolm Clark, Trustee of the Warren Malcolm Clark Trust u/w/o Mabel Clark Reed, Assignor (Recorded Bk 575, Pg 553)
- 4) W. W. Oatman, Assignor (Recorded Bk 575, Pg 599)

Covering the N/2 of SW/4 Section 6, Block 54, T-5, T&P Ry. Co. Survey, save and except the W 1/3 of the N/2 SW/4 & E 1/3 of N/2 SW/4 Section 6, Reeves Co., TX

- 5) Bobbie G. Pirtle, ssp, Assignor (Recorded Bk 574, Pg 802)

You will also find EnerQuest Oil & Gas Check No. 1225 in the amount of \$125.00 to cover your filing fee.

If you should need anything further, please contact me at (915) 685-3116.

Very truly yours,

ENERQUEST OIL & GAS, LTD.

Charlotte Mitchell

Charlotte Mitchell

Encl.
/cm

ENERQUEST OIL & GAS, LTD.

General Land Office

Filing Fee-Oatman State#1

2/20/2003

1225
125.00

03023122

129

EQ O&G-Bank of Texas Filing Fee

125.00

ENERQUEST OIL & GAS, LTD.

General Land Office

Filing Fee-Oatman State#1

2/20/2003

1225
125.00

X

RECEIVED
03 FEB 24 PM 4:30
ENERGY RESOURCES
129

EQ O&G-Bank of Texas Filing Fee

125.00

00423

FILE# 245

ASSIGNMENT, BILL OF SALE AND CONVEYANCE

This ASSIGNMENT, BILL OF SALE AND CONVEYANCE, dated effective as of December 1, 2002 at 7:00 a.m. (the "Effective Time"), is from **Penwell Energy, Inc.** ("Assignor") to **EnerQuest Oil & Gas, Ltd.** whose address is P. O. Box 11150, Midland, Texas 79702 ("Assignee").

For Ten Dollars and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by Assignor, Assignor hereby TRANSFERS, GRANTS, BARGAINS, SELLS, CONVEYS and ASSIGNS to Assignee, all of Assignor's interest in the following property (all of which are called the "Interests"):

(a) The leases and other agreements described in Exhibit "A" attached hereto (herein called the "Leases"), covering the land described in Exhibit "A" (herein called the "Land"), together with all the property and rights incident thereto, including all rights in, to and under all unit, pooling and other agreements, product purchase and sale contracts, leases, permits, rights-of-way, easements, licenses, farmouts, options and orders in any way relating thereto;

(b) All of the personal property, fixtures and improvements now or as of the Effective Time on the Land, appurtenant thereto or used or obtained in connection with the Land or with the production, treatment, sale or disposal of hydrocarbons or water produced from or attributable thereto and all other appurtenances thereunto belonging, together with all books, records and files, and all engineering and title information and data in any way relating to the Land or the Leases;

(c) All proprietary geophysical, seismic and geological data and interpretations related to the Leases or Land, and to the extent transferable all non-proprietary data and information related to the Land or Leases; and

(d) All oil, gas and other minerals in and under and that may be produced from the land described on Exhibit "A", together with rights of ingress and egress at all times for the purpose of mining, drilling, exploring, operating and developing said lands for oil, gas and other minerals, and storing, handling, transporting and marketing the same therefrom and all of the personal property, fixtures and improvements now or as of the Effective Time on said lands, appurtenant thereto or used or obtained in connection therewith.

This Assignment is expressly made subject to, and Assignee assumes and agrees to perform and to indemnify and hold Assignor harmless from all obligation arising following the Effective Time which are attributable to the interests herein transferred under, (i) the Leases as they pertain to the Lands; (ii) all presently outstanding royalty burdens, overriding royalty burdens, and other production burdens upon the Leases insofar as they cover and affect the Lands; (iii) all valid and subsisting operating agreements governing the conduct of oil and gas operation on the Lands; (iv) all valid and subsisting contracts for the sale or purchase of oil, gas, and/or other hydrocarbons from or attributable to the Interests; and (v) all other instruments and documents burdening or affecting the Interests and of public record in the jurisdiction(s) in which the Interests are situated as of the date of execution of this Assignment.

Assignee additionally assumes and agrees to be responsible for and comply with, and to indemnify and hold Assignor harmless from, (i) all duties and obligation, express or implied, arising at any time, whether prior or subsequent to the Effective Time, with respect to the Interests under or by virtue of any law, statute, rule, regulation, or order of any governmental authority or court (specifically including, without limitation, any governmental request or other requirement to plug, re-plug, or abandon any well of whatsoever type, status, or classification, or take any clean-up, remedial or other action with respect to the Interests); and (ii) all duties and obligation for environmental cleanup, remediation, or compliance of the Interests, or for any other similar or related relief, arising at any time, whether prior or subsequent to the Effective Time, directly or indirectly from or incident to, the use, occupation, operation, maintenance or abandonment of or production from the purchased Interests, or condition of the Interests, whether latent or patent, including, without limitation, contamination of property or premises with Naturally Occurring Radioactive Materials ("NORM").

This Assignment is made subject to the terms and provisions of that certain Purchase and Sale Agreement dated as of January ____, 2003 between Penwell Energy, Inc. and EnerQuest Oil & Gas, Ltd.



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copy of
Original filed in
Reeves County
Clerks Office

To the extent this Assignment conveys working interests, overriding royalty interests, mineral interests and royalty interests in all or portions of the lands described on Exhibit "A" attached hereto, there shall be no merger of said interests and all of said interests shall be owned by Assignee as separate and distinct interests.

TO HAVE AND TO HOLD the Interests unto Assignee and its successors and assigns forever. Assignor does hereby bind itself, its successors and assigns to warrant and forever defend the Interests herein assigned to Assignee against all persons lawfully claiming the Interests or any portions thereof, by, through and under Assignor but not otherwise.

THIS ASSIGNMENT, AS IT PERTAINS TO THE PERSONAL PROPERTY AND EQUIPMENT HEREIN CONVEYED IS MADE "AS IS", "WHERE IS" WITHOUT WARRANTY EITHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY AND ALL IMPLIED WARRANTIES OF MERCHANTABILITY, CONDITION, AND FITNESS FOR A PARTICULAR PURPOSE. IN ADDITION, ASSIGNOR DISCLAIMS ANY REPRESENTATION OR WARRANTY WITH RESPECT TO (a) THE PHYSICAL CONDITION OF THE PROPERTY HEREIN CONVEYED, INCLUDING, WITHOUT LIMITATION, THE WATER, SOIL AND GEOLOGY, OR THE PRESENCE OR ABSENCE OF ANY POLLUTANT, HAZARDOUS WASTE OR HAZARDOUS SUBSTANCE ON OR ABOUT SAID PROPERTY, (b) THE INCOME TO BE DERIVED FROM THE PROPERTY HEREIN CONVEYED, OR (c) THE SUITABILITY OF THE PROPERTY HEREIN CONVEYED FOR ANY AND ALL ACTIVITIES AND USES WHICH ASSIGNEE MAY INTEND TO CONDUCT THEREON. ASSIGNEE HAS BEEN GIVEN AN OPPORTUNITY TO INSPECT THE PROPERTY AND IS RELYING SOLELY ON ITS OWN INSPECTIONS AND INVESTIGATIONS OF SAID PROPERTY AND NOT ON ANY INFORMATION PROVIDED BY ASSIGNOR.

All ad valorem, property, production, severance and similar taxes based upon or measured by ownership of the Leases or production from the Land shall be prorated between Assignor and Assignee as of the Effective Time.

Assignor also hereby grants and transfers 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 Assignor is entitled to enforce with respect to the Interests against Assignor's predecessors in title to the Interests.

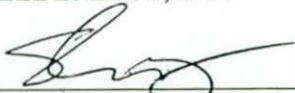
This Assignment shall bind and inure to the benefit of Assignor and Assignee and their respective heirs, successors and assigns.

This Assignment may be executed in any number of counterparts and each counterpart shall be deemed to be an original instrument, but all counterparts shall constitute but one Assignment. To facilitate recordation, there may be omitted from certain counterparts hereof, portions of Exhibit A, which describe properties not located in the recording jurisdiction in which such counterpart is to be recorded.

EXECUTED as of the date of the undersigned's acknowledgment, to be effective for all purposes as of the Effective Time.

ASSIGNOR:

PENWELL ENERGY, INC.

By: 
 Name: Steven R. Foy
 Title: Vice President



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 copy of
 Original filed in
 Reeves County
 Clerks Office

ASSIGNEE:

ENERQUEST OIL & GAS, LTD.

by: EnerQuest Property Management, LLC,
its General Partner

By: [Signature]
Robert W. Floyd, President

THE STATE OF TEXAS §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on this 29th day of January, 2003, by Steven R. Fey as Vice President of Penwell Energy, Inc., a Texas corporation, on behalf of said corporation.



[Signature]
NOTARY PUBLIC - State of Texas

THE STATE OF TEXAS §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on this 29th day of January, 2003, by Robert W. Floyd as President of EnerQuest Property Management, LLC, the General Partner of EnerQuest Oil & Gas, Ltd., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.



[Signature]
NOTARY PUBLIC - State of Texas



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copy of
Original filed in
Reeves County
Clerks Office

EXHIBIT A
to

Assignment, Bill of Sale and Conveyance dated effective December 1, 2002 between Penwell Energy, Inc. and EnerQuest Oil Gas, Ltd.

Book	Page	Date	Lessor	Lessee	Description
575	449	5/15/1997	Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust u/w/o Mabel Clark Reed	Penwell Energy, Inc.	East half and Northwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
575	506	5/15/1997	Rita Reed George, ssp	Penwell Energy, Inc.	East half and Northwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
575	553	5/15/1997	Warren Malcolm Clark, as Trustee of the Warren Maloclm Clark Trust u/w/o Mabel Clark Reed	Penwell Energy, Inc.	East half and Northwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
575	599	5/15/1997	W.W. Oatman	Penwell Energy, Inc.	East half and Northwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
574	411	4/4/1997	John C. Harris, III, ssp	Penwell Energy, Inc.	South half of Southwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
574	414	4/4/1997	Angela H. Caughlin, ssp	Penwell Energy, Inc.	South half of Southwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
574	417	4/4/1997	Mary C. Grimaldo, ssp	Penwell Energy, Inc.	South half of Southwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
574	802	4/4/1997	Bobbie G. Pirtle, ssp	Penwell Energy, Inc.	North half of Southwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, save and except the West 1/3 of the N/2 SW/4 & East 1/3 of N/2 SW/4 of Section 6
574	690	4/28/1997	Milford S. Howard, Estate	Penwell Energy, Inc.	Northeast quarter of Northwest quarter of Section 23 & Northeast quarter of Northeast quarter of Section 25, Block C-18, Public School Lands, Reeves County, Texas
576	445	7/3/1997	Matthews-Link Properties, Ltd.	Penwell Energy, Inc.	Northeast quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
576	516	7/10/1997	D.W. St. Clair, Individually and as Trustee of the Donald W. St. Clair Truste u/w/o Louise C. St. Clair, deceased	Penwell Energy, Inc.	Northeast quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
578	34	7/10/1997	William W. Bentley	Penwell Energy, Inc.	Northeast quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas

state

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1997



20423

EXHIBIT A
to

Assignment, Bill of Sale and Conveyance dated effective December 1, 2002 between Penwell Energy, Inc. and EnerQuest Oil Gas, Ltd.

578	520	7/10/1997	James Milford Howard and Sylvia Jean Longman, Individually and as Co-Trustees u/w/o Milford S. Howard, deceased	Penwell Energy, Inc.	Northeast quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
578	328	7/15/1997	Lowenthal, Hale & Jaffe	Penwell Energy, Inc.	Northeast quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
583	101	12/1/1997	Vasilios Thomas	Penwell Energy, Inc.	Northeast quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
576	445	7/3/1997	Matthews-Link Properties, Ltd.	Penwell Energy, Inc.	Northeast quarter of Northeast quarter of Section 25, Block C-18, Public School Lands, Reeves County, Texas
578	520	7/10/1997	James Milford Howard and Sylvia Jean Longman, Individually and as Co-Trustees u/w/o Milford S. Howard, deceased	Penwell Energy, Inc.	Northeast quarter of Northeast quarter of Section 25, Block C-18, Public School Lands, Reeves County, Texas
578	328	7/15/1997	Lowenthal, Hale & Jaffe	Penwell Energy, Inc.	Northeast quarter of Northeast quarter of Section 25, Block C-18, Public School Lands, Reeves County, Texas
583	101	12/1/1997	Vasilios Thomas	Penwell Energy, Inc.	Northeast quarter of Northeast quarter of Section 25, Block C-18, Public School Lands, Reeves County, Texas
574	692	4/29/1997	L.D. McNiel Estate	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
578	525	4/29/1997	Doug Miller	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23 Northwest quarter, South half, South half of Northeast quarter and Northwest quarter of Northeast quarter of Section 25 and all of Section 26, Block C-18, Public School Lands, Reeves County, Texas
576	506	7/9/1997	Texas Commerce Bank, N.A., Trustee of the Rita Reed July 1998 Trust under agreement dated 2/13/59	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas



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Clerks Office

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Assignment, Bill of Sale and Conveyance dated effective December 1, 2002 between Penwell Energy, Inc. and EnerQuest Oil Gas, Ltd.

575	479	5/15/1997	Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust u/w/o Mabel Clark Reed	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
575	633	5/15/1997	W.W. Oatman	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
575	583	5/15/1997	Warren Malcolm Clark, as Trustee of the Warren Maloclm Clark Trust u/w/o Mabel Clark Reed	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
575	533	5/15/1997	Rita Reed George, ssp	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas.
578	522	7/7/1997	Florence McNeil	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
576	351	6/24/1997	Bobbie Ann McGinn	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
576	355	6/26/1997	Naomi Russell	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas

20433





Original filed in
Reeves County
Clerks Office

True and correct

FILE NO. 245
FILED FOR RECORD ON THE 30TH DAY OF JANUARY A.D. 2003 AT 3:43 P. M.
DULY RECORDED ON THE 31ST DAY OF JANUARY A.D. 2003 AT 8:30 A.M.
BY: [Signature], DEPUTY
DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL,
OR USE BY THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
LAW

EXHIBIT A to

Assignment, Bill of Sale and Conveyance dated effective December 1, 2002 between Penwell Energy, Inc. and EnerQuest Oil Gas, Ltd.

576	351	6/24/1997	Donna Blalock Adams	Penwell Energy, Inc.	Northeast quarter, South half less Northwest quarter of Southwest quarter of Southeast quarter, South half of Northwest quarter, East half of Northwest quarter of Northwest quarter and Southwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
576	406	5/9/1997	Blake Oil and Gas Corporation	Penwell Energy, Inc.	Northwest quarter of Southwest quarter of Southeast quarter and Northwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
576	403	5/9/1997	Jack E. Blake, etux	Penwell Energy, Inc.	Northwest quarter of Southwest quarter of Southeast quarter and Northwest quarter of Northwest quarter of Northwest quarter of Section 23, Block C-18, Public School Lands, Reeves County, Texas
7	440	11/22/1949	George C. Fraser, etal	Gulf Oil Corporation	South half of Section 27, Township 1, Block 56, Loving County, Texas
6	162	2/16/1999	Community Bank of Raymore, Trustee	Penwell Energy, Inc.	All of Section 34 and North half of Section 40, Block 56, Township 1, T&P Ry. Co. Survey

00453

File No. WF 099055-6
Assignment
Date Filed: 03/30/03
By Jerry E. Patterson, Commissioner

**CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES**

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 660
PAGE 269, THRU 275



I hereby certified on 02/06/2003

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Josie Flores DEPUTY
JOSIE FLORES

**OFFICIAL PUBLIC
RECORDS**

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

April 7, 2003

Crownquest Operating, LLC
PO Box
Midland, Texas 79702

Re: State Lease MF099055
Oatman State #1
427100-001

The General Land Office has received and filed the division order submitted for the above-referenced state lease. Please be advised that the payment of royalties attributable to state-owned mineral interests is set by statute. As the execution of division orders may, in some cases, affect the manner in which such payments are paid or calculated, it is the policy of this office not to execute them.

Subject to applicable state law and the state's right to take its production in-kind, the General Land Office acquiesces to the sale of oil and gas under the terms and conditions set out in the oil and gas lease. If you should have questions concerning this matter, please feel free to call me at (512) 463-6521.

Sincerely,

Beverly Boyd, Lease Analyst
Mineral Leasing Division

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

CROWNQUEST

CrownQuest Operating, LLC

151743

March 31, 2003

RE: OATMAN STATE #1 WELL
E/2 and NW/4 of Section 6, Block 54,
Township 5, T&P Ry. Co. Survey
Reeves County, Texas
Division Order No. 427100-001

MF099055

2003 APR -1 PM 12:34

RECEIVED
03 APR -4 PM 4:23
ENERGY RESOURCES

TO ALL INTEREST OWNERS:

Please be advised that effective December 1, 2003, EnerQuest Oil & Gas, Ltd. purchased all of Penwell Energy's working interest in the Oatman State #1 well located on the referenced lands. CrownQuest Operating, LLC, operating entity for EnerQuest, has taken over operations of this well and also disbursement of revenues from production beginning January 2003.

We are enclosing CrownQuest's Division Order for your review and execution. If you are in agreement with the information contained in this document, we ask that you execute one copy in accordance with the instructions attached thereto and return that copy to my attention in the envelope included for your convenience. If you have changes to be made, please provide the necessary documentation supporting those changes. You may keep the extra copy for your records. You should be receiving your revenue checks within a few days after execution of this Division Order.

Thank you for your cooperation in this regard and if you have any questions, please feel free to contact me at the address or phone number listed above.

Very truly yours,

CROWNQUEST OPERATING, LLC

Charlotte Mitchell

Charlotte Mitchell

/cm
Encl.

DIVISION ORDER

TO: CROWNQUEST OPERATING, LLC (Payor)
P.O. Box 2990
Midland, Texas 79702

Property No.: 427100-001
Effective Date: 01/01/2003

The undersigned severally and not jointly certifies it is the legal Owner of the interest set out below of all the oil, gas, and related liquid hydrocarbons produced and sold from the property described below:

Property Name: OATMAN STATE #1
County: Reeves
State: Texas
Legal Description: E/2 and NW/4 of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, but only as to depths 100' below the deepest producing formation.
Owner No.: 3630020
Name & Address: COMMISSIONER OF GENERAL LAND OFFICE
STATE OF TEXAS
1700 N. CONGRESS AVENUE
STEPHEN F. AUSTIN OFFICE BLDG.
AUSTIN, TX 78702-1495
Owner Tax ID #:
Interest Type: Royalty
Interest: 0.11500000

DIVISION OF INTEREST

THIS AGREEMENT DOES NOT AMEND ANY LEASE OR OPERATING AGREEMENT BETWEEN THE INTEREST OWNERS AND THE LESSEE OR OPERATOR OR ANY OTHER CONTRACTS FOR THE PURCHASE OF OIL OR GAS.

The following provisions apply to each interest Owner ("Owner") who executes this Agreement:

TERMS OF SALE: The undersigned will be paid in accordance with the division of interest set out above. The Payor shall pay all parties at the price agreed to by the operator for oil, gas and related liquid hydrocarbons to be sold pursuant to this division order. The purchaser shall compute quantity and make corrections for gravity and temperature and make deductions for impurities in the oil. The proceeds for the sale of gas shall be calculated as to price and quality on the basis of and in the manner provided for in the contract with the purchaser of such gas product.

PAYMENT: From the effective date, payment is to be made monthly by Payor's check, based of this division of interest, for oil runs and gas produced and sold not later than 60 days after the end of the calendar month in which the oil and/or gas was sold from the property listed above, less taxes required by law to be deducted and remitted by Payor as purchaser. Payment of less than \$100 may be accrued before disbursement until the total amount equals \$100 or more, or until December 31st of each year, whichever occurs first. Payee agrees to refund to Payor any amounts attributable to an interest or part of an interest that payee does not own.

INDEMNITY: The owner agrees to indemnify and hold Payor harmless from all liability resulting from payments made to the Owner in accordance with such division of interest, including but not limited to attorney's fees or judgements in connection with any suit that affects the Owner's interest to which Payor is made a party.

DISPUTE; WITHHOLDING OF FUNDS: If a suit is filed that affects the interest of the Owner, written notice shall be given to Payor by the Owner together with a copy of the complaint or petition filed.

In the event of a claim or dispute that affects title to the division of interest credited herein, Payor is authorized to withhold payments accruing to such interest, without interest unless otherwise required by applicable statute, until the claim or dispute is settled.

TERMINATION: Termination of this agreement is effective on the first day of the month that begins after the 30th day after the date written notice of termination is received by either party.

NOTICES: The Owner agrees to notify Payor in writing of any change in the division of interest, including changes of interest contingent on payment of money or expiration of time.

No change of interest is binding on Payor until the recorded copy of the instrument of change or documents satisfactorily evidencing such change are furnished to Payor at the time the change occurs.

Any change of interest shall be made on the first day of the month following receipt of such notice to Payor.

Any correspondence regarding this agreement shall be furnished to the addresses as provided herein unless otherwise advised by either party.

In addition to the legal rights provided by the terms and provisions of this division order, an Owner may have certain statutory rights under the laws of the State of Texas.

WITNESS: (There must be two witnesses to each signature)	OWNER SIGNATURE:	ADDRESS/TAX ID NUMBER:
X Signature of Witness #1	X COMMISSIONER OF GENERAL LAND OFFICE	Address if different from above
X Signature of Witness #2	Owner Signature/Corporate Title	City, State, Zip Code
	Owner Phone #	X Tax ID Number if different from above

Failure to furnish your Social Security Number or Tax Identification Number will result in withholding tax in accordance with federal law and any tax withheld will not be refundable by Payor.

Return To: CrownQuest Operating, LLC
P.O. Box 2990
Midland, Texas 79702

504 . 4

#7

File No. MF099055

DO

Date Filed: 7/29/03

Jerry E. Patterson, Commissioner

By B. Boyd

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

April 14, 2004

CERTIFIED MAIL 7002 0860 0007 9387 1826

ATTN: BETH JOHNSON
CROWNQUEST OPERATING, LLC
P O BOX 11150
MIDLAND TEXAS 79702 8150

RE: Notice of non-payment on State Leases **MF 099055**

Dear Ms. Johnson:

The Energy Inspections Division of the Texas General Land Office has completed a limited review of the above referenced lease operated by CrownQuest Operating, LLC. Through this review, it was determined that \$13,866.24 is due for production starting March 1998 through January 2004. This amount is comprised of \$8,940.08 in royalty, \$1,512.36 in penalty, and \$3,413.80 in interest, which has been computed through May 12, 2004, in accordance with Section 52.131 of the Texas Natural Resources Code.

The following documents are attached in support of our findings:

- o A brief summary of our review (Attachment I);
- o Schedule supporting our royalty, penalty, and interest calculation (Attachment II); and
- o Procedures used for assessment of penalties and interest (Attachment III).

To ensure your company remains in good standing with the General Land Office, please respond to this notice within 25 days of the above date. If your records reflect this royalty has been paid, please provide us with documentation of payments made and remittance dates. Payment of this notice should be submitted separately from monthly royalty payments you may be remitting. In order to ensure proper credit, your payment should be mailed to my attention along with a copy of this letter.

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

CrownQuest Operating, LLC

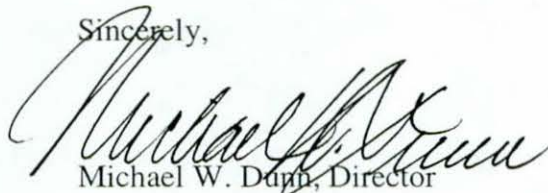
April 14, 2004

Page 2

This notice in no way precludes the General Land Office from pursuing any claim or remedy related to this royalty payment. Additionally, this notice does not constitute an Audit Billing Notice as defined in Section 52.135 of the Natural Resources Code and, consequently, does not preclude the General Land Office from conducting further examinations of this or other leases operated and/or reported by CrownQuest Operating, LLC or from examining these or other issues and time periods in a future inspection of your books, accounts, reports, or other records.

If you have any questions, please call Landia Robinson, Accounts Examiner, at (512) 475-1490 to discuss payment and production royalty data or Gary Posey, Senior Inspections Manager, at (915) 694-1483 for information pertaining to the inspection of field production operations.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael W. Dunn". The signature is fluid and cursive, with the first name "Michael" being the most prominent part.

Michael W. Dunn, Director
Energy Inspections Division
Energy Resources Program

MD/lr

CC: Gary Posey
Senior Manager
Energy Inspections Division
(915) 694-1483
e-mail: gary.posey@glo.state.tx.us

Andrew Hernandez, Inspector

ATTACHMENT I
REVIEW SUMMARY

State Lease: MF-099055

A routine field inspection of lease operations was conducted on Mineral Lease 099055. During this review it was determined that lease use gas was not being reported or paid to the GLO for the months of March 1998 through January 2004 (for RRC well ID# 08-171497).

The lease agreement states in section 7:

NO DEDUCTIONS – Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use...

We have concluded that royalty revenue is due in the following amount:

	<u>Royalty</u>	<u>Penalty</u>	<u>Interest</u>	<u>Total</u>
Attachment II	\$8,940.08	\$1,512.36	\$3,413.80	\$13,866.24

(See attachment II for supporting calculations)

CROWNQUEST OPERATING, LLC
 STATE LEASE: M-099055
 LEASE NAME: OATMAN
 GREASEWOOD (ATOKA)
 REEVES COUNTY
 RRC GAS WELL: 08-171497
 STATE'S ROYALTY DECIMAL: .23 RAL (1/2 =.115)

ATTACHMENT II

AE: LWR
 Filename: M-99055
 Date: 4/12/2004

Penalty Date
 5/12/2004

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Month	GLO Lease Use Calculations (mcf) (A)	Price (B)	BTU	Gross Value (2) X (3) X (4)	Royalty Decimal	Royalty Due (5) X (6)	Royalty Paid	Difference (7) - (8)	Number of Days Late	Penalty (C)	Interest (C)	Additional Royalty Due (9)+(11)+(12)
Mar-98	505.92	\$1.85	1.000	\$933.93	0.115	\$107.40		107.40	2,189	\$25.00	\$75.21	\$207.61
Apr-98	489.60	\$1.91	1.000	\$935.14	0.115	\$107.54		107.54	2,158	\$25.00	\$74.21	\$206.75
May-98	505.92	\$1.90	1.000	\$961.25	0.115	\$110.54		110.54	2,128	\$25.00	\$75.19	\$210.73
Jun-98	489.60	\$1.74	1.000	\$851.90	0.115	\$97.97		97.97	2,097	\$25.00	\$65.64	\$188.61
Jul-98	505.92	\$1.96	1.000	\$991.60	0.115	\$114.03		114.03	2,066	\$25.00	\$75.24	\$214.27
Aug-98	505.92	\$1.69	1.000	\$852.48	0.115	\$98.04		98.04	2,036	\$25.00	\$63.72	\$186.76
Sep-98	489.60	\$1.38	1.000	\$675.65	0.115	\$77.70		77.70	2,005	\$25.00	\$49.71	\$152.41
Oct-98	505.92	\$2.05	1.000	\$1,037.14	0.115	\$119.27		119.27	1,975	\$25.00	\$75.13	\$219.40
Nov-98	489.60	\$1.70	1.000	\$832.32	0.115	\$95.72		95.72	1,944	\$25.00	\$59.32	\$180.04
Dec-98	505.92	\$1.62	1.000	\$819.59	0.115	\$94.25		94.25	1,913	\$25.00	\$57.45	\$176.70
Jan-99	505.92	\$1.52	1.000	\$771.28	0.115	\$88.70		88.70	1,885	\$25.00	\$53.25	\$166.95
Feb-99	456.96	\$1.45	1.000	\$664.24	0.115	\$76.39		76.39	1,854	\$25.00	\$45.08	\$146.47
Mar-99	505.92	\$1.33	1.000	\$671.86	0.115	\$77.26		77.26	1,824	\$25.00	\$44.83	\$147.09
Apr-99	489.60	\$1.36	1.000	\$665.86	0.115	\$76.57		76.57	1,793	\$25.00	\$43.65	\$145.22
May-99	505.92	\$1.36	1.000	\$688.05	0.115	\$79.13		79.13	1,763	\$25.00	\$44.33	\$148.46
Jun-99	489.60	\$1.36	1.000	\$665.86	0.115	\$76.57		76.57	1,732	\$25.00	\$42.12	\$143.69
Jul-99	505.92	\$1.83	1.000	\$925.83	0.115	\$106.47		106.47	1,701	\$25.00	\$57.48	\$188.95
Aug-99	505.92	\$1.83	1.000	\$925.83	0.115	\$106.47		106.47	1,671	\$25.00	\$56.43	\$187.90
Sep-99	489.60	\$1.83	1.000	\$895.97	0.115	\$103.04		103.04	1,640	\$25.00	\$53.56	\$181.60
Oct-99	505.92	\$1.83	1.000	\$925.83	0.115	\$106.47		106.47	1,610	\$25.00	\$54.29	\$185.76
Nov-99	489.60	\$1.83	1.000	\$895.97	0.115	\$103.04		103.04	1,579	\$25.00	\$51.49	\$179.53
Dec-99	505.92	\$1.83	1.000	\$925.83	0.115	\$106.47		106.47	1,548	\$25.00	\$52.12	\$183.59
Jan-00	505.92	\$1.92	1.000	\$971.37	0.115	\$111.71		111.71	1,519	\$25.00	\$53.62	\$190.33
Feb-00	473.28	\$1.92	1.000	\$908.70	0.115	\$104.50		104.50	1,488	\$25.00	\$49.09	\$178.59
Mar-00	505.92	\$1.92	1.000	\$971.37	0.115	\$111.71		111.71	1,458	\$25.00	\$51.38	\$188.09
Apr-00	489.60	\$1.92	1.000	\$940.03	0.115	\$108.10		108.10	1,427	\$25.00	\$48.62	\$181.72
May-00	505.92	\$1.92	1.000	\$971.37	0.115	\$111.71		111.71	1,397	\$25.00	\$49.14	\$185.85
Jun-00	489.60	\$1.92	1.000	\$940.03	0.115	\$108.10		108.10	1,366	\$25.00	\$46.45	\$179.55
Jul-00	505.92	\$3.79	1.000	\$1,917.44	0.115	\$220.51		220.51	1,335	\$25.00	\$92.51	\$338.02
Aug-00	505.92	\$3.68	1.000	\$1,859.37	0.115	\$213.83		213.83	1,305	\$25.00	\$87.59	\$326.42
Sep-00	489.60	\$4.37	1.000	\$2,141.81	0.115	\$246.31		246.31	1,274	\$25.00	\$98.39	\$369.70
Oct-00	505.92	\$5.01	1.000	\$2,533.99	0.115	\$291.41		291.41	1,244	\$29.14	\$113.53	\$434.08
Nov-00	489.60	\$4.39	1.000	\$2,150.42	0.115	\$247.30		247.30	1,213	\$25.00	\$93.82	\$366.12
Dec-00	505.92	\$6.09	1.000	\$3,081.89	0.115	\$354.42		354.42	1,182	\$35.44	\$130.85	\$520.71
Jan-01	505.92	\$9.53	1.000	\$4,823.38	0.115	\$554.69		554.69	1,154	\$55.47	\$199.69	\$809.85
Feb-01	456.96	\$6.30	1.000	\$2,881.09	0.115	\$331.33		331.33	1,123	\$33.13	\$115.90	\$480.36
Mar-01	505.92	\$4.89	1.000	\$2,475.08	0.115	\$284.63		284.63	1,093	\$28.46	\$96.76	\$409.85
Apr-01	489.60	\$5.05	1.000	\$2,473.98	0.115	\$284.51		284.51	1,062	\$28.45	\$93.82	\$406.78
May-01	505.92	\$4.69	1.000	\$2,371.28	0.115	\$272.70		272.70	1,032	\$27.27	\$97.23	\$387.20
Jun-01	489.60	\$3.63	1.000	\$1,778.55	0.115	\$204.53		204.53	1,001	\$25.00	\$63.34	\$292.87
Jul-01	505.92	\$3.06	1.000	\$1,547.36	0.115	\$177.95		177.95	970	\$25.00	\$53.30	\$256.25
Aug-01	505.92	\$2.96	1.000	\$1,496.11	0.115	\$172.05		172.05	940	\$25.00	\$49.83	\$246.88
Sep-01	489.60	\$2.76	1.000	\$1,351.30	0.115	\$155.40		155.40	909	\$25.00	\$43.43	\$223.83
Oct-01	505.92	\$2.76	1.000	\$1,396.34	0.115	\$160.58		160.58	879	\$25.00	\$43.29	\$228.87

CROWNQUEST OPERATING, LLC
 STATE LEASE: M-099055
 LEASE NAME: OATMAN
 GREASEWOOD (ATOKA)
 REEVES COUNTY
 RRC GAS WELL: 08-171497
 STATE'S ROYALTY DECIMAL: .23 RAL (1/2 = .115)

ATTACHMENT II

AE: LWR
 Filename: M-99055
 Date: 4/12/2004

Penalty Date
 5/12/2004

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Month	GLO Lease Use Calculations (mcf) (A)	Price (B)	BTU	Gross Value (2) X (3) X (4)	Royalty Decimal	Royalty Due (5) X (6)	Royalty Paid	Difference (7) - (8)	Number of Days Late	Penalty (C)	Interest (C)	Additional Royalty Due (9)+(11)+(12)
Nov-01	489.60	\$2.76	1.000	\$1,351.30	0.115	\$155.40		155.40	848	\$25.00	\$40.31	\$220.71
Dec-01	505.92	\$2.76	1.000	\$1,396.34	0.115	\$160.58		160.58	817	\$25.00	\$40.02	\$225.60
Jan-02	505.92	\$2.08	1.000	\$1,052.31	0.115	\$121.02		121.02	789	\$25.00	\$29.04	\$175.06
Feb-02	456.96	\$1.70	1.000	\$776.51	0.115	\$89.30		89.30	758	\$25.00	\$20.52	\$134.82
Mar-02	505.92	\$2.03	1.000	\$1,028.28	0.115	\$118.25		118.25	728	\$25.00	\$26.01	\$169.26
Apr-02	489.60	\$2.07	1.000	\$1,013.47	0.115	\$116.55		116.55	697	\$25.00	\$24.45	\$166.00
May-02	505.92	\$2.93	1.000	\$1,481.26	0.115	\$170.34		170.34	667	\$25.00	\$34.05	\$229.39
Jun-02	489.60	\$2.63	1.000	\$1,288.78	0.115	\$148.21		148.21	636	\$25.00	\$28.12	\$201.33
Jul-02	505.92	\$2.90	1.000	\$1,468.95	0.115	\$168.93		168.93	605	\$25.00	\$30.32	\$224.25
Aug-02	505.92	\$2.49	1.000	\$1,261.63	0.115	\$145.09		145.09	575	\$25.00	\$24.61	\$194.70
Sep-02	489.60	\$2.80	1.000	\$1,371.56	0.115	\$157.73		157.73	544	\$25.00	\$25.15	\$207.88
Oct-02	505.92	\$2.50	1.000	\$1,264.80	0.115	\$145.45		145.45	514	\$25.00	\$21.76	\$192.21
Nov-02	489.60	\$2.50	1.000	\$1,224.00	0.115	\$140.76		140.76	483	\$25.00	\$19.62	\$185.38
Dec-02	505.92	\$2.50	1.000	\$1,264.80	0.115	\$145.45		145.45	452	\$25.00	\$18.79	\$189.24
Jan-03	509.00	\$4.22	0.916	\$2,147.98	0.115	\$226.40	226.40	0.00	424	\$0.00	\$0.00	\$0.00
Feb-03	439.00	\$4.50	0.916	\$1,975.18	0.115	\$208.07	208.07	0.00	393	\$0.00	\$0.00	\$0.00
Mar-03	467.00	\$7.04	0.916	\$3,285.53	0.115	\$346.10	346.10	0.00	363	\$0.00	\$0.00	\$0.00
Apr-03	435.00	\$4.15	0.916	\$1,806.73	0.115	\$190.32	190.32	0.00	332	\$0.00	\$0.00	\$0.00
May-03	449.00	\$4.38	0.997	\$1,967.71	0.115	\$222.48	222.48	0.00	302	\$0.00	\$0.00	\$0.00
Jun-03	454.00	\$5.18	0.996	\$2,352.65	0.115	\$269.47	269.47	0.00	271	\$0.00	\$0.00	\$0.00
Jul-03	482.00	\$4.90	0.997	\$2,362.02	0.115	\$270.82	270.82	0.00	240	\$0.00	\$0.00	\$0.00
Aug-03	463.00	\$4.21	0.997	\$1,949.56	0.115	\$223.42	223.42	0.00	210	\$0.00	\$0.00	\$0.00
Sep-03	447.00	\$4.50	0.997	\$2,010.14	0.115	\$230.38	230.38	0.00	179	\$0.00	\$0.00	\$0.00
Oct-03	408.00	\$3.91	0.997	\$1,593.64	0.115	\$182.71	182.71	0.00	149	\$0.00	\$0.00	\$0.00
Nov-03	463.00	\$5.05	0.971	\$2,338.15	0.115	\$262.58	262.58	0.00	118	\$0.00	\$0.00	\$0.00
Dec-03	437.00	\$4.09	0.973	\$1,788.97	0.115	\$200.15	200.15	0.00	87	\$0.00	\$0.00	\$0.00
Jan-04	464.00	\$5.06	0.972	\$2,350.08	0.115	\$262.59	262.59	0.00	58	\$0.00	\$0.00	\$0.00
Total	34,754.44			\$105,668.00		\$12,035.57	\$3,095.49	\$8,940.08		\$1,512.36	\$3,413.80	\$13,866.24

NOTE:

(A) - VOLUMES ARE CALCULATED BASED ON EQUIPMENT IN USE AND THE FREQUENCY OF USAGE. SEE ATTACHMENT II-A.

(B) - PRICE - REPRESENTS THE GAS SALES PRICES REPORTED TO THE GLO ON GLO-2 REPORTS FOR THE PERIOD OF:

- MARCH 1998 THROUGH MARCH 1999, EXCEPT FOR JUNE 1998
- AUGUST 2000 THROUGH AUGUST 2001
- FEBRUARY 2002 THROUGH SEPTEMBER 2002
- JANUARY 2003 THROUGH DECEMBER 2003

THE PRICES TAKEN FROM THE COUNTY AVERAGE GAS PRICES COMPILED BY THE GAS PRODUCER'S MONTHLY TAX REPORTS PROVIDED BY THE TEXAS COMPTROLLERS OF PUBLIC ACCOUNTS WERE USED FOR THE PERIOD:

- JUNE 1998, APRIL 1999 THROUGH JULY 2000
- SEPTEMBER 2001 THROUGH JANUARY 2002
- OCTOBER 2002 THROUGH DECEMBER 2002

(C) - SEE ATTACHMENT III, "SUMMARY OF PENALTY/INTEREST ASSESSMENT RULES" FOR EXPLANATION OF PENALTY AND INTEREST CALCULATIONS.

ATTACHMENT II-A

CROWNQUEST OPERATING, LLC
 STATE LEASE: M-099055
 LEASE NAME: OATMAN
 GREASEWOOD (ATOKA)
 REEVES COUNTY
 RRC GAS WELL: 08-171497

(1)	(2)	(3)	(4)	(5)	(6)
MONTH	LEASE USE (MCF) PER DAY (A)	NUMBER OF DAYS IN EACH MONTH	MONTHLY GAS USAGE (2) X (3)	MONTHLY GAS USAGE REPORTED TO THE GLO	TOTAL MONTHLY GAS USAGE (4) + (5)
Mar-98	16.32	31	505.92		505.92
Apr-98	16.32	30	489.60		489.60
May-98	16.32	31	505.92		505.92
Jun-98	16.32	30	489.60		489.60
Jul-98	16.32	31	505.92		505.92
Aug-98	16.32	31	505.92		505.92
Sep-98	16.32	30	489.60		489.60
Oct-98	16.32	31	505.92		505.92
Nov-98	16.32	30	489.60		489.60
Dec-98	16.32	31	505.92		505.92
Jan-99	16.32	31	505.92		505.92
Feb-99	16.32	28	456.96		456.96
Mar-99	16.32	31	505.92		505.92
Apr-99	16.32	30	489.60		489.60
May-99	16.32	31	505.92		505.92
Jun-99	16.32	30	489.60		489.60
Jul-99	16.32	31	505.92		505.92
Aug-99	16.32	31	505.92		505.92
Sep-99	16.32	30	489.60		489.60
Oct-99	16.32	31	505.92		505.92
Nov-99	16.32	30	489.60		489.60
Dec-99	16.32	31	505.92		505.92
Jan-00	16.32	31	505.92		505.92
Feb-00	16.32	29	473.28		473.28
Mar-00	16.32	31	505.92		505.92
Apr-00	16.32	30	489.60		489.60
May-00	16.32	31	505.92		505.92
Jun-00	16.32	30	489.60		489.60
Jul-00	16.32	31	505.92		505.92
Aug-00	16.32	31	505.92		505.92
Sep-00	16.32	30	489.60		489.60
Oct-00	16.32	31	505.92		505.92
Nov-00	16.32	30	489.60		489.60
Dec-00	16.32	31	505.92		505.92
Jan-01	16.32	31	505.92		505.92
Feb-01	16.32	28	456.96		456.96
Mar-01	16.32	31	505.92		505.92
Apr-01	16.32	30	489.60		489.60
May-01	16.32	31	505.92		505.92
Jun-01	16.32	30	489.60		489.60
Jul-01	16.32	31	505.92		505.92
Aug-01	16.32	31	505.92		505.92
Sep-01	16.32	30	489.60		489.60
Oct-01	16.32	31	505.92		505.92

ATTACHMENT II-A

CROWNQUEST OPERATING, LLC
 STATE LEASE: M-099055
 LEASE NAME: OATMAN
 GREASEWOOD (ATOKA)
 REEVES COUNTY
 RRC GAS WELL: 08-171497

(1)	(2)	(3)	(4)	(5)	(6)
MONTH	LEASE USE (MCF) PER DAY (A)	NUMBER OF DAYS IN EACH MONTH	MONTHLY GAS USAGE (2) X (3)	MONTHLY GAS USAGE REPORTED TO THE GLO	TOTAL MONTHLY GAS USAGE (4) + (5)
Nov-01	16.32	30	489.60		489.60
Dec-01	16.32	31	505.92		505.92
Jan-02	16.32	31	505.92		505.92
Feb-02	16.32	28	456.96		456.96
Mar-02	16.32	31	505.92		505.92
Apr-02	16.32	30	489.60		489.60
May-02	16.32	31	505.92		505.92
Jun-02	16.32	30	489.60		489.60
Jul-02	16.32	31	505.92		505.92
Aug-02	16.32	31	505.92		505.92
Sep-02	16.32	30	489.60		489.60
Oct-02	16.32	31	505.92		505.92
Nov-02	16.32	30	489.60		489.60
Dec-02	16.32	31	505.92		505.92
Jan-03				509	509.00
Feb-03				439	439.00
Mar-03				467	467.00
Apr-03				435	435.00
May-03				449	449.00
Jun-03				454	454.00
Jul-03				482	482.00
Aug-03				463	463.00
Sep-03				447	447.00
Oct-03				408	408.00
Nov-03				463	463.00
Dec-03				437	437.00
Jan-04				464	464.00
Total	946.56		28,837.44	5,917.00	34,754.44

NOTE:

(A) - THE CALCULATED LEASE FUEL USE (MCF) PER DAY FOR WELL 08-171497,
 GAS COMPRESSOR DPC 80A AJAX 80-HP FIRED 24 HOURS USING 16.32 MCF PER DAY.

(8)

File No. M-99055
Billing to CrownQuest
from Energy Resource Inspection
Date Filed: 4/14/04
Jerry E. Patterson, Commissioner
By _____

CROWNQUEST

CROWNQUEST OPERATING, LLC

RECEIVED
04 APR 23 AM 9:24
ENERGY SERVICES

April 21, 2004

Texas General Land Office
P.O. Box 12873
Austin, TX 78711-2873

Attn: Michael W. Dunn, Director
Energy Inspections Div.

RE: State of Texas Lease MF 099055
Oatman State Lease
Sec. 6, Blk. 54, T-5, T&P Ry Co Sur
Reeves County, New Mexico

Dear Mr. Dunn:

Please refer to your letter to CrownQuest Operating dated April 14, 2004, regarding the delinquent royalty payments for lease use gas from the Oatman State Well located on the lands referenced above. As you are probably aware CrownQuest acquired this property from Penwell Energy effective December 1, 2002. As part of that purchase it was agreed between the parties that any revenues due or cost incurred prior to that date would be the responsibility of the Seller, Penwell. According to the attachments to your letter CrownQuest is now current with all royalties due on our behalf. A copy of your letter has been forwarded to Mr. Jim Markgraph with Penwell for compliance.

CrownQuest hereby requests that a "Waiver of Penalty and Royalty" be granted for the period from March 1998 to January 2003, at which time we took over operations of the property from Penwell. If there are specific forms that you require to accomplish this, please forward those to my attention at the letterhead address. If this cannot be granted, please contact me at (432) 685-3116.

If you require anything further from CrownQuest, please advise.

Very truly yours,

CROWNQUEST OPERATING, LLC

Charlotte Mitchell

Charlotte Mitchell

/cm

cc: Mr. Jim Markgraph
Penwell Energy, Inc.
303 W. Wall, Suite 1501
Midland, TX 79702

CROWNQUEST

CROWNQUEST OPERATING, LLC

April 21, 2004

Penwell Energy, Inc.
303 W. Wall, Suite 1501
Midland, Texas 79702

Attn: Jim Markgraph

RE: Oatman State #1 (M-099055)
Greasewood (Atoka) Field
Sec. 6, Blk. 54, T-5, T&P Ry Co. Sur.
Reeves County, Texas

Dear Mr. Markgraph:

Reference is made to the Oatman State Well that EnerQuest Oil & Gas, Ltd. purchased from Penwell Energy effective December 1, 2002. You will find enclosed a copy of a letter we received from the Texas General Land Office dated April 14, 2004, in connection with delinquent royalties payments for lease use gas for the period of March 1998 through January 2004. EnerQuest has settled with the GLO any unpaid amounts due for the period of January 2003 until February 2004. It is our intent to obtain a "Waiver of Penalty and Royalty" from the GLO for the period of March 1998 until January 2003.

In accordance with Paragraph 1.4 of the Purchase and Sale Agreement with Penwell dated January 28, 2003, Penwell would be entitled to all production and revenues and be responsible for all cost, expenses and claims attributable to the subject interests prior to the effective date of the Assignment of December 1, 2002. By copy of this letter we are notifying the GLO of our intent to file for the Waiver and also informing Penwell of the existing delinquent royalties that should be addressed by them before May 10th, 2004 deadline.

If you have any questions, please feel free to contact us at (432) 685-3116.

Sincerely,

ENERQUEST OIL & GAS, LTD.

Charlotte Mitchell

/cm
Encl.

Cc: Texas General Land Office
Attn: Michael W. Dunn, Director
P.O. Box 12873
Austin, TX 78711-2873

9

File No. M-99055
Letter to GAO
Government Operating
Date Filed: 4/24/04
Jerry E. Patterson, Commissioner
By _____

2003

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

April 27, 2004

CERTIFIED MAIL 7002 0860 0007 9387 1840

ATTN: JIM MARKGRAPH
PENWELL ENERGY, INC.
303 W. WALL, SUITE 1501
MIDLAND TEXAS 79701-5166

RE: Notice of non-payment on State Leases **MF 099055**

Dear Mr. Markgraph:

The Energy Inspections Division of the Texas General Land Office completed a limited review of the above referenced lease currently operated by CrownQuest Operating, LLC, but previously operated by Penwell Energy, Inc. Through this review, it was determined that \$13,922.12 is due for production starting March 1998 through December 2002. This amount is comprised of \$8,940.08 in royalty, \$1,512.36 in penalty, and \$3,469.68 in interest, which has been computed through May 31, 2004, in accordance with Section 52.131 of the Texas Natural Resources Code.

CrownQuest was sent a letter dated April 14, 2004 requesting payment of revenue for the aforementioned period. However, CrownQuest responded with a letter dated April 21, 2004, stating that Penwell Energy, Inc. and CrownQuest agreed that any revenues due or cost incurred prior to January 2003 is the responsibility of Penwell.

The following documents are attached in support of our findings:

- o A brief summary of our review (Attachment I);
- o Schedule supporting our royalty, penalty, and interest calculation (Attachment II); and
- o Procedures used for assessment of penalties and interest (Attachment III).

To ensure your company remains in good standing with the General Land Office, please respond to this notice within 25 days of the above date. If your records reflect this royalty has been paid, please provide us with documentation of payments made and remittance dates. Payment of this notice should be

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Penwell Energy, Inc.
April 27, 2004
Page 2

submitted separately from monthly royalty payments you may be remitting. In order to ensure proper credit, your payment should be mailed to my attention along with a copy of this letter.

This notice in no way precludes the General Land Office from pursuing any claim or remedy related to this royalty payment. Additionally, this notice does not constitute an Audit Billing Notice as defined in Section 52.135 of the Natural Resources Code and, consequently, does not preclude the General Land Office from conducting further examinations of this or other leases operated and/or reported by CrownQuest Operating, LLC or Penwell Energy, Inc. or from examining these or other issues and time periods in a future inspection of your books, accounts, reports, or other records.

If you have any questions, please call Landia Robinson, Accounts Examiner, at (512) 475-1490 to discuss payment and production royalty data or Gary Posey, Senior Inspections Manager, at (915) 694-1483 for information pertaining to the inspection of field production operations.

Sincerely,



Michael W. Dunn, Director
Energy Inspections Division
Energy Resources Program

MD/lr

CC: Gary Posey
Senior Manager
Energy Inspections Division
4500 W. Illinois, Ste 114
Midland, Texas 79703-5484
(915) 694-1483
e-mail: gary.posey@glo.state.tx.us

Andrew Hernandez, Inspector

ATTACHMENT I
REVIEW SUMMARY

State Lease: MF-099055

A routine field inspection of lease operations was conducted on Mineral Lease 099055. During this review it was determined that lease use gas was not being reported or paid to the GLO for the months of March 1998 through December 2002 (for RRC well ID# 08-171497).

The lease agreement states in section 7:

NO DEDUCTIONS – Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use...

We have concluded that royalty revenue is due in the following amount:

	<u>Royalty</u>	<u>Penalty</u>	<u>Interest</u>	<u>Total</u>
Attachment II	\$8,940.08	\$1,512.36	\$3,469.68	\$13,922.12

(See attachment II for supporting calculations)

PENWELL ENERGY, INC.
 STATE LEASE: M-099055
 LEASE NAME: OATMAN
 GREASEWOOD (ATOKA)
 REEVES COUNTY
 RRC GAS WELL: 08-171497
 STATE'S ROYALTY DECIMAL: .23 RAL (1/2 =.115)

ATTACHMENT II

AE: LWR
 Filename: M-99055
 Date: 4/26/2004

Penalty Date
 5/31/2004

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Month	GLO Lease Use Calculations (mcf) (A)	Price (B)	BTU	Gross Value (2) X (3) X (4)	Royalty Decimal	Royalty Due (5) X (6)	Royalty Paid	Difference (7) - (8)	Number of Days Late	Penalty (C)	Interest (C)	Additional Royalty Due (9)+(11)+(12)
Mar-98	505.92	\$1.85	1.000	\$933.93	0.115	\$107.40		107.40	2,208	\$25.00	\$75.88	\$208.28
Apr-98	489.60	\$1.91	1.000	\$935.14	0.115	\$107.54		107.54	2,177	\$25.00	\$74.88	\$207.42
May-98	505.92	\$1.90	1.000	\$961.25	0.115	\$110.54		110.54	2,147	\$25.00	\$75.88	\$211.42
Jun-98	489.60	\$1.74	1.000	\$851.90	0.115	\$97.97		97.97	2,116	\$25.00	\$66.25	\$189.22
Jul-98	505.92	\$1.96	1.000	\$991.60	0.115	\$114.03		114.03	2,085	\$25.00	\$75.95	\$214.98
Aug-98	505.92	\$1.69	1.000	\$852.48	0.115	\$98.04		98.04	2,055	\$25.00	\$64.34	\$187.38
Sep-98	489.60	\$1.38	1.000	\$675.65	0.115	\$77.70		77.70	2,024	\$25.00	\$50.20	\$152.90
Oct-98	505.92	\$2.05	1.000	\$1,037.14	0.115	\$119.27		119.27	1,994	\$25.00	\$75.88	\$220.15
Nov-98	489.60	\$1.70	1.000	\$832.32	0.115	\$95.72		95.72	1,963	\$25.00	\$59.92	\$180.64
Dec-98	505.92	\$1.62	1.000	\$819.59	0.115	\$94.25		94.25	1,932	\$25.00	\$58.04	\$177.29
Jan-99	505.92	\$1.52	1.000	\$771.28	0.115	\$88.70		88.70	1,904	\$25.00	\$53.80	\$167.50
Feb-99	456.96	\$1.45	1.000	\$664.24	0.115	\$76.39		76.39	1,873	\$25.00	\$45.56	\$146.95
Mar-99	505.92	\$1.33	1.000	\$671.86	0.115	\$77.26		77.26	1,843	\$25.00	\$45.31	\$147.57
Apr-99	489.60	\$1.36	1.000	\$665.86	0.115	\$76.57		76.57	1,812	\$25.00	\$44.13	\$145.70
May-99	505.92	\$1.36	1.000	\$688.05	0.115	\$79.13		79.13	1,782	\$25.00	\$44.82	\$148.95
Jun-99	489.60	\$1.36	1.000	\$665.86	0.115	\$76.57		76.57	1,751	\$25.00	\$42.59	\$144.16
Jul-99	505.92	\$1.83	1.000	\$925.83	0.115	\$106.47		106.47	1,720	\$25.00	\$58.14	\$189.61
Aug-99	505.92	\$1.83	1.000	\$925.83	0.115	\$106.47		106.47	1,690	\$25.00	\$57.09	\$188.56
Sep-99	489.60	\$1.83	1.000	\$895.97	0.115	\$103.04		103.04	1,659	\$25.00	\$54.20	\$182.24
Oct-99	505.92	\$1.83	1.000	\$925.83	0.115	\$106.47		106.47	1,629	\$25.00	\$54.96	\$186.43
Nov-99	489.60	\$1.83	1.000	\$895.97	0.115	\$103.04		103.04	1,598	\$25.00	\$52.14	\$180.18
Dec-99	505.92	\$1.83	1.000	\$925.83	0.115	\$106.47		106.47	1,567	\$25.00	\$52.79	\$184.26
Jan-00	505.92	\$1.92	1.000	\$971.37	0.115	\$111.71		111.71	1,538	\$25.00	\$54.32	\$191.03
Feb-00	473.28	\$1.92	1.000	\$908.70	0.115	\$104.50		104.50	1,507	\$25.00	\$49.75	\$179.25
Mar-00	505.92	\$1.92	1.000	\$971.37	0.115	\$111.71		111.71	1,477	\$25.00	\$52.08	\$188.79
Apr-00	489.60	\$1.92	1.000	\$940.03	0.115	\$108.10		108.10	1,446	\$25.00	\$49.29	\$182.39
May-00	505.92	\$1.92	1.000	\$971.37	0.115	\$111.71		111.71	1,416	\$25.00	\$49.84	\$186.55
Jun-00	489.60	\$1.92	1.000	\$940.03	0.115	\$108.10		108.10	1,385	\$25.00	\$47.13	\$180.23
Jul-00	505.92	\$3.79	1.000	\$1,917.44	0.115	\$220.51		220.51	1,354	\$25.00	\$93.88	\$339.39
Aug-00	505.92	\$3.68	1.000	\$1,859.37	0.115	\$213.83		213.83	1,324	\$25.00	\$88.93	\$327.76
Sep-00	489.60	\$4.37	1.000	\$2,141.81	0.115	\$246.31		246.31	1,293	\$25.00	\$99.93	\$371.24
Oct-00	505.92	\$5.01	1.000	\$2,533.99	0.115	\$291.41		291.41	1,263	\$29.14	\$115.35	\$435.90
Nov-00	489.60	\$4.39	1.000	\$2,150.42	0.115	\$247.30		247.30	1,232	\$25.00	\$95.37	\$367.67
Dec-00	505.92	\$6.09	1.000	\$3,081.89	0.115	\$354.42		354.42	1,201	\$35.44	\$133.07	\$522.93
Jan-01	505.92	\$9.53	1.000	\$4,823.38	0.115	\$554.69		554.69	1,173	\$55.47	\$203.15	\$813.31
Feb-01	456.96	\$6.30	1.000	\$2,881.09	0.115	\$331.33		331.33	1,142	\$33.13	\$117.97	\$482.43
Mar-01	505.92	\$4.89	1.000	\$2,475.08	0.115	\$284.63		284.63	1,112	\$28.46	\$98.54	\$411.63
Apr-01	489.60	\$5.05	1.000	\$2,473.98	0.115	\$284.51		284.51	1,081	\$28.45	\$95.60	\$408.56
May-01	505.92	\$4.69	1.000	\$2,371.28	0.115	\$272.70		272.70	1,051	\$27.27	\$88.94	\$388.91
Jun-01	489.60	\$3.63	1.000	\$1,778.55	0.115	\$204.53		204.53	1,020	\$25.00	\$64.62	\$294.15
Jul-01	505.92	\$3.06	1.000	\$1,547.36	0.115	\$177.95		177.95	989	\$25.00	\$54.41	\$257.36
Aug-01	505.92	\$2.96	1.000	\$1,496.11	0.115	\$172.05		172.05	959	\$25.00	\$50.91	\$247.96
Sep-01	489.60	\$2.76	1.000	\$1,351.30	0.115	\$155.40		155.40	928	\$25.00	\$44.40	\$224.80
Oct-01	505.92	\$2.76	1.000	\$1,396.34	0.115	\$160.58		160.58	898	\$25.00	\$44.29	\$229.87

PENWELL ENERGY, INC.
 STATE LEASE: M-099055
 LEASE NAME: OATMAN
 GREASEWOOD (ATOKA)
 REEVES COUNTY
 RRC GAS WELL: 08-171497
 STATE'S ROYALTY DECIMAL: .23 RAL (1/2 = .115)

ATTACHMENT II

AE: LWR
 Filename: M-99055
 Date: 4/26/2004

Penalty Date
 5/31/2004

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Month	GLO Lease Use Calculations (mcf) (A)	Price (B)	BTU	Gross Value (2) X (3) X (4)	Royalty Decimal	Royalty Due (5) X (6)	Royalty Paid	Difference (7) - (8)	Number of Days Late	Penalty (C)	Interest (C)	Additional Royalty Due (9)+(11)+(12)
Nov-01	489.60	\$2.76	1.000	\$1,351.30	0.115	\$155.40		155.40	867	\$25.00	\$41.28	\$221.68
Dec-01	505.92	\$2.76	1.000	\$1,396.34	0.115	\$160.58		160.58	836	\$25.00	\$41.02	\$226.60
Jan-02	505.92	\$2.08	1.000	\$1,052.31	0.115	\$121.02		121.02	808	\$25.00	\$29.80	\$175.82
Feb-02	456.96	\$1.70	1.000	\$776.51	0.115	\$89.30		89.30	777	\$25.00	\$21.08	\$135.38
Mar-02	505.92	\$2.03	1.000	\$1,028.28	0.115	\$118.25		118.25	747	\$25.00	\$26.75	\$170.00
Apr-02	489.60	\$2.07	1.000	\$1,013.47	0.115	\$116.55		116.55	716	\$25.00	\$25.17	\$166.72
May-02	505.92	\$2.93	1.000	\$1,481.26	0.115	\$170.34		170.34	686	\$25.00	\$35.11	\$230.45
Jun-02	489.60	\$2.63	1.000	\$1,288.78	0.115	\$148.21		148.21	655	\$25.00	\$29.04	\$202.25
Jul-02	505.92	\$2.90	1.000	\$1,468.95	0.115	\$168.93		168.93	624	\$25.00	\$31.38	\$225.31
Aug-02	505.92	\$2.49	1.000	\$1,261.63	0.115	\$145.09		145.09	594	\$25.00	\$25.52	\$195.61
Sep-02	489.60	\$2.80	1.000	\$1,371.56	0.115	\$157.73		157.73	563	\$25.00	\$26.14	\$208.87
Oct-02	505.92	\$2.50	1.000	\$1,264.80	0.115	\$145.45		145.45	533	\$25.00	\$22.67	\$193.12
Nov-02	489.60	\$2.50	1.000	\$1,224.00	0.115	\$140.76		140.76	502	\$25.00	\$20.50	\$186.26
Dec-02	505.92	\$2.50	1.000	\$1,264.80	0.115	\$145.45		145.45	471	\$25.00	\$19.70	\$190.15
Total	28,837.44			\$77,739.66		\$8,940.08	\$0.00	\$8,940.08	\$77,697.00	\$1,512.36	\$3,469.68	\$13,922.12

NOTE:

(A) - VOLUMES ARE CALCULATED BASED ON EQUIPMENT IN USE AND THE FREQUENCY OF USAGE. SEE ATTACHMENT II-A.

(B) - PRICE - REPRESENTS THE GAS SALES PRICES REPORTED TO THE GLO ON GLO-2 REPORTS FOR THE PERIOD OF:

- MARCH 1998 THROUGH MARCH 1999, EXCEPT FOR JUNE 1998
- AUGUST 2000 THROUGH AUGUST 2001
- FEBRUARY 2002 THROUGH SEPTEMBER 2002

THE PRICES TAKEN FROM THE COUNTY AVERAGE GAS PRICES COMPILED BY THE GAS PRODUCER'S MONTHLY TAX REPORTS PROVIDED BY THE TEXAS COMPTROLLERS OF PUBLIC ACCOUNTS WERE USED FOR THE PERIOD:

- JUNE 1998, APRIL 1999 THROUGH JULY 2000
- SEPTEMBER 2001 THROUGH JANUARY 2002
- OCTOBER 2002 THROUGH DECEMBER 2002

(C) - SEE ATTACHMENT III, "SUMMARY OF PENALTY/INTEREST ASSESSMENT RULES" FOR EXPLANATION OF PENALTY AND INTEREST CALCULATIONS.

ATTACHMENT II-A

PENWELL ENERGY, INC.
 STATE LEASE: M-099055
 LEASE NAME: OATMAN
 GREASEWOOD (ATOKA)
 REEVES COUNTY
 RRC GAS WELL: 08-171497

(1)	(2)	(3)	(4)
MONTH	LEASE USE (MCF) PER DAY (A)	NUMBER OF DAYS IN EACH MONTH	MONTHLY GAS USAGE (2) X (3)
Mar-98	16.32	31	505.92
Apr-98	16.32	30	489.60
May-98	16.32	31	505.92
Jun-98	16.32	30	489.60
Jul-98	16.32	31	505.92
Aug-98	16.32	31	505.92
Sep-98	16.32	30	489.60
Oct-98	16.32	31	505.92
Nov-98	16.32	30	489.60
Dec-98	16.32	31	505.92
Jan-99	16.32	31	505.92
Feb-99	16.32	28	456.96
Mar-99	16.32	31	505.92
Apr-99	16.32	30	489.60
May-99	16.32	31	505.92
Jun-99	16.32	30	489.60
Jul-99	16.32	31	505.92
Aug-99	16.32	31	505.92
Sep-99	16.32	30	489.60
Oct-99	16.32	31	505.92
Nov-99	16.32	30	489.60
Dec-99	16.32	31	505.92
Jan-00	16.32	31	505.92
Feb-00	16.32	29	473.28
Mar-00	16.32	31	505.92
Apr-00	16.32	30	489.60
May-00	16.32	31	505.92
Jun-00	16.32	30	489.60
Jul-00	16.32	31	505.92
Aug-00	16.32	31	505.92
Sep-00	16.32	30	489.60
Oct-00	16.32	31	505.92
Nov-00	16.32	30	489.60
Dec-00	16.32	31	505.92
Jan-01	16.32	31	505.92
Feb-01	16.32	28	456.96
Mar-01	16.32	31	505.92
Apr-01	16.32	30	489.60
May-01	16.32	31	505.92
Jun-01	16.32	30	489.60
Jul-01	16.32	31	505.92
Aug-01	16.32	31	505.92
Sep-01	16.32	30	489.60
Oct-01	16.32	31	505.92

ATTACHMENT II-A

PENWELL ENERGY, INC.
 STATE LEASE: M-099055
 LEASE NAME: OATMAN
 GREASEWOOD (ATOKA)
 REEVES COUNTY
 RRC GAS WELL: 08-171497

(1)	(2)	(3)	(4)
MONTH	LEASE USE (MCF) PER DAY (A)	NUMBER OF DAYS IN EACH MONTH	MONTHLY GAS USAGE (2) X (3)
Nov-01	16.32	30	489.60
Dec-01	16.32	31	505.92
Jan-02	16.32	31	505.92
Feb-02	16.32	28	456.96
Mar-02	16.32	31	505.92
Apr-02	16.32	30	489.60
May-02	16.32	31	505.92
Jun-02	16.32	30	489.60
Jul-02	16.32	31	505.92
Aug-02	16.32	31	505.92
Sep-02	16.32	30	489.60
Oct-02	16.32	31	505.92
Nov-02	16.32	30	489.60
Dec-02	16.32	31	505.92
Total	946.56		28,837.44

NOTE:

(A) - THE CALCULATED LEASE FUEL USE (MCF) PER DAY FOR WELL 08-171497,
 GAS COMPRESSOR DPC 80A AJAX 80-HP FIRED 24 HOURS USING 16.32 MCF PER DAY.

(10)

File No. M-99055
Billing to Penwell Energy
From: GLO Energy Inspections
Date Filed: 4/27/04
Jerry E. Patterson, Commissioner
By _____

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

June 3, 2004

CERTIFIED MAIL 7003 2260 0003 0394 7576

SECOND REQUEST

MR. JIM MARKGRAPH
PENWELL ENERGY, INC.
303 W. WALL, SUIT 1501
MIDLAND, TEXAS 79701-5166

RE: Notice of non-payment on State Leases M-099055

Dear Mr. Markgraph:

Enclosed is a copy of our letter to you dated April 27, 2004, requesting payment of additional revenue due on the captioned leases. As of this date we have not received your payment or a reply.

Be advised that penalty and interest continue to accrue until payment is received. A revised schedule is enclosed showing updated penalty and interest. The amount now due is \$14,004.42, which is comprised of \$8,940.08 in additional royalty, \$1,512.36 in penalty and \$3,551.98 in interest. Penalty and interest have been computed in accordance with Section 52.131 of the Texas Natural Resources Code.

Please be advised that payment is due in this office by June 28, 2004,

If you have any questions, please call Landia Robinson, Accounts Examiner, at (512) 475-1490 to discuss payment and production royalty data or Gary Posey, Senior Inspections Manager, at (915) 694-1483 for information pertaining to the inspection of field production operations.

Sincerely,

Michael W. Dunn, Director
Energy Inspections Division
Energy Resources

MD/lr

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

File No. M-99055 ①
Billing to Penwell Energy, Inc
from Energy Inspections

Date Filed: 6/3/04
Jerry E. Patterson, Commissioner

PENWELL ENERGY, INC.

1100 ARCO BUILDING
600 N. MARIENFELD
MIDLAND, TEXAS 79701



OFF: (915) 683-2534
FAX: (915) 683-4514

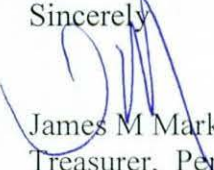
June 28, 2004

Texas General Land Office
P O Box 12873
Austin, Texas 78701-1495
Attn: Wendall Smith

Dear Wendall

We are sending the \$8,940.08 that covers the minimum royalties due for the lease described on the enclosed letter. The described well was sold to Crownquest Inc. during the period covered for the minimum royalty. The sale agreement states that any liabilities are assumed by the purchaser. We were trying to get the buyer to abide by that provision. They are unwilling to do so. We have decided to pay the portion that applies to the time period while owned by Penwell Energy, Inc. We respectfully ask that the penalties and interest of \$5,064.34 be abated due to the fact that we were trying to make Crownquest live up to the sales agreement. Your help in this area would be greatly appreciated.

Sincerely,


James M Markgraf
Treasurer, Penwell Energy, Inc.



\$ REMITTANCE DISTRIBUTION - DO NOT FILE \$

284 for MR + KR

PENWELL ENERGY, INC. ✓

007881

INVOICE NUMBER
062804

DATE DESCRIPTION
06/28/04 PAYING MINIMUM

AMOUNT
8,940.08

DISCOUNT

NET
X 8,940.08

122

04048021

File No. M-99055 (2)
Letter from GLO + Payment
From Repwell

Date Filed: 6/28/04

Jerry E. Patterson, Commissioner

By _____

1/29/99 FTP of 1,200#; 14/64" positive choke, gas sales 568 mcf, 236 BW, 0 BC.

MF
099055

1/30/99 15 hr. flow rate of 442 mcf; 0 BC, 94 BW. El Paso sales line froze off, well SI by Hi-Low valve, SITP 2100#, SICP 2,500#.

1/31/99 SITP 2,650, SICP 2,650#. El Paso sales line still froze up.

8/14/97

2/1/99 SITP 3,100#, SICP 2,900#. El Paso sales line still froze.

2/2/99 SITP 3,050#, SICP 2,650#. El Paso field personnel purged ice block from main sales line and well was returned to production.

2/3/99 SITP 1,350#, SICP 2,700#, 0 BC, 227 BW, 19 hrs production 939 mcf.

2/4/99 FTP 1,200#. SICP 2,300# on a 14/64" positive ck., 0 BC, 294 BW, 716 MCF.

2/5/99 FTP 1,175#, SICP 2,050# on a 14/64" positive choke, 0 BC, 229 BW, 603 MCF.

2/6/99 FTP of 1,150#, CP 2,050#, 14/64" positive choke, 591 mcf, 234 BW, 0 BC.

2/7/99 FTP of 1,125#, CP 2,050#, 14/64" positive choke, 583 mcf, 217 BW, 0 BC.

2/8/99 FTP of 1,125#, CP 2,000#, 14/64" positive choke, 5,580 mcf, 270 BW, 0 BC. Drop from report.

1/10/99 FTP of 1,750#, 14/64" positive choke, gas sales rate of 893 mcf., made 340 BW past 24 hrs.

1/11/99 FTP of 1,650#, 14/64" positive choke, gas sales of 811 mcf., water production 432 bbls.

1/12/99 FTP of 1,500#, 14/64" positive choke, gas sales 823 mcf, 425 BW, 0 BC.

1/13/99 FTP of 1,425#, 14/64" positive choke, gas sales 697 mcf., 255 BW, 0 BC.

1/14/99 FTP of 1,400#, 14/64" positive choke, gas sales 656 mcf, 405 BW, 0 BC.

1/15/99 FTP 1,375# on 14/64" positive ck., gas sales 655 mcf, 459 BW, 0 BC.

1/16/99 FTP of 1,350#; positive choke of 14/64"; mcf rate; 0 BC; 357 BW.

1/17/99 FTP of 1,300#, 14/64" positive choke, gas sales rate of 638 mcf., 372 BW.

1/18/99 FTP of 1,300#, 14/64" positive choke, gas sales of 628 mcf, water production 362 bbls.

1/19/99 FTP of 1,300#; 14/64" positive choke, gas sales 631 mcf, 222 BW, 0 BC.

1/20/99 FTP 1,300#, 14/64" positive choke, gas sales 623 mcf, 410 BW, 0 BC.

1/21/99 FTP of 1,300#; 14/64" positive choke, gas sales 601 mcf, 368 BW, 0 BC.

1/22/99 FTP 1,275#, 14/64" positive choke, gas sales 605 MCF, 298 BW, 0 BC.

1/23/99 FTP of 1,175#; positive choke of 14/64"; 579 mcf rate; 0 BC; 263 BW.

1/24/99 FTP of 1,175#, 14/64" positive choke, gas sales rate of 576 mcf. 278 BW.

1/25/99 FTP of 1,175#, 14/64" positive choke, gas sales of 576 mcf, water production 324 bbls.

1/26/99 FTP of 1,175#; 14/64" positive choke, gas sales 577 mcf, 290 BW, 0 BC.

1/27/99 FTP 1,175" on 14/64" positive choke, gas sales 583 MCF, 172 BW, 0 BC.

1/28/99 FTP of 1,175#; 14/64" positive choke, gas sales 567 mcf, 304 BW, 0 BC.



12/27/98 SITP 4,300#.

12/28/98 SITP, no report. Will pull bombs and have El Paso install larger orifice plate in meter run. Will put well on line today.

12/29/98 SITP 4,800#. RU slickline truck and pulled BHP bombs. Made gradient stops every 3,000' while pulling bombs. Dumped valves and high pressure regulator in production unit were washed out and leaking. Will replace this morning and start well to production.

12/30/98 SITP 4,825#. Changed out dump valves and high pressure regulator in production unit. Started well to production @ 3:00 PM CST. At 6:00 PM, FTP of 1,900# on 12/64" choke, gas rate of 1.838 mmcf/d, left well flowing to El Paso sales line.

12/31/98 TP 800#. Well blew down to El Paso line pressure of 800# and quit delivering gas @ 8:00 PM. Leave well open to see if well might start unloading.

1/1/99 Well did not unload any fluid, shut well in for build-up.

1/2/99 SITP 2,200#.

1/3/99 SITP 3,100#.

1/4/99 SITP 3,750#.

1/5/99 SITP 4,550#. Will RIH w/slickline today and drop off perforating guns and check for fluid level.

1/6/99 SITP 4,850#. RU slickline truck and RIH w/shifting sleeve to drop off perforating guns. Could not get to stinger on gun release, lack 26' getting to release. POOH and PU 1.618" blind box and RIH. Worked down 26' and could tag stinger. POOH and PU shifting sieve. RIH and latched onto stinger and released gun. RIH and found top of perforating gun @ 15,113', three feet below bottom perforation. POOH and RD slickline truck. Will acidize well today.

1/7/99 SITP 4,990#. MIRU Halliburton. Acidized the Atoka formation perms. from 15,103' - 15,110' w/5,000 gals. Of 10% MCA acid + 36 tons of CO2. Min. pp 4,990# @ 5.0 bpm, max. pp 5,750# @ 5.0 bpm, avg. pp 5,520# @ 5.0 bpm. ISIP 2,700#, 5 min. 1,950#, 10 min. 1,715#, 15 min. 1,553#. Total load of acid to recover is 119 bbls. RD Halliburton. RU flowback manifold and started flowing well back on 20/64" ck., 2 hr. SITP was 900#. At 3:00 PM, FTP of 2,740#, @ 9:00 PM FTP of 2,500#. Recovering CO2 and acid wtr. Left well flowing overnight w/flowback personnel.

1/8/99 Continued flowing back well recovering CO2 and acid water. CO2 content was 30% @ 6:00 AM. Recovered 147 bbls. of load water since starting flowback. At 5:00 PM, CO2 content was 2%. FTP of 2,100# on 12/64" choke, @ 9:00 PM FTP of 2,100# on 12/64" choke, gas rate of 1.73 mmcf/g through sales meter. Left well flowing overnight w/flowback personnel. At 6:00 AM this morning, FTP of 1,800# on 16/64" choke, gas rate of 1.273 mmcf/g, made 120 BW past 12 hrs. Continue flowing well.

1/9/99 Well still flowing. Adjustable choke is plugging off periodically. Installed 14/64" positive choke and left well flowing. Well making dirty colored water intermittently. FTP of 1,800#.



- 12/20/98 SICP 600#. Bled well down. PU Halliburton PLS packer and TCP assembly. Started running in the hole picking up 2 7/8" production tbg. Testing tbg. going in the hole to 15,000# below the slips. Make-up torque for tbg. is 3,500 ft./lbs. Ran 234 jts. in hole and SWIFN. DC: \$4,864 ACC: \$53,643
- 12/21/98 SICP 400#. Bled well down. Continue running in the hole w/ production tbg. Ran additional 248 jts. of tbg. Will run tie-in log and space out TCP guns tomorrow. SWIFN. DC: \$5,030 ACC: \$58,673
- 12/22/98 SICP 400#, blew well down & loaded tbg. w/2 bbls. of 10# brine wtr. RU Apollo Wireline Co. and ran correlation log. Figured tbg. spacing & RIH w/2 additional jts. RU and re-ran correlation log. Added 2' pup jt. to tbg. string. Set Halliburton PLS 10K production pkr. w/16,000# of compression. Perf'g. guns on depth to perf the Atoka formation frn 15,093' - 15,095' and 15,104' - 15,110'. NU x-mas tree and tested tree to 10,000#. OK. RD Apollo and tbg. testers. Will perf well this AM. DC: \$19,865, ACC: \$78,538.
- 12/23/98 NU flowback manifold. Dropped sleeve and opened vent valve, no action, packer holding O.K. Dropped perforating bar and perforated the Atoka formation in the following intervals: 15,093' - 15,095' and 15,104' - 15,110' w/2 SPF. When gun fired, well went on instant vacuum. Stayed on vacuum for 45 min. Left well open for 6 hrs and well was static. RIH w/BHP bomb, fluid level approximately 2,500' FS. Hung off bombs and SWI. RD work-over unit. DC: \$27,390 ACC: \$105,928

Tubing: Ran tubing as follows:

Description	Length	Depth
Below Kelly Bushing	25.00	
1 2 7/8", 7.90#, P-110, PH-6 tbg	31.30	56.30
1 - 2 7/8", 7.90#, P-110, PH-6 tbg sub	1.80	58.10
483 2 7/8", 7.90#, P-110, PH-6 tbg	14946.86	15005.57
1 - 2 3/8" 8rd EUE X 2 7/8", PH-6 P-110 X-over	0.61	15005.57
1 - 2 3/8" X 3.6785" Halliburton On-Off Tool w/ 1.875"	1.36	15006.93
1 - 5" Halliburton PLS 10K Production Packer (60K 3hear)	3.98	15010.91
1 2 3/8", 4.70#, N-80, 8rd AB Mod tbg	31.75	15042.66
1 - 2 3/8" Halliburton Profile Nipple w/1.781" "R"	1.31	15043.97
1 - 2 3/8", 4.70#, P-110, 8rd EUE AB Mod. Tbg. sub	8.01	15051.98
1 - Maximum differential vent sub	1.32	15053.30
1 - 2 3/8" mechanical tbg release sub	1.57	15054.87
1 2 3/8", 4.70#, P-110, 8rd, AB Mod tbg.	31.73	15086.60
1 - mechanical firing head	2.77	15089.37
1 - 3.375" safety spacer sub	3.63	15093.00
1 - 3.375" casing gun	17.00	15110.00
1 - gun bull plug	0.85	15110.85

12/24/98 SITP 1,700#.

12/25/98 SITP 2,400#.

12/26/98 SITP 3,400#.

- 12/7/98 SICP 100#, SITP 400#. Blew well down and pumped 100 bbls. of 10# brine water down tbg. Resumed laying down 2 7/8" production tbg. LD production packer and two jts. of tail pipe. Moved production tbg off racks and moved 2 7/8" rental work string onto racks. RU Apollo Wireline Co. and RIH w/3 3/4" magnet on wireline. Found fill @ 15,097'. Made two runs w/magnet and did not recover any pieces of slips or slip body, only recovery was a material that appears to be iron sulfide. RD Apollo. PU Bulldog hydrostatic bailer w/4" blade style bit on bottom w/2 3/4" opening in center. RIH picking up 2 7/8", 6.50#, N-80 rental work sting. Ran 261 joints and SWIFN. DC: \$6,184 ACC: \$25,522
- 12/8/98 SICP 0#, SITP 50#. Blew well down and continued running in hole w/2 7/8" work string. Tagged fill @ 15,122' by tubing measurement. Cleaned out fill from 15,122' to PBTD of 15,239'. TOOH w/Bulldog Bailer. Recovered a material that appears to be iron sulfide and proppant from Wolfcamp frac job. LD bailer and PU 5" Baker-style csg. scraper and TIH w/26 stands of tbg. SWIFN. DC: \$11,025 ACC: \$36,547
- 12/9/98 SICP 0#, SITP 30#. Continue RIH w/tbg. Casing scraper would not go in top of liner. All attempts to get scraper into liner were unsuccessful. TOOH w/tbg. Found on block of scraper would not recess properly to allow scraper to enter liner. Sent scraper in to be redressed. SWIFN. DC: \$2,210 ACC: \$38,757
- 12/10/98 PU re-dressed 5" csg. scraper & TIH to TOL. Entered liner & had to scrape thru first 6 jts. of liner, after that, TIH w/no problems to 15,228'. Start laying down 2 7/8" work string in singles, laid down 360 jts. SWIFN. DC:\$2,480, ACC: \$41,237.
- 12/11/98 SICP 0#, SITP 75#. Blew well down & finished laying down 2 7/8" rental tbg. & csg. scraper. Loaded out rental tbg. & unloaded additional 2 7/8" production tbg. Closed BOP & locked rams. SD due to bad weather & icy roads and SWIFN. DC: \$1,634 ACC: \$42,871.
- 12/12/98 SD due to snow and icy road conditions. DC: \$0, ACC: \$42,871.
- 12/13/98 SD for weekend. DC: \$0, ACC: \$42,871
- 12/14/98 SD for Sunday.
- 12/15/98 SD waiting on pkr. repair parts and high temperature charges for tbg conveyed perf'g. guns. DC: \$410, ACC: \$43,281.
- 12/16/98 Packer repair parts came in; high temperature charges for tbg. conveyed perforating guns will be in tomorrow. DC: \$410 ACC: \$43,691
- 12/17/98 Pkr. repaired & ready to run; high temperature charges for tbg. conveyed perf. guns will be in today. DC: \$410, ACC: \$44,101.
- 12/18/98 Loading high temperature charges in tbg. conveyed perforating gun today. DC: \$410.00 ACC: \$44,511
- 12/19/98 SICP 1,500#. Bled well down, pumped 185 bbls. of 10# brine water down csg., well dead. Will start running TCP assembly and packer in the morning. DC: \$4,268 \$48,779

5/15/98 Flowed 958.4 MCF & 335 BW @W 705# FTP.

\$5,247,553

5/16/98 TP 705; MCF 958.4; BW 335.

5/17/98 TP 705; MCF 934.3; BW 342.

5/18/98 TP 710; MCF 924.3; BW 260.

5/19/98 913.5 MCF; 315 BW @ 715# FTP.

5/20/98 908.3 MCF; 326 BW @ 725# FTP.

5/21/98 3250 TP; SI by El Paso.

5/22/98 SITP 3500 PSIG. Drop from report.



6/27/98 725 FTP; 771.4 MCF; 289 BW.

6/28/98 790 FTP; 752.4 MCF; 318 BW.

6/29/98 750 FTP; 747.0 MCF; 386 BW.

6/30/98 AMMENDED REPORT:

6/27/98: 725 FTP; 771.4 MCF; 289 BW.

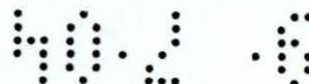
6/28/98: 790 FTP; 752.4 MCF; 318 BW.

6/29/98: 750 FTP; 747.0 MCF; 386 BW.

12/4/98 MIRU DD work-over unit. SITP 3,500#. Open well up and start blowing well down. TP dropped to 400#, water hit @ surface and TP began increasing on 18/64" choke. TP increased to 2,200# and began declining. At 10:00 PM, FTP of 1,800# on 18/64" choke, making large quantity of water. Left well flowing down gas sales line.

12/5/98 Well flowing w/1,100# TP on 18/64" choke making large quantity of water. RU kill truck and pumped 80 bbls. of 10# brine water down tbg. ND wellhead and released on-off tool from packer. Circulated hole w/260 bbls. of 10# brine water w/50% returns. Rental slip-type tbg. elevators would not hold, change out elevators. NU BOP. While picking tbg. string up off slips, rental tbg. elevators slipped and dropped tbg. 2' and the tbg. wrap-around caught tbg. string on top of the elevators, the slip segments broke. Two slip segments and two pieces of slip body fell downhole. SWIFN.
DC: \$12,800 ACC: \$12,800

12/6/98 SICP 0#, SITP 0#. Latch back on to on-off tool and released packer. Slowly worked packer up out of liner w/pieces of junk from slip-type elevators dragging on top of packer. Continue pulling out of hole laying down 2 7/8" production tbg. in singles. LD a total of 379 jts. and SWIFN.
DC: \$ 8,538 ACC: \$ 19,338



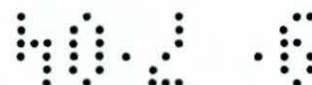
4/26/98	750 FTP; 590 FCP; 1227.7 MCF; 479 BW. Can't SI csc (valve won't close).	\$5,247,553
4/27/98	750 FTP; 590 FCP; 1187.2 MCF; 351 BW.	\$5,247,553
4/28/98	TP 750; CP 590; MCF 1146.8; BW 435.	\$5,247,553
4/29/98	TP 740, CP 800, MCF 1120.2, water 428.	\$5,247,553
4/30/98	740 TP; 950 CP; 1099.1 MCF; 525 Wtr.	\$5,247,553
5/1/98	740 TP, 950 CSG, 1075.5 MCF, 417 BW.	\$5,247,553
5/2/98	810# TP, 1000# CP, 1069.0 MCF, 496 BW.	\$5,247,553
5/3/98	730# TP, 1000# CP, 1063.1 MCF, 381 BW.	\$5,247,553
5/4/98	730# TP, 1100# CP, 1061.4 MCF, 501 BW.	\$5,247,553
5/5/98	730 TP; 1051.8 MCF; 90 Wtr.	\$5,247,553
5/6/98	SI by high line pressure.	\$5,247,553
5/7/98	SI due to WAHA Plant shut down.	\$5,247,553
5/8/98	ST by EPNG. WAHA Plant down.	\$5,247,553
5/9/98	TP 1400; MCF 1289.7; Wtr 296.	\$5,247,553
5/10/98	TP 730; MCF 1074.2; Wtr 492.	\$5,247,553
5/11/98	TP 725; MCF 1010.6; Wtr 444.	\$5,247,553
5/12/98	990.5 MCF; 384 BW on 720# FTP.	\$5,247,553
5/13/98	Flowed 977.7 MCF; 681 BW @ 710# FTP.	\$5,247,553
5/14/98	Flowed 969.4 MCF; 375 BW @ 700# FTP.	\$5,247,553



4/4/98	Flow 1.404 MMCF + 530 BW @ 2100# FTP.	\$5,247,553
4/5/98	Flow 1.452 MMCF + 400 BW @2300# FTP on 16/64" adjustable choke.	\$5,247,553
4/6/98	Flow 1.365 MMCF + 480 BW @ 2300# FTP on 16/64" adjustable choke.	\$5,247,553
4/7/98	Flow 1365 MCF + 480 BW on 16/64" choke @ 2300# FTP.	\$5,247,553
4/8/98	Flow 1534 MCF + 616 BW on 19/64" choke @ 1450# FTP.	\$5,247,553
4/9/98	Flow 1.455 MMCF, 750 BW on 19/64" choke @ 1400# FTP.	\$5,247,553
4/10/98	Flow 148.8 MCF + 520 BW on 19/64" choke @ 1400# FTP.	\$5,247,553
4/11/98	Flow 144.8 MCF + 489 BW on 19/64" choke @ 1350# FTP.	\$5,247,553
4/12/98	Flow 332 MCF + 55 BW. SI for BHP build up. SITP 4000#.	\$5,247,553
4/13/98	SITP 4800#. Top master valve was leaking.	\$5,247,553
4/14/98	SITP 5200 psig.	\$5,247,553
4/15/98	SI for BHP.	\$5,247,553
4/16/98	SI for BHP.	\$5,247,553
4/17/98	Flow 1745 MCF + 675 BW on 25/64" choke @ 1100# FTP.	\$5,247,553
4/21/98	Flowed 1,501 mcf + 494 BW on 25/64" choke @ 900# FTP.	\$5,247,553
4/22/98	Flowed 1,359 MCF + 493 BW on 25/64" choke @ 900# FTP.	\$5,247,553
4/23/98	Flow 1,326 MCF + 470 BW on 50/64" choke @ 750# FTP.	\$5,247,553
4/24/98	Flow 1242 MCF + 379 BW on 50/64" choke @ 750# FTP.	\$5,247,553
4/25/98	750# FTP; 1252.4 MCF; 627 BW; 50/64"; 590# SI CP.	\$5,247,553



3/17/98	FTP 4925#, 7/64" positive choke, gas sales 911.1 MCF, made 166 BW.	\$5,247,553
3/18/98	FTP 4900#, 7/64" positive choke, gas sales 903.7 MCF, made 200 BW.	\$5,247,553
3/19/98	FTP 4825#, 7/64" choke, gas sales 888 MCF, made 200 BW.	\$5,247,553
3/20/98	4825 FTP on 7/64" choke, 860.2 MCF, made 155 BW. Flowing to sales. RU Schlumberger unit to run survey spinner on slickline. 15,150' TD slickline measurement. Run survey. Flowing to sales. SI for 1 1/2 hrs. TP up to 5,250#.	\$5,247,553
3/21/98	4850# FTP on 7/64" choke, 783.6 MCF, made 130 BW.	\$5,247,553
3/22/98	4750# FTP on 7/64" choke, 893.5 MCF, Made 155 BW.	\$5,247,553
3/23/98	4650# FTP on 7/64" choke, 856.7 MCF, made 145 BW.	\$5,247,553
3/24/98	4650# FTP on 7/64" choke, 817.4 MCF, made 145 BW.	\$5,247,553
3/25/98	4650# TP, 816.7 MCF, 175 BW.	\$5,247,553
3/26/98	4625# FTP, 808.0 MCF, made 160 BW.	\$5,247,553
3/27/98	4600# FTP, 803.9 MCF, made 140 BW.	\$5,247,553
3/28/98	Flow 799.4 MCF + 170 BW on 4575# FTP.	\$5,247,553
3/29/98	Flow 810.7 MCF + 160 BW on 4550# FTP.	\$5,247,553
3/30/98	Flow 775.0 MCF + 165 BW on 4450# FTP.	\$5,247,553
3/31/98	Flow 751 MCF + 155 BW @ 4400# FTP.	\$5,247,553
4/1/98	Flow 740 MCF + 123 BW @ 4350# FTP. Plumbed in flow-line from stak-pak to El Paso Field Services 4" gas sales meter run. Turned gas to sales through Oatman lease 4" meter run @ 4:15 PM CST 3/31/98, 8/64" choke, TP 4275#. Gas sales 875 MCF - 1.063 MMCF. Left well producing.	\$5,247,553
4/2/98	Flowed 822 MCF + 185 BW on 8/64" choke @ 3825# FTP.	\$5,247,553
4/3/98	Flowed 917 MCF + 200 BW @ 3650# FTP. Drove to well changed out positive 8/64" choke to 12/64" adjustable choke. Sales line pressure 760#, TP 3600#. Gas sales 1.3 - 1.6 MMCF/GPD. Left well producing.	\$5,247,553



2/28/98	El Paso notified that gas sales could begin on well. Purged 2 7/8" temporary sales line and pressure up to 600#. Found 24 collar leaks. Repaired 20 leaks and shut down due to darkness. Continue flow testing well through test unit. FTP of 5,850# on 7/64" choke, gas volume of 1.530 mmcf. Recovered 144 bbls of water in past 24 hrs. Load to recover is 494 bbls. Daily Cost: \$7,329 Cum. Cost: \$5,238,761
3/1/98	Finished repairing leaks. Pressured line to 1,000# and found 12 more leaks. Repaired leaks. Turned well to first gas sales to El Paso @ 3:30 PM CST 2-28-98. FTP of 5,825# on 7/64" positive choke, gas volume 1.327 mmcf. Recovered 120 BW past 24 hours. Load left to recover is 374 bbls. Daily Cost: \$4,140 Cum. Cost: \$5,242,901
3/2/98	FTP 5,950# on 7/64" choke, gas sales 1.230 mmcf. Recovered 136 bbls. past 24 hrs. Load left to recover is 238 bbls. Daily Cost: \$4,652 Cum. Cost: \$5,247,553
3/3/98	TP 5,750# on 7/64" positive choke, gas rate of 1.228 mmcf. Recovered 128 BW past 24 hrs., load left to recover is 110 bbls. \$5,247,553
3/4/98	TP 5,750# on 7/64" positive choke, gas rate of 1.219 mmcf. Recovered 119 BW past 24 hours. \$5,247,553
3/5/98	TP 5,550# on 7/64" positive choke, gas rate of 1.009 mmcf. Recovered 124 BW past 24 hours. \$5,247,553
3/6/98	TP 5,550# on 7/64" positive choke, gas rate of 1.011 mmcf. Recovered 128 BW past 24 hrs. \$5,247,553
3/7/98	FTP 5550#, 7/64" positive choke, gas rate 1.119 mmcf, 128 BW. \$5,247,553
3/8/98	FTP 5250#, 7/64" choke, gas sales 1.107 mmcf, 168 BW. \$5,247,553
3/9/98	FTP 4800# on 7/64" positive choke, gas sales 1.186 mmcf, 150 BW. \$5,247,553
3/10/98	TP 4800# on 7/64" positive choke, gas rate of 1.309 mmcf. Recovered 240 BW past 24 hours. \$5,247,553
3/11/98	Flow 1.231 mmcf, 240 BW on 7/64" choke @ 5450 PSIG FTP. \$5,247,553
3/12/98	FTP 5,200#, 7/64" positive choke. Gas rate 983 mcf, made 240 BW. Down 3 hrs. repairing washed out choke. \$5,247,553
3/13/98	FTP 5100#, 7/64" positive choke, gas sales 1.013 mmcf, made 225 BW past 24 hours. \$5,247,553
3/14/98	FTP 5,050#, 7/64" positive choke, gas sales 996 MCF, made 209 BW. \$5,247,553
3/15/98	FTP 5000#, 7/64" positive choke, gas sales 953 MCF, made 165 BW. \$5,247,553
3/16/98	FTP 4950#, 7/64" positive choke, gas sales 921 mcf, made 150 BW. \$5,247,553



2/18/98 At 7:00 AM, FTP 650# on 11/64" choke, gas rate 396 mcf. Recovered 12 BW in past 24 hrs. Continue flow testing well. Finished setting frac tanks and started filling w/ water. Halliburton will rig up intensifiers today and prepare to frac well tomorrow.
Daily Cost: \$2,350 Cum. Cost: \$4,843,984

2/19/98 At 7:00 AM, FTP 700# on 11/64" choke, gas rate 450 mcf. Recovered 6 BW in past 24 hrs. Will frac well today.
Daily Cost: \$4,900 Cum. Cost: \$4,848,884

2/20/98 At 7:00 AM, FTP 800# on 11/64" choke, gas rate 450 mcf. Recovered 3 BW in past 24 hrs. Shut well in and RU Halliburton Services. Well shut in 3 hrs. and 45 min. TP built from 800# - 2,810#. Fraced Wolfcamp perms from 13,670' - 13,710' w/ 135,700 gallons of Hybor gel 35 in 2% KCL water containing 107,410# of 20-40 Interprop staged from 1# - 3# per gallon. Max. pp. 12,500# @ 22.3 BPM, Min. pp. 10,157# @ 18.3 BPM, Avg. pp. 11,600# @ 23.6 BPM. Flushed to top perf. ISIP 4,883#, 5 min. 4,625#, 10 min. 4,590#, 15 min. 4,583#. Total load to recover is 3,230 bbls. Left well shut in 4 hrs. RD Halliburton. RU flowback manifold. SITP after 4 hrs. was 4,056#. Started flowback @ 6:00 PM 2/19/98. At 6:00 AM 2/20/98, FTP was 4200# on 8/64" choke. Have recovered 257 bbls of load water in 12 hrs. Have not seen any proppant at surface. Continue w/ flowback operations.
Daily Cost: \$293,000 Cum. Cost: \$5,141,884

2/21/98 Continue flowing back well. At 10:00 AM, well began making gas. Switch through test production unit. Gas rate of 400 - 500 mcf, water volume of 38 - 40 BPH. At 11:00 AM, proppant began plugging choke. Turn out of production unit and back thru flowback manifold. Reduced choke size to 6/64". At noon, FTP was 4,450# on 6/64" choke making gas, water and proppant. At 5:00 PM, no sign of proppant for last 5 hours, switch back through test unit. FTP was 5,150# on 8/64" choke, gas volume of 1.1 mmcf, making 50 - 60 BPH load water. At 6:00 AM 2/21/98, FTP was 5,950# on 8/64" choke, gas rate of 2.3 mmcf, water rate of 20 - 22 BPH. In past 24 hours have recovered 1,211 BLW. Total recovered is 1,468 bbls., load left to recover is 1,762 bbls. Continue flow testing well.
Daily Cost: \$18,154 Cum. Cost: \$5,160,038

2/22/98 At 7:00 AM, FTP 5,850# on 8/64" positive choke, gas rate 2.486 mmcf, water has declined 13 - 14 BPH. Recovered 342 bbls. past 24 hours, load left to recover is 1,420 bbls. No sign of any proppant past 24 hours. Continue flow testing well.
Daily Cost: \$3,180 Cum. Cost: \$5,163,218

2/23/98 At 7:00 AM, FTP 5,950# on 8/64" positive choke, gas rate 2.519 mmcf. Making 13 - 14 BPH water. Recovered 331 bbls. past 24 hours. Load left to recover is 1,089 bbls. Continue flow testing well. Started breaking out 2 7/8" flow - line from Ore Ida #14 to move to Oatman #1. Drove to well to measure for production equipment.
Daily Cost: \$5,539 Cum. Cost: \$5,168,757

2/24/98 Continue flowing back well. MI and set 2 mmbtu 15,000# WP three phase gas production unit and began plumbing in same. Started laying 2 7/8" gas sales line to Kirk #1. Well flowing on 8/64" positive choke w/ 5650# FTP, gas volume 2.508 mmcf. Shut well in for 2 hours to install Hi-low valve on X-mas tree. SITP 6,250#. Opened well back up and resumed flow testing. Choke plugged off w/ proppant. Removed positive choke and installed adjustable choke. Resumed flowing well. At 7:00 AM 2/24/98, FTP was 5,700# on 10/64" adjustable 3/4" choke, gas rate of 2.500 mmcf, making 6 BPH water. Have recovered 144 bbls. of water past 24 hours. Load left to recover is 1,089 bbls.
Daily Cost: \$36,170 Cum. Cost: \$5,204,927

2/25/98 Continue flow testing well. Continue installation of 2 mmbtu 15,000# WP three phase gas production unit and laying 2 7/8" gas sales line to Kirk #1. Installed 7/64" positive choke in test unit. At 7:00 AM 2/25/98, FTP of 6,000#, gas rate of 1.587 mmcf, recovered 148 bbls. of water in past 24 hours. Load left to recover is 941 bbls.
Daily Cost: \$8,635 Cum. Cost: \$5,213,562

2/26/98 Continue flowing testing well. Finished installing production equipment and sales line. El Paso cannot take gas until noon today. Proppant cut out positive choke. Installed new 7/64" positive choke in test unit. Have ordered tungsten carbide chokes. FTP of 5,850#, gas rate of 1.531 mmcf, recovered 181 bbls. of water past 24 hrs. Load left to recover is 760 bbls.
Daily Cost: \$10,935 Cum. Cost: \$5,224,497

2/27/98 Continue flow testing well. FTP of 5,900#, gas rate of 1.530 mmcf, 7/64" positive choke. Recovered 122 bbls. of water past 24 hrs. Load left to recover is 638 bbls. El Paso did not finish w/ plant work and would not take any gas sales. Should be able to commence gas sales today.
Daily Cost: \$6,935 Cum. Cost: \$5,231,432



2/10/98 37 hour SICP 0#, SITP 0#. Finish TIH w/ production tubing to 13,720'. RU Halliburton and pickled tubing. W/1,000 gallons of 15% HCL acid. Reversed out same. Spotted 250 gallons of 10% Acetic acid + additives @ 13,720'. RD Halliburton. Pulled 50 stds. and had to shut down due to extremely high wind.
Daily Cost: \$8,408 Cum. Cost: \$4,643,321

2/11/98 18 hr. SICP 0#, SITP 0#. Finish TOOH w/ production tubing. RU Schlumberger and perforated the Wolfcamp formation in the following interval; 13,670' - 13,710', 40' x 41 holes. Hole showed no action after perforating. RD Schlumberger. PU 5" Halliburton PLS production pkr & RU tbg. testers. Started testing in hole w/ packer and production tubing to 15,000#. Tested 45 stands in the hole. SWIFN.
Daily Cost: \$128,427 Cum. Cost: \$4,771,748

2/12/98 14 hr. SICP 25#, SITP 0#. Resumed testing in hole above slips w/ packer and production tubing to 15,000#. Tested 163 stands in the hole. Like 10 stds. being in hole to packer setting depth. SWIFN.
Daily Cost: \$6,984 Cum. Cost: \$4,778,732

2/13/98 14 hr. SICP 600#, SITP 600#. No gas surface, only fluid. Bled well down and resumed testing in hole above slips w/ packer and production tubing to 15,000#. Set packer @ 13,13,487' w/ 10 pts. of compression. NU Xmas tree and tested same to 10,000#, O.K. RU Halliburton and pumped into Wolfcamp perfs 13,670' - 13,710' w/3% KCL water. FBP 5,218#. Establish injection rate of 4 BPM @ 5,747#. Pumped 8 bbls and shut down. ISIP 4,290#, 15 min. 3,800#. RD Halliburton. Blew well down and started swabbing w/ IFL @ surface. Swabbed well down to 700' FS. SWIFN.
Daily Cost: \$14,878 Cum. Cost: \$4,793,610

Tubing: Ran tubing as follows:

<u>Description</u>	<u>Length</u>	<u>Depth</u>
Below Kelly Bushing	24.00	
1 2 7/8", 7.90#, PH-6, P-110 new API tubing	31.15	55.15
1 2 7/8" double pin sub, 7.90#, PH-6, P-110	0.50	55.65
435 2 7/8", 7.90#, PH-6, P-110 new API tubing	13425.18	13480.83
1 2 7/8" X-Over, PH-6 X 8rd EUE, 7.90#, P-110	0.67	13481.50
1 OSTSD w/ 1.875" "N" profile and 1.791 no-go	1.43	13482.93
1 5" Halliburton PLS Retrievable Production Packer (60K shear)	4.09	13487.02
1 2 7/8" X-Over, 8rd EUE X PH-6, 7.90#, P-110	0.57	13487.59
2 2 7/8", 7.90#, PH-6, P-110 new API tubing	62.00	13549.59

2/14/98 15 hour SITP 3,500#, SICP 870#. Blew well down and swabbed fluid level down to 3,500' FS, recovered 9 bbls of fluid. Had strong gas blow after each run. RU Halliburton Services and acidized Wolfcamp perfs from 13,670' - 13,710' w/ 4,000 gallons of 15% MSA + 750 SCF/bbl nitrogen + additives + 35 RCN 1.3 SG ball sealers. Min. pp 3,048# @ 1.54 BPM, Max. pp 6,970# @ 5.2 BPM, Avg. pp 5,015# @ 4.23 BPM. All BPM rates are fluid only. Had ball action, did not ball out. ISIP 6,156#, 5 min. 5,370#, 10 min. 5,336#, 15 min. 5,305#. Fluid load to recover is 104 bbls. RD Halliburton. Opened well up w/ SITP 5,100# in 45 min. Start flowing back well. Had water rate of 90 BPH for 2 hours during initial flowback. @ 6:00 AM CST 2/14/98, FTP 1900# on 11/64" choke. Making 17 BPH water. Total load of 104 bbls recovered + 91 bbls. Gas volume 497 mcf. Continue flow testing well.
Daily Cost: \$38,154 Cum. Cost: \$4,831,764

2/15/98 At 7:00 AM, FTP 1,100# on 11/64" choke, gas rate 442 mcf/d, water has declined 4 BPH. Continue flow testing well.
Daily Cost: \$3,180 Cum. Cost: \$4,834,944

2/16/98 At 7:00 AM, FTP 900# on 11/64" Choke, gas rate 529 mcf/d. Water has declined to 1.5 BPH. Continue flow testing well.
Daily Cost: \$2,280 Cum. Cost: \$4,837,224

2/17/98 At 7:00 AM, FTP 800# on 11/64" choke, gas rate 449 mcf/d. Made 10 BW in past 24 hrs. Continue flow testing well.
Daily Cost: \$4,410 Cum. Cost: \$4,841,634



1/24/98	Day 177: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Testing liner top;; MW 14.5, Vis 46, pH 9.5, CI 120,000, WL 8.0, Cake 1, PV 19, YP 18, Solids 4.5, Gels 6/10, Bit # 35: 6 1/2 RRWOB 10K; RPM 50; Cum. Hrs. 1 1/2; Cum. Ftg. 427; SPM 75; Pressure 2500; Past 24 hrs. 1 1/2 hrs. drilling, 8 1/2 hrs. tripping, 1 1/2 hrs. circulating, 8 1/4 hrs. WOC, 4 1/2 hrs. testing liner top. REMARKS: Tagged cement @ 11,975'. Drilled out cement to TOL @ 12,402'. TOO H w/ bit. PU Halliburton RTTS packer and TIH to 12,390'. Set pkr. & pressure tested to 1500# w/ 14.4 ppg. mud for 30 min., held O.K. Released pressure, open by - pass & displace mud w/ FW down to packer. Differentially test liner top w/ FW for 3 hours, no flow. Daily Cost: \$20,855 Cum. Cost: \$4,493,030
1/25/98	Day 178: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; LDDC's;; MW 10.0, Vis 29, pH 10.5, CI 168,000, Past 24 hrs. 6 3/4 hrs. tripping, 2 hrs. Circulating, 2 hrs. Finish testing liner top, 1 1/2 hrs. attempt to pull wear bushing, 1/2 hr. polish out PBR sleeve, 11 1/4 hrs. LDDP. Daily Cost: \$23,715 Cum. Cost: \$4,516,745
1/26/98	Day 179: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Idle;; Past 24 hrs. 11 1/2 hrs. ND BOP, cut wear bushing out of wellhead, install tbg. head w/ single 10,000# master valve, 3 hrs. jet & clean pits. REMARKS: Rig released @ 10:00 PM CST, 1/25/98. Remove from report until completion begins. Daily Cost: \$45,505 Cum. Cost: \$4,562,250
1/31/98	Move in and clean up location. Set anchors. Daily Cost: \$3,860 Cum. Cost: \$4,566,110
2/1/98	MIRU completion unit. Daily Cost: \$2,964 Cum. Cost: \$4,569,074
2/2/98	Shut down for Sunday. Daily Cost: \$ Cum. Cost: \$4,569,074
2/3/98	SICP 0#, Install 7-1/16", 10,000# WP double hydraulic BOP w/ blinds in bottom and 2 7/8" pipe rams in the top. PU 4 1/8" mill tooth bit + 6-3 1/2" DC's and RIH picking up 2 7/8", 8rd EUE, N-80 work string. RIH w/ 306 jts. of tubing. SWIFN. Daily Cost: \$13,655 Cum. Cost: \$4,582,729
2/4/98	SICP 0#, SITP 0#. Continue running in hole w/ tbg. TOL by tbg measurement 12,402'. RIH to 13,801' and circulate out 14.5 ppg mud. Had gas pocket on bottoms up. Continue in hole to 14,420', circulate out mud. Continue in hole to 14,831' and circulate out mud. No show of gas. SWIFN. Daily Cost: \$12,940 Cum. Cost: \$4,595,669
2/5/98	SICP 0#, SITP 0#. Continue running in hole w/tbg. Washed and drilled barite stringers from 14,831' to 15,193'. Tagged plug @ 15,193'. Drilled up plug and drilled out cement to FC @ 15,251'. Circulated hole clean and displaced hole w/ 3% KCL water. RD power swivel and started TOO H w/tbg. SWIFN. Will finish TOO H and run C&L today. Daily Cost: \$11,980 Cum. Cost: \$4,607,649
2/6/98	SICP 0#, SITP 0#. Finish TOO H w/ tbg. RU Schlumberger. Attempted to run USI cement bond log, 5 attempts were unsuccessful, could not get tool to function properly. Ran CET in combination w/ VDL bond log. RD Schlumberger and SWIFN. Daily Cost: \$18,144 Cum. Cost: \$4,625,793
2/7/98	SITP 0#, SICP 0#. TIH w/ 9,000' of work tubing, LD same. TIH w/ 6,000' of work tubing, DC's and bit, LD same. Move in and unload 44 joints of 2 7/8", 7.90#, P-110, PH-6, new API production tubing. SWIFN. Daily Cost: \$4,650 Cum. Cost: \$4,630,443
2/8/98	PU and RIH w/ 330 joints of production tubing and elevators broke. SWIFN. Daily Cost: \$4,470 Cum. Cost: \$4,634,913
2/9/98	Shut down for Sunday. Daily Cost: Cum. Cost: \$4,634,913



- 1/17/98 Day 170: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TOOH for second logging run;; MW 14.4, Vis 46, pH 9.0, CI 120000, WL 8, Cake 1, PV 19, YP 18, Solids 5, Gels 6/10, Bit # 34: SPM 80; Pressure 3000; Past 24 hrs. 7 hrs. tripping; 12 hrs. logging; 4 hrs. circ, 1 hr. cut drilling line. REMARKS: Ran resistivity & sonic logs. Loggers TD was 15,300', DP strap was 15,300'. TIH and circulated off gas for 3 hours. At report time, TOOH for additional logging runs.
Daily Cost: \$13,335 Cum. Cost: \$4,248,790
- 1/18/98 Day 171: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH to Circulate;; MW 14.4, Vis 46, pH 9.0, CI 120,000, WL 8.0, Cake 1, PV 19, YP 18, Solids 5, Gels 6/10, SPM 80; Pressure 3000; Past 24 hrs. 8 1/4 hrs. tripping, 15 3/4 hrs. logging. REMARKS: Made 2 different logging runs w/ Density - Neutron tool and had tool failures on both runs. At report time TIH to circulate off gas.
Daily Cost: \$18,255 Cum. Cost: \$4,267,045
- 1/19/98 Day 172: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Circulating;; MW 14.4, Vis 46, pH 9.0, CI 120,000, WL 8, Cake 1, PV 19, YP 18, Solids 5, Gels 6/10, Bit # 35: 6 1/2" RR ;20,20,20;SPM 80; Pressure 3000; Past 24 hrs. 8 hrs. tripping, 11 1/4 hrs. logging, 4 3/4 hrs. circulating. REMARKS: Made several attempts to obtain porosity logs in 6 1/2" hole. All attempts were unsuccessful due to tool failure and line failure. RD Schlumberger truck. TIH and circulate off gas. At report time circulating out gas bubble and waiting on another open-hole logging truck.
Daily Cost: \$13,255 Cum. Cost: \$4,280,300
- 1/20/98 Day 173: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH;; MW 14.5, Vis 46, pH 9.0, CI 120,000, WL 8, Cake 1, PV 19, YP 18, Solids 5, Gels 6/10, Bit # 35: SPM 80; Pressure 3000; Past 24 hrs. 8 3/4 hrs. tripping, 10 1/4 hrs. logging, 3 1/2 hrs. circulating, 1 1/2 hrs. cut drilling line. REMARKS: Brought out another Schlumberger open - hole truck. Ran first porosity tool & tool failed @ 14,984'. PU another tool & logged well from 15,250' back to Int. csg. TIH @ report time.
Daily Cost: \$13,255 Cum. Cost: \$4,293,555
- 1/21/98 Day 174: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/ 5" Liner;; MW 14.5, Vis 46, pH 9.0, CI 120,000, WL 8, Cake 1, PV 19, YP 18, Solids 5, Gels 6/10, Past 24 hrs. 10 hrs. tripping, 6 3/4 hrs. casing, 7 1/4 hrs. circulating. REMARKS: PU 5" liner & TIH. Circulated out gas @ 12,800', continue in hole to 13,800'. At report time circulating off gas @ 13,800'.
Daily Cost: \$43,310 Cum. Cost: \$4,336,865
- 1/22/98 Day 175: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; WOC Liner;; MW 14.5, Vis 46, pH 9.0, CI 120,000, WL 8, Cake 1, PV 19, YP 18, Solids 5, Gels 6/10, SPM 75; Pressure 2500; Past 24 hrs. 8 1/2 hrs. tripping, 1 1/2 hrs. finish running casing, 5 1/2 hrs. circulating, 6 3/4 hrs. WOC, 1 3/4 hrs. cement liner.
Daily Cost: \$122,385 Cum. Cost: \$4,459,250

Casing: Ran 5" Production Liner as follows:

<u>Joints Ran</u>	<u>Joint Description</u>	<u>Footage'</u>
1	5" Gemoco Float Shoe	1.40'
1	5", 18.00#, P-110, FL-45 new API shoe joint	44.73'
1	5" Gemoco Float Collar	.50'
1	5" Gemoco Landing Collar	.51'
64	5", 18#, P-110, FL4S, flush joint new API casing	2,835.23'
1	5" X 7 5/8" TIW Type EJ Liner Hanger	5.35'
1	5" X 7 5/8" TIW PB Tie back sleeve	8.00'
65 joints		
	Total Casing	2,897.62'
	Less Above KB	
	Casing set @	

Hung liner 1' off bottom. Bottom of liner @ 15,299'. TOL 12,402'. Liner was sand blasted. Haliburton cemented w/ 350 sacks of Class "H" containing .5% CFR-3, .6% Halad 344, .3% HR-5, .4% Gas-stop mixed @ 16.4 ppg, mixing water of 4.77 gals./sk., yield 1.23 cu.ft./sk. Plug down to 15,251' @ 3:15 PM CST 1/21/98. Did not bump plug, floats held O.K. Stung out of hanger and TOOH w/ liner setting tools.

- 1/23/98 Day 176: Depth 15,300 ; Ftg. past 24 hrs. 0'; Shale; WOC Liner;; MW 14.5, Vis 46, pH 9, CI 120,000, WL 8, Cake 1, PV 19, YP 18, Solids 5, Gels 6/10, SPM 75; Pressure 2500; Past 24 hrs. 24 hrs. WOC. REMARKS: TIH w/ bit to 10,000'. Circulating & WOC. Will tag up on cement @ noon and drill out cement to TOL.
Daily Cost: \$12,925 Cum. Cost: \$4,472,175

1/8/98 Day 161: Depth 14,890 ; Ftg. past 24 hrs. 37'; Avg. ft/hr 1.9; 100% Shale, BGG 125, TG 250; TOO H for bit;; MW 13.6, Vis 40, pH 9.5, CI 150, WL 9.6, Cake 1/32, PV 15, YP 11, Solids 6, Gels 4/8, Bit # 31: 6 1/2 Hughes EP4347 ;20,20,20;WOB 25K; RPM 110/40; Cum. Hrs. 47; Cum. Ftg. 113; GP 0Z10, 10SPM 84; Pressure 2800; BHA: bit, motor, DC, stabil, DC, 28 DC's. Size DP 3 1/2, No. DC 30, OD, 4 5/8, DC Length 922, DC Wt. 30. 1/2 deg. @ 14,853 ft. Past 24 hrs. 19 1/4 hrs. drilling, 1/4 hr. service rig work BOP, 1 1/2 hrs. Totco 1/4 hr. wash to bottom, 2 3/4 hrs. TOO H. REMARKS: Shale heaving on connections. Having to wash back down on each connection.
Daily Cost: \$17,925 Cum. Cost: \$4,011,961

1/9/98 Day 162: Depth 14,928 ; Ftg. past 24 hrs. 38'; Avg. ft/hr 2.3; 100% Shale, BGG 500, CG 700, TG 1,000; DRLG;; MW 13.6, Vis 44, pH 11, CI 150,000, WL 10, Cake 1/32, PV 16, YP 14, Solids 6, Gels 4/9, Bit # 32: 6 1/2 HTC STR50R ;20,20,20;WOB 25K; RPM 110/40; Cum. Hrs. 16; Cum. Ftg. 38; GD PZ10, 10SPM 82; Pressure 3000; BHA: Bit, motor, DC, S, DC, 28 DC's. Size DP 3 1/2", No. DC 30, OD 4 5/8", DC Length 921, DC Wt. 30. Past 24 hrs. 5 3/4 hrs. trip, 3/4 hr. change motor, 1 1/2 hrs. cut drill line, 16 hrs. drill w/ motor. REMARKS: Centrifuge hooked up & running.
Daily Cost: \$38,211 Cum. Cost: \$4,050,172

1/10/98 Day 163: Depth 15,019 ; Ftg. past 24 hrs. 91'; Avg. ft/hr 4; Shale; DRLG;; MW 13.6, Vis 41, pH 9.5, CI 150,000, WL 12, Cake 1, PV 16, YP 14, Solids 5.0, Gels 4/9, Bit # 32: 6 1/2" WOB 25K; RPM 110/40; Cum. Hrs. 38 1/2; Cum. Ftg. 129; SPM 82; Pressure 3000; Past 24 hrs. 22 1/2 hrs. drilling, 1/4 hr. rig service, 1 1/4 hrs. rig rotary chain. REMARKS: BGG 260 units, conn. Gas 0 units.
Daily Cost: \$24,406 Cum. Cost: \$4,074,578

1/11/98 Day 164: Depth 15,074 ; Ftg. past 24 hrs. 55'; Avg. ft/hr 3.8; Shale & Lime; DRLG;; MW 13.6, Vis 42, pH 10, CI 150,000, WL 8.0, Cake 1, PV 10, YP 14, Solids 5, Gels 4/8, Bit # 33: 6 1/2" ATJ55R ;20,20,20;WOB 25K; RPM 110/40; Cum. Hrs. 6 1/2; Cum. Ftg. 30; SPM 82; Pressure 3000; Past 24 hrs. 14 1/4 hrs. drilling, 9 1/4 hrs. tripping, 1/4 hr. service rig, 1/2 hr. change out mud motor. REMARKS: BGG 500 units, CG 1,750, TG 2,000.
Daily Cost: \$23,215 Cum. Cost: \$4,097,793

1/12/98 Day 469: Depth 15,132 ; Ftg. past 24 hrs. 58'; Avg. ft/hr 2.4; Shale & Lime; DRLG;; MW 14.4, Vis 42, pH 9.0, CI 158,000, WL 10.2, Cake 1, PV 16, YP 13, Solids 4.5, Gels 3/8, Bit # 33: WOB 25K; RPM 110/40; Cum. Hrs. 30; Cum. Ftg. 88; SPM 80; Pressure 3000; Past 24 hrs. 23 1/2 hrs. drilling, 1/4 hr. service rig, 1/4 hr. check for flow. REMARKS: Had drilling break from 15,049' - 15,059' with 13.6 ppg mud, gas units went from 750 - 2,200 - 500 units. Had drilling break from 15,076 - 079, well started flowing w/ 13.6 ppg mud. Increased MW to 14.4 ppg. Had drilling break from 15,116 - 15,120', gas units increased from 1,000 - 1,400 - 1,100 units w/ 14.4 ppg mud. Top Atoka @ 15,049'.
Daily Cost: \$24,234 Cum. Cost: \$4,122,027

1/13/98 Day 166: Depth 15,160 ; Ftg. past 24 hrs. 28'; Avg. ft/hr 1.9; Shale & Lime; TIH w/ bit;; MW 14.3, Vis 42, pH 9.5, CI 160,000, WL 12.0, Cake 1, PV 16, YP 14, Solids 5, Gels 4/8, Bit # 34: 6 1/2" Reed EHP62A ;18,18,18;SPM 80; Pressure 3000; Past 24 hrs. 14 3/4 hrs. drilling, 6 1/2 hrs. tripping, 1/4 hr. service rig, 2 1/2 hrs. dev. REMARKS: BGG 4,000 units, CG 5,500 units. Had drilling break from 15,142' - 145', broke from 30 min./ft. to 10 min./ft. Gas units increased from 1,200 to 4,500 units. On bit trip, ran single shot survey, did not get good data. At report time TIH w/ new bit.
Daily Cost: \$34,502 Cum. Cost: \$4,156,529

1/14/98 Day 167: Depth 15,211 ; Ftg. past 24 hrs. 51'; Avg. ft/hr 2.8; Shale & Lime; DRLG;; MW 14.4, Vis 41, pH 10.0, CI 160,000, WL 11.8, Cake 1, PV 19, YP 12, Solids 6, Gels 4/9, Bit # 34: WOB 25K; RPM 110/40; Cum. Hrs. 17 3/4; Cum. Ftg. 51; SPM 78; Pressure 3,000; 1/2 deg. @ 15,153 ft. Past 24 hrs. 17 3/4 hrs. drilling, 3 1/2 hrs. tripping, 2 hrs. dev., 3/4 hr. circulating. REMARKS: Had to circulate off gas thru chokes after bit trip. At report time BGG 650 units, CG 0 units.
Daily Cost: \$23,685 Cum. Cost: \$4,180,214

1/15/98 Day 0: Depth 15,274 ; Ftg. past 24 hrs. 63'; Avg. ft/hr 2.6; Shale; DRLG;; MW 14.4, Vis 42, pH 9.0, CI 150,000, WL 14, Cake 1, PV 16, YP 13, Solids 5, Gels 4/9, Bit # 34: WOB 25K; RPM 110/40; Cum. Hrs. 41 1/4; Cum. Ftg. 114; SPM 78; Pressure 3,000; Past 24 hrs. 23 1/2 hrs. drilling, 1/2 hr. service rig. REMARKS: BGG 3,000 units, CG 4,000 units.
Daily Cost: \$23,802 Cum. Cost: \$4,204,016

1/16/98 Day 169: Depth 15,300 ; Ftg. past 24 hrs. 26'; Avg. ft/hr 2.2; Shale; TOO H for Logs;; MW 14.4, Vis 46, pH 9.0, CI 120,000, WL 8, Cake 1, PV 19, YP 18, Solids 5, Gels 6/10, Bit # 34: WOB 25K; RPM 110/40; Cum. Hrs. 52 3/4; Cum. Ftg. 140; SPM 78; Pressure 3,000; 1 deg. @ 15,250 ft. Past 24 hrs. 11 1/2 hrs. drilling, 4 3/4 hrs. tripping, 1/2 hr. service rig, 2 hrs. dev., 5 1/4 hrs. circulating. REMARKS: BGG 650 units, CG 0 units. TD 6 1/2" hole @ 5:30 PM CST 1/15/98. At report time, strapping out of hole for logs.
Daily Cost: \$31,439 Cum. Cost: \$4,235,455

12/30/97 Day 152: Depth 14,602 ; Ftg. past 24 hrs. 70'; Avg. ft/hr 4.8; Lime & Sand; Inspecting Drill Collars;; MW 13.1, Vis 41, pH 10, CI 150,000, WL 13, Cake 1, PV 18, YP 18, Solids 4.5, Gels 3/9, Bit # 28: WOB 25K; RPM 108/45; Cum. Hrs. 47 3/4; Cum. Ftg. 219; SPM 84; Pressure 2900; 1 1/2 deg. @ 14,555 ft. Past 24 hrs. 14 1/2 hrs. drilling, 1/2 hr. rig service, 2 1/2 hrs. run survey, 3 3/4 hrs. TOOH, 2 3/4 hrs. trip check DC's.
Daily Cost: \$16,890 Cum. Cost: \$3,813,036

12/31/97 Day 153: Depth 14,641 ; Ftg. past 24 hrs. 39'; Avg. ft/hr 2.6; Dolomite & Shale; DRLG;; MW 13.1, Vis 42, pH 10, CI 160,000, WL 8.4, Cake 1, PV 18, YP 20, Solids 6, Gels 4/8, Bit # 29: 6 1/2 Reed EHP62A ;20,20,20;WOB 25K; RPM 108/45; Cum. Hrs. 14 1/2; Cum. Ftg. 39; SPM 84; Pressure 2900; Past 24 hrs. 3 hrs. finish trip checking DC's, 1 1/2 hr. cut drilling line, 4 hrs. TIH, 1/2 hr. wash & ream 60' to bottom, 1/2 hr. rig service, 14 1/2 hrs. drilling. REMARKS: Laid down 5 bad DC's.
Daily Cost: \$34,030 Cum. Cost: \$3,847,066

1/1/98 Day 154: Depth 14,658 ; Ftg. past 24 hrs. 17'; Avg. ft/hr 2.1; 70% Sand, 30% Dolomite, BGG = 600, TG = 0; DRLG;; MW 13.1, Vis 43, pH 10, CI 150, WL 8.6, Cake 1/32, PV 19, YP 21, Solids 6.5, Gels 4/8, Bit # 29: 6 1/2 REED ;20,20,20;WOB 25K; RPM 50; Cum. Hrs. 26 1/4; Cum. Ftg. 56; GDPZ10, 10SPM 82; Pressure 2500; BHA: Bit, BS, Collar, Stub, Collar, Stabilizer, 28 DC. Size DP 3 1/2, NO. DC 30, OD 4 5/8, DC Length 908, DC Wt. 30K. Past 24 hrs. 7 3/4 hrs. Drilling, 3/4 hr. unplug motor, 1/2 hr. service rig, 9 1/2 hrs. TOOH to laydown; motor strap out of hole, 27' off make correction, 1 1/2 hrs. cut drill line, 4 hrs. drill.
Daily Cost: \$31,182 Cum. Cost: \$3,878,248

1/2/98 Day 155: Depth 14,706 ; Ftg. past 24 hrs. 48'; Avg. ft/hr 2; 60% Shale, 40% Dolomite, BGG = 750, TG = 0; Drilling;; MW 13.1, Vis 43, pH 10, CI 150, WL 8.6, Cake 1/32, PV 19, YP 21, Solids 6.5, Gels 4/8, Bit # 29: 6 1/2 Reed ;20,20,20;WOB 25K; RPM 50; Cum. Hrs. 49 3/4; Cum. Ftg. 104; GD PZ 10, 10SPM 82; Pressure 2500; Past 24 hrs. 23 1/2 hrs. drilling, 1/2 hr. service rig - work BOP.
Daily Cost: \$24,485 Cum. Cost: \$3,902,733

1/3/98 Day 156: Depth 14,728 ; Ftg. past 24 hrs. 22'; Avg. ft/hr 1.8; Shale & Lime; DRLG;; MW 13.1, Vis 41, pH 10.0, CI 150,000, WL 8.0, Cake 1, PV 15, YP 14, Solids 6, Gels 4/8, Bit # 30: 6 1/2 Reed EHP53A ;20,20,20;WOB 28K; RPM 50; Cum. Hrs. 11; Cum. Ftg. 21; SPM 82; Pressure 2500; Past 24 hrs. 9 1/2 hrs. bit trip, 1/2 hr. wash & ream 70' to btm., 1/2 hr. rig service, 1 1/2 hrs. repack swivel, 12 hrs. drilling.
Daily Cost: \$21,988 Cum. Cost: \$3,924,721

1/4/98 Day 157: Depth 14,751 ; Ftg. past 24 hrs. 23'; Avg. ft/hr 1.3; Shale; DRLG;; MW 13.1, Vis 42, pH 10, CI 150,000, WL 8.6, Cake 1, PV 14, YP 16, Solids 6, Gels 4/8, Bit # 30: WOB 28K; RPM 50; Cum. Hrs. 28 1/2; Cum. Ftg. 44; SPM 82; Pressure 2500; Past 24 hrs. 17 1/2 hrs. drilling, 1/2 hr. rig service, 6 hrs. repair swivel.
Daily Cost: \$13,445 Cum. Cost: \$3,938,166

1/5/98 Day 158: Depth 14,777 ; Ftg. past 24 hrs. 26'; Avg. ft/hr 1.2; Shale; TOOH for bit change;; MW 13.1, Vis 40, pH 10, CI 150,000, WL 8.5, Cake 1, PV 14, YP 10, Solids 6, Gels 4/8, Bit # 30: WOB 28K; RPM 50; Cum. Hrs. 50; Cum. Ftg. 70; SPM 82; Pressure 2500; Past 24 hrs. 21 1/2 hrs. drilling, 1/4 hr. rig service, 2 1/4 hrs. TOOH for bit.
Daily Cost: \$13,285 Cum. Cost: \$3,951,451

1/6/98 Day 159: Depth 14,788 ; Ftg. past 24 hrs. 11'; Avg. ft/hr 2.7; Shale; DRLG;; MW 13.1, Vis 41, pH 10.5, CI 150,000, WL 8.2, Cake 1, PV 15, YP 12, Solids 7, Gels 4/9, Bit # 31: 6 1/2" HTC ET4347 ;20,20,20;WOB 25K; RPM 110/40; Cum. Hrs. 4; Cum. Ftg. 11; SPM 84; Pressure 2800; BHA: bit, slow speed mud motor, monel DC, IBS, DC, IBS, 28 DC's. Size DP 3 1/2, No. DC 30, OD 4 5/8", DC Length 922, DC Wt. 30,000#. Past 24 hrs. 19 3/4 hrs. tripping, 4 hrs. drilling, 1/4 hr. rig service. REMARKS: PU Halliburton slow speed mud motor & TIH. Motor worked for 30 min. and quit. TOOH & LD motor. PU Black Max slow speed mud motor and TIH. At report time Black Max motor working fine.
Daily Cost: \$21,505 Cum. Cost: \$3,972,956

1/7/98 Day 160: Depth 14,853 ; Ftg. past 24 hrs. 65'; Avg. ft/hr 2.7; Shale; DRLG;; MW 13.1, Vis 41, pH 10.5, CI 150,000, WL 9.2, Cake 1, PV 15, YP 11, Solids 6, Gels 4/8, Bit # 31: WOB 25K; RPM 110/40; Cum. Hrs. 27 3/4; Cum. Ftg. 76; SPM 84; Pressure 2800; Past 24 hrs. 23 3/4 hrs. drilling, 1/4 hr. rig service.
Daily Cost: \$21,080 Cum. Cost: \$3,994,036

12/19/97	Day : Depth 14,224 ; Ftg. past 24 hrs. 56'; Avg. ft/hr 2.3; Shale & Sand; DRLG;; MW 13.3, Vis 40, pH 11.0, CI 150,000, WL 8.5, Cake 1, PV 21, YP 19, Solids 5, Gels 4/10, Bit # 25: WOB 25K; RPM 50; Cum. Hrs. 35 1/4; Cum. Ftg. 71; SPM 83; Pressure 2500; Past 24 hrs. 23 3/4 hrs. drilling, 1/4 hr. service rig. Daily Cost: \$16,360	Cum. Cost: \$3,632,966
12/20/97	Day 142: Depth 14,260 ; Ftg. past 24 hrs. 36'; Avg. ft/hr 1.7; Lime & Shale; DRLG;; MW 13.3, Vis 41, pH 10.0, CI 150,000, WL 8.2, Cake 1, PV 19, YP 12, Solids 5, Gels 4/10, Bit # 25: WOB 25K; RPM 50; Cum. Hrs. 55 3/4; Cum. Ftg. 107; SPM 83; Pressure 2500; Past 24 hrs. 20 1/2 hrs. drilling, 1/4 hr. service rig, 2 hrs. repair rotary chain, 1 1/4 hrs. clean screens on mud pumps. Daily Cost: \$32,759	Cum. Cost: \$3,665,725
12/21/97	Day 143: Depth 14,273 ; Ftg. past 24 hrs. 13'; Avg. ft/hr 1.4; Lime, Sand, & Shale; DRLG;; MW 13.0, Vis 40, pH 10.0, CI 150,000, WL 8.6, Cake 1, PV 19, YP 12, Solids 6, Gels 4/10, Bit # 26: 6 1/2" Reed EHP53A ; 20,20,20; WOB 28K; RPM 50; Cum. Hrs. 9 3/4; Cum. Ftg. 12; SPM 83; Pressure 2500; Past 24 hrs. 2 1/2 hrs. run survey, 9 1/2 hrs. bit trip, 11 1/4 hrs. drilling, 1/2 hr. circulating, 1/4 hr. wash & ream 50' to bottom, no fill. Daily Cost: \$18,060	Cum. Cost: \$3,683,785
12/22/97	Day 144: Depth 14,293 ; Ftg. past 24 hrs. 20'; Avg. ft/hr 1; Shale; DRLG;; MW 13.1, Vis 40, pH 10.0, CI 150,000, WL 9.8, Cake 1, PV 16, YP 18, Solids 4, Gels 3/9, Bit # 26: WOB 28K; RPM 50; Cum. Hrs. 29 1/2; Cum. Ftg. 32; SPM 80; Pressure 2300; Past 24 hrs. 19 3/4 hrs. drilling, 1/2 hr. rig service, 3 3/4 hrs. jet & clean shale pit. Daily Cost: \$13,060	Cum. Cost: \$3,696,845
12/23/97	Day 145: Depth 14,318 ; Ftg. past 24 hrs. 25'; Avg. ft/hr 1.5; Shale; DRLG;; MW 13.0, Vis 41, pH 10.0, CI 150,000, WL 16.2, Cake 1, PV 19, YP 18, Solids 5, Gels 4/10, Bit # 26: WOB 28K; RPM 50; Cum. Hrs. 45 3/4; Cum. Ftg. 57; SPM 80; Pressure 2300; Past 24 hrs. 16 1/4 hrs. drilling, 1/2 hr. service rig, 3/4 hr. pump repair, 6 1/2 hrs. jet & clean middle pit & suction pit. Daily Cost: \$13,610	Cum. Cost: \$3,710,455
12/24/97	Day 146: Depth 14,364 ; Ftg. past 24 hrs. 46'; Avg. ft/hr 2.1; Shale & Lime; Shutting down for Christmas;; MW 13.0, Vis 41, pH 10.0, CI 150,000, WL 16, Cake 1, PV 19, YP 18, Solids 5, Gels 4/9, Bit # 26: WOB 28K; RPM 50; Cum. Hrs. 66 3/4; Cum. Ftg. 103; SPM 80; Pressure 2300; Past 24 hrs. 21 hrs. drilling, 1 hr. trip into 7 5/8" csg., shut down for Christmas. Daily Cost: \$18,360	Cum. Cost: \$3,728,815
12/25/97	Day 147: Depth 14,364 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale & Lime; Shut down for Christmas;; 24 hrs. shut down for Christmas. Daily Cost: \$	Cum. Cost: \$3,728,815
12/26/97	Day 148: Depth 14,364 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale & Lime; Shut down for Christmas;; 24 hrs. shut down for Christmas. Daily Cost: \$	Cum. Cost: \$3,728,815
12/27/97	Day 149: Depth 14,380 ; Ftg. past 24 hrs. 16'; Avg. ft/hr 1.7; Shale & Lime; Drilling w/ slow speed motor;; MW 13.0, Vis 43, pH 10.0, CI 150,000, WL 12.4, Cake 1, PV 20, YP 19, Solids 4.5, Gels 4/10, Bit # 27: 6 1/2 Hycalog DS111, WOB 5-14K; RPM 108/45; Cum. Hrs. 9; Cum. Ftg. 16; SPM 82; Pressure 2800; BHA: bit, slow speed motor, x-over, monel DC, IBS, DC, IBS, 28 DC's. No. DC 30, OD 4 5/8", DC Length 926', DC Wt. 32,000#. Past 24 hrs. 1 hr. start up rig, 2 1/2 hrs. circulate bottoms up, 9 1/2 hrs. trip for slow speed motor, 2 hrs. cut drilling line, 9 hrs. drilling. REMARKS: After Christmas holidays, SICP 450#, SIDPP 350#. Circulated off gas & TOO. PU slow speed mud motor & Hycalog bit in an attempt to speed up drilling. Daily Cost: \$25,985	Cum. Cost: \$3,754,800
12/28/97	Day 150: Depth 14,421 ; Ftg. past 24 hrs. 41'; Avg. ft/hr 2.9; Shale; DRLG;; MW 13.0, Vis 41, pH 10.0, CI 150,000, WL 19.6, Cake 1, PV 18, YP 18, Solids 4.5, Gels 3/9, Bit # 28: 6 1/2" Reed HP62A ; 20,20,20; WOB 25K; Cum. Hrs. 9 1/4; Cum. Ftg. 38; SPM 84; Pressure 2900; Past 24 hrs. 13 3/4 hrs. drilling, 8 1/4 hrs. bit trip, 1 1/2 hrs. rig repair, 1/2 hr. service rig. Daily Cost: \$21,931	Cum. Cost: \$3,776,731
12/29/97	Day 151: Depth 14,532 ; Ftg. past 24 hrs. 111'; Avg. ft/hr 4.6; Shale & Sand; DRLG;; MW 13.1, Vis 41, pH 10.0, CI 150,000, WL 16, Cake 1, PV 18, YP 18, Solids 4.5, Gels 3/9, Bit # 28: WOB 25K; RPM 108/45; Cum. Hrs. 33 1/4; Cum. Ftg. 149; SPM 84; Pressure 2900; Past 24 hrs. 24 hrs. drilling. Daily Cost: \$19,415	Cum. Cost: \$3,796,146

12/10/97 Day 132: Depth 13,411 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Sand; TIH w/ magnet;; MW 13.5, Vis 40, pH 12, CI 145,000, WL 14.4, Cake 1, PV 18, YP 12, Solids 2, Gels 9/12, SPM 80; Pressure 2000; 2 1/4 deg. @ 13,381 ft. Past 24 hrs. 1 1/2 hrs. run survey, 18 3/4 hrs. tripping, 1 hr. change out tongs, 2 1/4 hrs. wait on magnet, 1/2 hr. fishing for cone. REMARKS: Ran single shot directional survey. Started to resume drilling and bit would not drill. TOOH and found one cone off bit. TIH w/ magnet, fished for cone & TOOH. Recovered 1/2 of bit cone. At report time, TIH w/ magnet to recover other half of cone.
Daily Cost: \$17,315 Cum. Cost: \$3,455,931

12/11/97 Day 133: Depth 13,471 ; Ftg. past 24 hrs. 60'; Avg. ft/hr 6.4; Sand & Shale; DRLG;; MW 13.6, Vis 40, pH 12, CI 145,000, WL 8, Cake 1, PV 20, YP 15, Solids 4, Gels 4/10, Bit # 22: 6 1/2" HTC STR 30,WOB 30K; RPM 40/108; Cum. Hrs. 10 1/2; Cum. Ftg. 60; SPM 80; Pressure 3100; Past 24 hrs. 12 1/4 hrs. tripping, 1/2 hr. fish for cone, 3/4 hr. repair mud pump, 10 1/2 hrs. drilling. REMARKS: TIH w/magnet, fish cone & TOOH. Recovered 2 pieces of cone. PU new bit & mud motor & TIH. Resume drilling.
Daily Cost: \$27,010 Cum. Cost: \$3,482,941

12/12/97 Day 134: Depth 13,497 ; Ftg. past 24 hrs. 26'; Avg. ft/hr 4.1; Sand & Shale; DRLG;; MW 13.6, Vis 41, pH 10.5, CI 145,000, WL 8.2, Cake 20, PV 14, YP 12, Solids 3, Gels 4/9, Bit # 23: 6 1/2 HTC STR44C ;20,20,20;WOB 26K; RPM 108/40; Cum. Hrs. 2 1/4; Cum. Ftg. 7; SPM 80; Pressure 3100; Past 24 hrs. 6 1/4 hrs. drilling, 1/2 hr. attempt to unplug motor, 2 hrs. repair high clutch air line, 1 1/2 hrs. cut drilling line, 1 hr. change out slow speed mud motor, 12 hrs. tripping, 3/4 hr. jet & clean shale pit.
Daily Cost: \$19,910 Cum. Cost: \$3,502,851

12/13/97 Day 135: Depth 13,738 ; Ftg. past 24 hrs. 241'; Avg. ft/hr 10.9; Sand; DRLG;; MW 13.5, Vis 40, pH 12.5, CI 145,000, WL 14, Cake 1, PV 14, YP 12, Solids 3, Gels 4/9, Bit # 23: WOB 25K; RPM 180/40; Cum. Hrs. 24 1/4; Cum. Ftg. 248; SPM 80; Pressure 3000; Past 24 hrs. 1 3/4 hrs. change out swivel packing, 22 hrs. drilling, 1/4 hr. clean screens on mud pump.
Daily Cost: \$23,460 Cum. Cost: \$3,526,311

12/14/97 Day 136: Depth 13,777 ; Ftg. past 24 hrs. 39'; Avg. ft/hr 4.5; Sand; DRLG;; MW 13.6, Vis 41, pH 12, CI 145,000, WL 15, Cake 1, PV 20, YP 14, Solids 3, Gels 4/9, Bit # 24: 6 1/2" HTC ATJ22C ;18,18,18;WOB 24K; RPM 50; Cum. Hrs. 6 1/4; Cum. Ftg. 11; SPM 83; Pressure 2500; BHA: bit, junk basket, bit sub, monel DC, IBS, 1 DC, IBS, 28 DC's, No. DC 30, OD 4 5/8", DC Length 910, DC Wt. 30,000#; 2 3/4 deg. @ 13,711ft. Past 24 hrs. 2 1/4 hrs. drilling w/ mud motor, 2 hrs. run directional survey, 9 3/4 hrs. tripping, 1 1/2 hrs. LD mud motor, 1 3/4 hrs. repair on drawworks, 6 1/4 hrs. drilling, 1/2 hr. wash & ream 30' to bottom.
Daily Cost: \$23,915 Cum. Cost: \$3,550,226

12/15/97 Day 137: Depth 13,856 ; Ftg. past 24 hrs. 79'; Avg. ft/hr 3.3; Shale & Lime; DRLG;; MW 13.8, Vis 41, pH 11.5, CI 145,000, WL 18, Cake 1, PV 20, YP 14, Solids 3, Gels 4/9, Bit # 24: WOB 25K; RPM 50; Cum. Hrs. 30; Cum. Ftg. 90; SPM 83; Pressure 2500; Past 24 hrs. 23 3/4 hrs. drilling, 1/4 hr. service rig.
Daily Cost: \$13,060 Cum. Cost: \$3,563,286

12/16/97 Day 138: Depth 13,980 ; Ftg. past 24 hrs. 124'; Avg. ft/hr 5.2; Shale & Lime; DRLG;; MW 13.7, Vis 41, pH 11, CI 150,000, WL 22, Cake 2, PV 20, YP 10, Solids 4, Gels 4/10, Bit # 24: WOB 25K; RPM 50; Cum. Hrs. 53 3/4; Cum. Ftg. 214; SPM 83; Pressure 2500; Past 24 hrs. 23 3/4 hrs. drilling, 1/4 hr. service rig & work BOP.
Daily Cost: \$17,530 Cum. Cost: \$3,580,816

12/17/97 Day 139: Depth 14,153 ; Ftg. past 24 hrs. 173'; Avg. ft/hr 7.6; Sand & Lime; Running survey;; MW 13.7, Vis 42, pH 11, CI 150,000, WL 18, Cake 2, PV 22, YP 18, Solids 5, Gels 4/10, Bit # 24: WOB 25K; RPM 50; Cum. Hrs. 76 1/2; Cum. Ftg. 387; SPM 83; Pressure 2500; Past 24 hrs. 22 3/4 hrs. drilling, 1/4 hr. service rig and work BOP, 1 hr. running survey.
Daily Cost: \$13,365 Cum. Cost: \$3,594,181

12/18/97 Day : Depth 14,168 ; Ftg. past 24 hrs. 15'; Avg. ft/hr 1.7; Shale & Lime; DRLG;; MW 13.7, Vis 42, pH 11, CI 150,000, WL 14, Cake 2, PV 21, YP 19, Solids 5, Gels 4/12, Bit # 25: 6 1/2" HTC STR-20 ;18,18,18;WOB 25K; RPM 50; Cum. Hrs. 11 1/2; Cum. Ftg. 15; SPM 83; Pressure 2500; 2 1/2 deg. @ 14,125 ft. Past 24 hrs. 2 hrs. run directional survey, 8 3/4 hrs. bit trip, 1 1/4 repair on high clutch airline, 1/2 hr. wash to bottom, 11 1/2 hrs. drilling.
Daily Cost: \$22,425 Cum. Cost: \$3,616,606



12/2/97 Day 124: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; WOC;; MW 13.8, Vis 39, pH 10.5, CI 150,000, WL 7.6, Cake 2, PV 30, YP 14, Solids 7, Gels 2/6, SPM 60; Pressure 1500; Past 24 hrs. 1 hr. circulating, 4 hrs. TOOH, 4 1/4 hrs. TIH, 1 1/2 hrs. circulate, 2 3/4 hrs. run gyro survey, 5 1/4 hrs. wait on Halliburton, 1/2 hr. spot 50 sk. Plug, 4 3/4 hrs. WOC. REMARKS: TOOH w/bit. TIH open-ended w/DP. Ran gyro survey through DP. Spotted 50 sacks of class "H" cement containing 5#/sk. SSA-2 + .3% HR-5 mixed @ 16.0 ppg @ 13,258'. Pull up into 7 5/8" csg. Will WOC 8 hrs. & tag plug.
Daily Cost: \$33,554 Cum. Cost: \$3,248,132

12/3/97 Day 125: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; WOC;; MW 13.8, Vis 49, pH 10.5, CI 150000, WL 7.6, Cake 2, PV 30, YP 14, Solids 7, Gels 2/6, SPM 60; Pressure 1500; Past 24 hrs. 3 1/4 hrs. WOC, 1/2 hr. attempt to tag plug, 1 hr. circulate & wait on Halliburton, 1 1/4 hr. spot plug #3, 8 hrs. WOC, 1/4 hr. attempt to tag plug, 1/2 hr. spot plug #4, 8 hrs. WOC, 1 1/4 hrs. tag plug #4. REMARKS: Did not tag plug #2. Spotted 50 sks. Of class H @ 13,258' & WOC 8 hrs. Did not tag plug #3. Spotted 150 sks. of class "H" & WOC 8 hrs. Tagged plug #4 @ 12,920'. At report time WOC & TOOH w/DP. Will PU bit & TIH to dress off plug.
Daily Cost: \$12,460 Cum. Cost: \$3,260,592

12/4/97 Day 126: Depth 12,983 ; Ftg. past 24 hrs. 0'; Shale & Lime; TIH w/ motor & bent sub;; MW 14.1, Vis 48, pH 12, CI 130,000, WL 12, Cake 1, PV 30, YP 15, Solids 6, Gels 10/18, Bit # 19: 6 1/2" DiamondSPM 70; Pressure 2200; BHA: diamond bit, high speed mud motor, 2 deg. bent sub, monel DC, 22 DC's. Size DP 3 1/2", OD 4 5/8", DC Length 729', DC Wt. 24,000 Past 24 hrs. 8 3/4 hrs. TOOH & TIH w/ bit, 1 hr. dress off cement plug, 1 3/4 hrs. circulate bottoms up, 5 1/2 hrs. TOOH, 1 1/2 hr. PU BHA, 2 hrs. run DC's & LD DC's, 1 hr. run steering tool through DC's, 2 1/2 hrs. TIH. REMARKS: TIH w/bit & tagged cement plug #4 @ 12,920'. Dressed off cement plug to 12,983. At report time, TIH w/mud motor & diamond bit w/ 2 deg. Bent sub to kick off new hole. Will start new hole off in a compass heading of 315 deg. which will be NW of surface location.
Daily Cost: \$51,725 Cum. Cost: \$3,312,317
KOP 12810' per W-12 (Inclination report)

12/5/97 Day 127: Depth 13,003 ; Ftg. past 24 hrs. 20'; Avg. ft/hr 1; Shale & Cement; Time Drilling;; MW 14.1, Vis 49, pH 12, CI 130,000, WL 12.4, Cake 1, PV 29, YP 16, Solids 7, Gels 10/18, Bit # 19: WOB 1-2K; RPM 350; Cum. Hrs. 19 3/4; Cum. Ftg. 20; SPM 74; Pressure 3300; Past 24 hrs. 1 1/2 hrs. finish TIH, 1 hr. make-up kelly hose on steering tool, 1 3/4 hrs. RU steering tool, 19 3/4 hrs. time drilling. REMARKS: Finish TIH w/mud motor. Set tool face & orient tool w/a heading of N 30 degrees W. Start time drilling to sidetrack hole. At report time, drilling 60% shale & 40% cement.
Daily Cost: \$26,774 Cum. Cost: \$3,339,091

12/6/97 Day 128: Depth 13,024 ; Ftg. past 24 hrs. 21'; 50% Shale, 20% Sand, 30% Cement; TIH;; MW 14.0, Vis 43, pH 11, CI 130,000, WL 18, Cake 1, PV 25, YP 12, Solids 6, Gels 9/14, Bit # 19: WOB 4-5K; RPM 350; Cum. Hrs. 33; Cum. Ftg. 41; SPM 74; Pressure 3300; BHA: bit, slow speed mud motor, monel DC, 3 pt. reamer, DC, 3 pt. reamer, 29 DC's; No. of DC's 30, OD 4 5/8", DC Length 987.32', DC Wt. 32,000# Past 24 hrs. 13 1/4 hrs. drilling, 1 hr. pump repair, 1 1/2 hrs. rig down steering tool, 5 3/4 hrs. TOOH, 1 hr. LD bent sub & high speed mud motor, 1 1/2 hrs. TIH.
Daily Cost: \$29,165 Cum. Cost: \$3,368,256

12/7/97 Day 129: Depth 13,114 ; Ftg. past 24 hrs. 90'; Avg. ft/hr 7.5; 60% Sand, 20% Shale, 20% Lime; TOOH;; MW 13.9, Vis 42, pH 11.5, CI 135,000, WL 18.6, Cake 1, PV 25, YP 13, Solids 6, Gels 9/14, Bit # 20: 6 1/2" Reed HP51H ; 18,18,18 ; WOB 30K; RPM 40/108; Cum. Hrs. 12; Cum. Ftg. 90; SPM 82; Pressure 3350; 3/4 deg. @ 12,994 ft., 2 1/2 deg. @ 13,057 ft. Past 24 hrs. 9 3/4 hrs. tripping, 12 hrs. drilling, 1 1/2 hrs. surveys, 1/4 hr. wash to bottom, 1/2 hr. attempt to unplug motor.
Daily Cost: \$22,620 Cum. Cost: \$3,390,876

12/8/97 Day 130: Depth 13,180 ; Ftg. past 24 hrs. 66'; Avg. ft/hr 5.7; Sand & Shale; DRLG;; MW 13.9, Vis 42, pH 11, CI 140,000, WL 17.4, Cake 1, PV 24, YP 12, Solids 6, Gels 9/14, Bit # 21: 6 1/2 Reed HP53H ; 20,20,20; WOB 35K; RPM 108/40; Cum. Hrs. 11 1/2; Cum. Ftg. 66; SPM 80; Pressure 3100; Past 24 hrs. 3 1/2 hrs. finish TOOH w/ plugged motor, 1 1/4 hrs. jet & clean suction pit, 1 1/2 hrs. rig repair, 1 3/4 hrs. cut drilling line, 4 1/2 hrs. TIH w/ new motor, 11 1/2 hrs. drilling
Daily Cost: \$26,800 Cum. Cost: \$3,417,676

12/9/97 Day 131: Depth 13,411 ; Ftg. past 24 hrs. 231'; Avg. ft/hr 9.6; Sand; Running Survey;; MW 13.6, Vis 42, pH 11.5, CI 140,000, WL 18.6, Cake 2, PV 21, YP 18, Solids 9.0, Gels 10/16, Bit # 21: WOB 35K; RPM 108; Cum. Hrs. 35 1/2; Cum. Ftg. 297; SPM 80; Pressure 3100; Past 24 hrs. 23 3/4 hrs. drilling, 1/4 hr. running survey.
Daily Cost: \$20,940 Cum. Cost: \$3,438,616

11/25/97 Day 117: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Waiting on WO Shoe;; MW 14.3, Vis 43, pH 9.0, CI 152000, WL 9.0, Cake 1, PV 22, YP 14, Solids 7, Gels 4/10, SPM 90; Pressure 2600; Past 24 hrs. 1 1/2 hrs. TIH w/mill, 1 1/2 hrs. TOOH w/ mill, 4 1/2 hrs. TIH w/bit, 2 hrs. circulate off gas, 3 1/2 hrs. TOOH, 1/2 hr. PU impression block, 4 hrs. TIH, 2 hrs. circ. off gas, 4 1/2 hrs. make impression & TOOH. REMARKS: TIH w/bit, tagged liner top @ 13,340'. Appears liner has moved downhole 20'. Previous top was 13,320'. TOOH w/bit. PU impression block & TIH. Made impression & TOOH. Impression block was not on DP. 6 1/2" OD by 8" long lead impression block left in hole. Waiting on WO shoe w/inside lugs to try & catch impression block.
Daily Cost: \$17,450 Cum. Cost: \$3,112,571

11/26/97 Day 118: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Circulating off gas bubble;; MW 14.3, Vis 49, pH 9.0, CI 150000, WL 8, Cake 2, PV 25, YP 18, Solids 7, Gels 2/6, SPM 70; Pressure 1800; Past 24 hrs. 2 hrs. cut drilling line, 4 hrs. wait on WO Shoe, 5 1/2 hrs. TIH, 2 hrs. circulate off gas bubble, 3/4 hr. WO impression block, 4 1/4 hrs. TOOH, 5 hrs. PU new impression block & TIH, 1/2 hr. circulate off gas bubble. REMARKS: TIH w/notched WO Shoe and WO lead impression block. TOOH w/ block. Could not determine any impression on block due to deformation of block. TOOH w/ block. At report time, circulating off gas bubble and will make impression w/ new style impression block.
Daily Cost: \$21,352 Cum. Cost: \$3,133,923

11/27/97 Day 119: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/ WO shoe;; MW 14.3, Vis 49, pH 9.0, CI 150000, WL 8.2, Cake 2, PV 25, YP 18, Solids 7, Gels 2/6, 6 1/2" WO shoe #11WOB 6-8K; RPM 65; Cum. Hrs. 5 1/2; Cum. Ftg. 5; SPM 70; Pressure 1800; Past 24 hrs. 2 hrs. circulate off gas bubble, 5 1/2 hrs. make impression & TOOH, 1 hr. LD block & PU WO shoe, 4 1/2 hrs. TIH, 5 1/2 hrs. circulate off gas & WO 5" liner, 4 1/2 hrs. TOOH, 1/2 hr. change WO shoe, 1/2 hr. TIH w/new shoe. REMARKS: Impression block showed 5" liner jt. looking up to be egg-shaped where an overshot would not go over liner. TIH w/ WO shoe, 6 1/2" OD x 5 1/2" ID. Washed over 5' & TOOH. Cutrite on inside of shoe had no wear at all. At report time, TIH w/ WO shoe 6 1/2" OD x 5" ID to attempt to trim egg-shape off liner joint.
Daily Cost: Cum. Cost: \$3,133,923

11/28/97 Day 120: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/ OS;; MW 14.3, Vis 49, pH 9.0, CI 150000, WL 8.2, Cake 2, PV 25, YP 18, Solids 7, Gels 2/6, WO shoe #12WOB 6-8K; RPM 65; Cum. Hrs. 6 1/2; Cum. Ftg. 5; SPM 70; Pressure 2200; Past 24 hrs. 4 1/2 hrs. TIH w/shoe, 6 1/2 hrs. WO liner, 5 3/4 hrs. TOOH, 1 1/2 hrs. LD shoe & PU OS, 4 1/2 hrs. repair high drum clutch on drawworks, 1 3/4 hrs. TIH w/OS. REMARKS: TIH w/ 6 1/2" x 5" WO shoe w/knock-out lugs on inside. Washed over liner 5' by surface measurement. TOOH w/ shoe, showed were over liner 14". Down 4 1/4 hrs. for rig repair. At report time TIH w/ OS.
Daily Cost: \$15,000 Cum. Cost: \$3,148,923

11/29/97 Day 121: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; WOC;; MW 14.3, Vis 49, pH 9, CI 150,000, WL 8.2, Cake 2, PV 25, YP 18, Solids 7, Gels 2/6, Past 24 Hrs. 2 hrs. finish TIH w/ OS, 2 hrs. circulate off gas bubble, 1/2 hr attempt to catch liner top, 3 1/2 hrs. TOOH w/ OS, 2 1/2 hrs. LD fishing tools, 3 1/2 hrs. TIH w/ DP, 7 1/2 hrs. circulate and wait on Halliburton, 1 hr. set cmt plug, 1 1/2 hr. TOOH & WOC.
Remarks: TIH w/ OS. Could catch liner but would pull off w/ 2-5 k # of pull. TOOH & LD fishing tools. TIH w/ DP open-ended. Spotted 75 sks. of Class "H" cmt containing .75% CFR-3 & .1% HR-5 @ 13,300'. Will wait 48 hrs. on cmt & then sidetrack hole.
Daily Cost: \$35,955 Cum. Cost: \$3,184,878

11/30/97 Day 122: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; WOC & CIRCULATING;; MW 14.3, Vis 49, pH 9, CI 150,000, WL 8.2, Cake 2, PV 25, YP 18, Solids 7, Gels 2/6, Bit # 18: 6 1/2", RR, Jets; 18;18;18.SPM 75; Pressure 2200; Past 24 Hrs. WOC.
REMARKS: Finish TOOH w/ DP. RIH w/ 3 3/4" DC's & 2 3/8" DP and LD same. PU 6 1/2" bit & RIH to 11,825, circulate & WOC.
Daily Cost: \$17,250 Cum. Cost: \$3,202,128

12/1/97 Day 123: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; CIRCULATING;; MW 14.0, Vis 49, pH 9.0, CI 150,000, WL 8.2, Cake 2, PV 25, YP 18, Solids 7, Gels 2/6, Bit # 18: WOB 5K; RPM 45; Cum. Hrs. 1; SPM 60; Pressure 1500; Past 24 Hrs. 22 1/2 hrs. WOC, 1 hr. drlg cmt, 1/2 hr. circulate bottoms up.
REMARKS: Tagged cmt plug @ 13,160', drld out of cmt @ 13,165'. RIH to 13,240', tagged cmt. Drilled cmt. to 13,250'. Fell through. Currently circulating w/ full returns. Will TOOH & SB bit & collars & spot additional cmt plug.
Daily Cost: \$12,450 Cum. Cost: \$3,214,578

11/18/97 Day 110: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Running Free Point;; MW 14.5, Vis 45, pH 10.0, CI 160000, WL 5.4, Cake 1, PV 19, YP 18, Solids 6.5, Gels 4/9, SPM 70; Pressure 2200; Past 24 hrs. 1 1/2 hrs. finish TOO H w/mill, 1 hr. change out mill, 3 3/4 hrs. TIH w/mill, 3 3/4 hrs. dress of liner, 4 1/2 hrs. TOO H, 1 hr. LD mill & PU OS, 3 1/4 hrs. TIH, 2 hrs. circulate off gas, 1/2 hr. catch liner w/OS, 2 3/4 hrs. run spud bars & free point. REMARKS: Dressed off liner w/mill to ensure grapples were off liner. Caught liner w/OS. RIH w/spud bars on wireline and knock junk out of liner. Pushed junk to 14,945'. At report time, running free point
Daily Cost: \$19,220 Cum. Cost: \$2,953,320

11/19/97 Day 111: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/ OS;; MW 14.5, Vis 45, pH 10.0, CI 160000, WL 5.4, Cake 1, PV 19, YP 18, Solids 6.5, Gels 4/9, SPM 80; Pressure 2700; Past 24 hrs. 3 3/4 hrs. free point & back-off, 5 1/4 hrs. chain out of hole, 1 1/2 hrs. rig repair, 3 hrs. finish chaining out of hole & LD 5 jts. 5" liner, 3 1/2 hrs. TIH w/6 1/2" bit, 1/2 hr. wash & ream 30' to top of 5" liner, 2 1/2 hrs. circulate off gas bubble, 3 hrs. TOO H w/bit, 1 hr. PU OS & TIH. REMARKS: Ran free point and backed off 5" liner @ 13,181'. TOO H & recovered 5 jts. PU 6 1/2" bit & TIH. Washed & reamed through tight spot @ 13,165' - 13,179'. Tagged up on 5" liner @ 13,181' w/bit. Set down on liner w/3,000# wt. & liner moved downhole 32'. TOL now @ 13,211' by DP measurement. Had to circulate off large gas bubble after liner moved downhole. At report time, TIH w/OS to catch liner.
Daily Cost: \$15,200 Cum. Cost: \$2,968,520

11/20/97 Day 112: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Circulating up gas bubble;; MW 14.6, Vis 43, pH 11, CI 160000, WL 8.4, Cake 1, PV 14, YP 7, Solids 7, Gels 4/9, SPM 70; Pressure 2200; Past 24 hrs. 3 1/2 hrs. TIH w/OS, 2 hrs. circulate off gas bubble, 1 hr work over liner w/OS, 4 1/2 hrs. jar on liner, 12 hrs. run free point & back off, 1 hr circulate up gas bubble. REMARKS: TIH w/OS circulate off gas bubble. Catch liner and jarred on liner 4 1/2 hrs. w/no success. Ran free point, liner 90% stuck @ 13,350', 100% free @ 13,321'. Backed off @ 13,306'. While making back off, well started flowing. At report time, circulating up bubble.
Daily Cost: \$32,650 Cum. Cost: \$3,001,170

11/21/97 Day 113: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Circulating;; MW 14.6, Vis 43, pH 11, CI 160000, WL 8.4, Cake 1, PV 14, YP 7, Solids 7, Gels 4/9, 6 3/8 WO Shoe #7WOB 6K; RPM 65; Cum. Hrs. 5 3/4; Cum. Ftg. 14; SPM 65; Pressure 1900; Past 24 hrs. 1 hr. free point & back off, 2 hrs. circ. off gas bubble, 1 1/2 hrs. repair flowline sensor, 4 1/2 hrs. chain out of hole, 1/2 hr. LD 1 jt. 5" liner, 2 hrs. PU WP, 1 3/4 hrs. cut drilling line, 4 1/2 hrs. TIH, 5 3/4 hrs. wash over 5" liner, 1/2 hr. circulate. REMARKS: Washed over liner from 13,306' - 13,320'. Shoe quit making hole. At report time, circulating waiting for drilling contractor to find replacement hands for daylight crew. The only crew members that showed up for work were the driller & derrickman.
Daily Cost: \$18,500 Cum. Cost: \$3,019,670

11/22/97 Day 114: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Washing over 5" liner;; MW 14.3, Vis 45, pH 10, CI 165000, WL 7.5, Cake 1, PV 16, YP 19, Solids 7, Gels 5/10, RPM 65; Cum. Hrs. 3 1/2; Cum. Ftg. 3; SPM 65; Pressure 1900; Past 24 hrs. 9 hrs. circulating waiting on replacement hands, 6 1/4 hrs. TOO H & charge WO, 5 1/4 hrs. TIH w/new WO Shoe, 3 1/2 hrs. washing over liner. REMARKS: Waited 9 hrs. for replacement hands. While circulating, hole began losing fluid. Lost 130 bbls. In 2 hrs. Added mica to mud & loss stopped. At report time, washing over 5" liner w/ full returns.
Daily Cost: \$33,306 Cum. Cost: \$3,052,976

11/23/97 Day 115: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TOO H for new WO shoe;; MW 14.3, Vis 49, pH 9.0, CI 165000, WL 6.0, Cake 1, PV 26, YP 18, Solids 7.5, Gels 4/10, 6 3/8 WO Shoe #9WOB 8-10K; RPM 65; Cum. Hrs. 5 1/4; Cum. Ftg. 3; SPM 60; Pressure 1500; Past 24 hrs. 7 hrs. WO 5" liner, 5 hrs. TOO H, 1/2 hr. change shoe, 4 3/4 hrs. TIH 5 1/4 hrs., WO 5" liner, 1 1/2 hr. TOO H w/shoe. REMARKS: Washed over liner 20' from 13,320 - 340'. Ran new WO shoe, WO liner 3' from 13,340 - 343'. TOO H for new WO shoe @ report time.
Daily Cost: \$16,095 Cum. Cost: \$3,069,071

11/24/97 Day 116: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Laying down wash pipe;; MW 14.3, Vis 45, pH 9.0, CI 152000, WL 9.0, Cake 1, PV 22, YP 14, Solids 7, Gels 4/10, 6 3/8 WO shoe #10WOB 8-10K; RPM 65; Cum. Hrs. 4 1/2; Cum. Ftg. 5; SPM 60; Pressure 1500; Past 24 hrs. 3 1/2 hrs. finish TOO H, 1/2 hr. change shoe, 5 1/2 hrs. TIH, 3 hrs. wash over 5" liner, 6 hrs. TOO H, 1 hr. LD WP. REMARKS: Washed over 5" liner from 13,343' - 13,348'. TOO H & had 6' piece of what appears to be a portion of the liner hanger. Also left 3' piece of wash over shoe in hole.
Daily Cost: \$26,050 Cum. Cost: \$3,095,121

11/11/97 Day 0: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/Shoe #6;; MW 14.6, Vis 45, pH 9.5, CI 180000, WL 7.4, Cake 1, PV 16, YP 19, Solids 7, Gels 4/7, 6 1/2 WO Shoe #6SPM 70; Pressure 2200; Past 24 hrs. 1/4 hr. circulate bottoms up, 3 hrs. TOOH, 1 3/4 hrs. LD shoe & PU jars, 3 hrs. TIH w/spear, 4 hrs. jar on liner, 2 hrs. release spear & circulate bottoms up, 4 hrs. TOOH, 2 hrs. LD jars & PU WO pipe, 4 hrs. TIH w/WO Shoe #6. REMARKS: TIH w/spear & jars. Jarred and bumped down on liner for 4 hrs. w/no movement up or down. Released spear & TOOH. Cannot run free point through spear because ID is too small. Will wash over last 3' of liner hanger w/5" ID shoe in order to run a 5 7/8" x 5" overshot to be able to free point liner.
Daily Cost: \$22,445 Cum. Cost: \$2,844,735

11/12/97 Day 104: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/3 7/8" mill;; MW 14.6, Vis 45, pH 9.0, CI 180000, WL 6.4, Cake 1, PV 20, YP 16, Solids 7, Gels 4/9, 3 7/8" Conical mill, SPM 70; Pressure 2200; Past 24 hrs. 1 hr. finish TIH, 4 3/4 hrs. wash over remaining liner hanger, 1 1/2 circulate bottoms up, 3 hrs. TOOH, 3/4 LD shoe, 3 hrs. TIH w/collars & 2 3/8" DP, 1 1/2 hr. cut drilling line, 2 hrs. wait on replacement tongs, 6 1/2 hrs. TIH w/ 3 1/2" DP. REMARKS: Washed over remaining 3' piece of liner hanger & cut DD down to 5". At report time, TIH w/ 3 7/8" conical mill inside 5" liner. Will TIH as far as possible & circulate bottoms up.
Daily Cost: \$16,760 Cum. Cost: \$2,861,495

11/13/97 Day 105: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Running Free Point;; MW 14.6, Vis 45, pH 9.5, CI 180000, WL 6.4, Cake 1, PV 20, YP 16, Solids 7, Gels 4/9, SPM 70; Pressure 2200; Past 24 hrs. 2 hrs. finish TIH w/ 3 7/8" mill, 1 hr. wash from 14,950'-955', 3 hrs. circulate off gas bubble, 7 1/4 hrs. TOOH, 1 hr. PU overshot, 4 hrs. TIH w/overshot, 2 hrs. circulate off gas bubble, 4 hrs. RU & run free point. REMARKS: Washed fill from 14,950-955', mostly shale coming over shaker. Had to circulate off large gas bubble. TOOH & TIH w/OS. Had to circulate off gas bubble @ liner top. RU and running free point @ report time.
Daily Cost: \$17,674 Cum. Cost: \$2,879,169

11/14/97 Day 106: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TOOH w/ overshot;; MW 14.6, Vis 45, pH 9.0, CI 180000, WL 6.4, Cake 1, PV 20, YP 16, Solids 7, Gels 4/9, SPM 70; Pressure 2200; Past 24 hrs. 3 1/2 hrs. back off, 4 1/2 hrs. TOOH, 2 1/2 hrs. LD 14 jts. 5" liner, 1 1/2 hr. PU OS, 4 1/2 hrs. TIH, 3 hrs. circulate off gas bubble, 1 1/2 hr. attempt to catch liner w/OS, 4 1/2 hrs. TOOH. REMARKS: Ran free point on 5" liner, free @ 13,222' & 80% stuck @ 13,252'. Shot back off shot @ 13,222' & liner unscrewed @ 13,009'. TOOH w/liner hanger & 14 jts. of 5" liner. TIH w/OS & could not work over liner. TOOH @ report time. Will PU washover pipe w/shoe & washover liner.
Daily Cost: \$17,881 Cum. Cost: \$2,897,050

11/15/97 Day 0: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Circulating bottoms up;; MW 14.6, Vis 46, pH 9.0, CI 180000, WL 6.4, Cake 1, PV 20, YP 16, Solids 7, Gels 4/9, 6 3/8" WO Shoe #6WOB 6-8K; RPM 45; Cum. Hrs. 2; Cum. Ftg. 1; SPM 70; Pressure 2200; Past 24 hrs. 1 hr. PU shoe, 5 hrs. TIH, 2 hrs. WO liner, 4 hrs. circulate, 2 1/2 hrs. WL, 4 hrs. TOOH, 1 hr. LD WP & PU OS, 4 hrs. TIH, 1/2 hr. circulate bottoms up. REMARKS: Washed over liner w/ WO shoe and 1 jt. WO pipe. TOOH & PU OS. TIH w/OS, circulating bottoms up at report time before engaging liner w/OS.
Daily Cost: \$21,150 Cum. Cost: \$2,918,200

11/16/97 Day 108: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/ Spear;; MW 14.6, Vis 45, pH 9.0, CI 180000, WL 6.4, Cake 1, PV 20, YP 16, Solids 7, Gels 4/9, SPM 70; Pressure 2200; Past 24 hrs. 2 hrs. circulate bottoms up, 1/2 hr. work OS over liner, 2 3/4 hrs. attempt to run free point, 4 1/4 hrs. TOOH, 1 hr. install new grapple, 3 hrs. TIH, 2 hrs. circulate bottoms up, 1/2 hr. work over liner, 4 1/2 hrs. TOOH, 3/4 hr. LD OS, 1 1/2 hrs. cut drilling line, 1 1/4 hrs. TIH w/ spear. REMARKS: Caught liner w/ OS, attempt to run free point, could not get past OS. TOOH w/ OS & found grapple had broke in half. TIH w/ new grapple and catch liner. Pulled 30,000# and pulled free. TOOH and found new grapple had broken in OS. Will TIH w/ inside spear & catch liner.
Daily Cost: \$ Cum. Cost: \$2,918,200

11/17/97 Day 109: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TOOH w /WO shoe & mill;; MW 14.6, Vis 45, pH 9.0, CI 180000, WL 6.4, Cake 1, PV 20, YP 16, Solids 7, Gels 4/9, SPM 70; Pressure 2200; Past 24 hrs. 3 1/4 TIH w/spear, 2 hrs. circulate bottoms up, 1 hr. spear into liner, 4 3/4 hrs. TOOH w/ spear, 3/4 hr. LD spear & PU WO shoe & dress off mill, 3 1/2 hrs. TIH, 1 1/4 hrs. ream from 12,940' - 12,962', 4 hrs. dress off liner, 3 1/2 hrs. TOOH. REMARKS: TIH w/ spear Engaged liner & pulled 40,000#, pulled free. TOOH w/ spear and found grapple had broken. TIH w/ WO shoe & dress out mill. Dressed off liner and at report time, TOOH w/ shoe & mill.
Daily Cost: \$15,900 Cum. Cost: \$2,934,100

11/3/97 Day 95: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; PU 3 1/8" DC's & Mill;; MW 14.5, Vis 48, pH 9.0, CI 190000, WL 9.6, Cake 2, PV 18, YP 24, Solids 5.5, Gels 6/10, Bit # 19: WOB 3K; RPM 30; Cum. Hrs. 8; Cum. Ftg. 85'; SPM 60; Pressure 3000; Past 24 hrs. 11 1/2 hrs. tripping, 8 hrs. washing & cleaning out liner, 1 1/2 hrs. work on power tongs 2 1/2 hrs. TOO H w/ 2 3/8" DP, 1/2 hr. PU 3 1/8" DC's. REMARKS: TIH w/ 3 7/8" bit. Tagged @ 14,885. Washed down to 14,970'. Picked up to make connection. Tagged fill @ 14,955', washed back down to 14,970'. Circulated and pulled back up to 14,930'. Waited 1 hr. and washed back down, tagged fill @ 14,955'. Washed back to 14,970'. Were unable to wash below 14,970' due to fill TOO H w/DP & bit. Bit had one cone off.
Daily Cost: \$14,705 Cum. Cost: \$2,696,554

11/4/97 Day 97: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Cutting over liner hanger packer;; MW 14.5, Vis 48, pH 9.0, CI 190000, WL 9.6, Cake 2, PV 18, YP 24, Solids 5.5, Gels 6/10, 6 3/8" WO Shoe SPM 60; Pressure 1700; BHA 6 3/8" WO Shoe, 1 jt. wash pipe, x-over, disc sub, jars, 6-4 3/4" DC's. Past 24 hrs. 3 hrs. wait on wireline truck, 6 hrs. run magnet & csg. caliper, 4 hrs. TIH, 5 hrs. circulate off gas bubble & conditioned mud, 3/4 hr. REMARKS: RU wireline truck and attempted to fish cone w/magnet. AH attempts unsuccessful. RIH w/casing caliper tool and collar locator. At 14,886, casing ID is 4,211; @ 14,984', caliper tool reads 2.5". Bottom was mushy and not solid. Appears from caliper log that casing has parted in casing connection @ 14,957'.
Daily Cost: \$34,130 Cum. Cost: \$2,730,684

11/5/97 Day 97: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TOO H w/WO shoe #2;; MW 14.5, Vis 45, pH 9.0, CI 190000, WL 8.4, Cake 2, PV 12, YP 16, Solids 6.5, Gels 5/9, Bit # 2: (Shoe #2) 6 3/8" STARCum. Hrs. 4; Cum. Ftg. .5; SPM 60; Pressure 1700; Past 24 hrs. 7 hrs. cutting over liner hanger, 11 1/2 hrs. tripping, 1 1/2 hr. cut drilling line, 4 hrs. cutting over liner hanger w/shoe #2. REMARKS: Cut over liner hanger 6 1/2' w/shoe #1. TOO H & had half of PBR assembly in washpipe. TIH w/shoe #2 and made 6". Pump pressure increased from 1700# to 2700#. Appear to have something jammed in washpipe. At report time, TOO H w/shoe #2.
Daily Cost: \$15,410 Cum. Cost: \$2,746,094

11/6/97 Day 98: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Cutting over liner hanger slips;; MW 14.6, Vis 45, pH 9.0, CI 185000, WL 8.2, Cake 1, PV 16, YP 20, Solids 7, Gels 5/12, 6 3/8" Shoe #3WOB 3-6K; RPM 65; Cum. Hrs. 1 1/4; SPM 60; Pressure 1700; Past 24 hrs. 5 hrs. tripping w/flat bottom mill, 7 1/4 hrs. milling w/flat bottom mill, 10 1/2 hrs. trip out w/ mill & TIH w/shoe #3, 1 1/4 hrs. milling over w/shoe #3. REMARKS: Finish TOO H w/WO shoe #2. Found nothing in WO pipe. PU 6 3/8" flat bottom mill & TIH. Milled up PBR sleeve. TOO H w/mill. PU WO shoe #3 and TIH. At report time, milling over top slips on liner hanger.
Daily Cost: \$15,315 Cum. Cost: \$2,761,409

11/7/97 Day 99: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Milling over liner hanger slips;; MW 14.6, Vis 45, pH 9.0, CI 185000, WL 8.2, Cake 1, PV 16, YP 21, Solids 7.0, Gels 5/12, 6 3/8" WO Shoe #4WOB 3-6K; RPM 65; Cum. Hrs. 4; Cum. Ftg. 1; DC length 60, SPM 60, Pressure 1700# Past 24 hrs. 7 3/4 hrs. milling w/shoe #3, 12 1/4 hrs. tripping, 4 hrs. milling w/shoe #4
Daily Cost: \$15,022 Cum. Cost: \$2,776,431

11/8/97 Day 100: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/FB Mill #2;; MW 14.6, Vis 45, pH 9.0, CI 180000, WL 8.2, Cake 1, PV 16, YP 21, Solids 7, Gels 5/12, 6 1/2 FB Mill #2WOB 10-12K; RPM 65; SPM 70; Pressure 2200; Past 24 hrs. 2 1/2 hrs. washing over w/WO Shoe #4, 8 hrs. TOO H w/shoe & TIH w/spear, 1/2 hr. jar on liner, 2 1/2 hrs. circulate, 10 hrs. TOO H w/spear & TIH w/FB mill #2. REMARKS: TIH w/spear and jarred 5 times and brand new Anadrill jars quit working. TOO H, LD spear & jars. TIH w/Flat bottom mill #2 @ report time.
Daily Cost: \$14,295 Cum. Cost: \$2,790,726

11/9/97 Day 101: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Milling w/FB mill #3;; MW 14.6, Vis 45, pH 9.0, CI 180000, WL 8.2, Cake 1, PV 16, YP 21, Solids 7, Gels 5/12, 6 1/2 FB mill #3WOB 10-12K; RPM 65; Cum. Hrs. 1/2; Cum. Ftg. 1; SPM 70; Pressure 2200; Past 24 hrs. 13 hrs. milling w/FB mill #2, 4 hrs. TOO H, 1 1/2 hr. cut drilling line, 1 hr. PU mill, 5 hrs. TIH w/FB mill #3, 1/2 hr. milling w/FB mill #3. REMARKS: Milling on last set of liner hanger slips. Will mill up liner hanger slips & then wash over remainder of liner hanger.
Daily Cost: \$15,150 Cum. Cost: \$2,805,876

11/10/97 Day 102: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Circulating bottoms up;; MW 14.6, Vis 45, pH 9.5, CI 180000, WL 7.4, Cake 1, PV 16, YP 19, Solids 7, Gels 4/7, 6 1/2 WO Shoe #5WOB 3-5K; RPM 65; Cum. Hrs. 3 3/4; Cum. Ftg. 2 1/2; Past 24 hrs. 10 hrs. milling w/FB mill #3, 4 hrs. TOO H, 1 hr. PU shoe & WP, 4 hrs. TIH w/WO shoe #5, 3 3/4 hrs. washing over, 1 1/4 hrs. circulate bottoms up. REMARKS: Milled w/FB mill to 12,321. TOO H & PU WO shoe. TIH & washed over remainder of liner hanger to 12,324. Fell through @ 12,324' & washed down to 12,345'. Did not touch anything after cutting over remainder of liner hanger. At report time, circulating bottoms up & prep to TOO H to PU spear & jars.
Daily Cost: \$16,414 Cum. Cost: \$2,822,290

10/27/97 Day 88: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH;; MW 14.4, Vis 54, pH 9, CI 190,000, WL 5, Cake 2, PV 18, YP 24, Solids 6.5, Gels 6/10, Past 24 hrs. 7 hrs. circulating waiting on Schiumberger, 1 hr. short trip, 7 1/2 hrs. TOOH for logs, 8 hrs. RU loggers & log, 1/2 hr. TIH. REMARKS: Ran neutron - density log. Well began flowing w/ 1" stream. RD loggers and start in hole w/ drill string. At report time, continue TIH, well flowing 1" stream of mud, no show of gas @ surface.
Daily Cost: \$31,285 Cum. Cost: \$2,444,429

10/28/97 Day 89: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; PU 5" Liner;; MW 14.5, Vis 54, pH 9.0, CI 196,000, WL 7.2, Cake 2, PV 20, YP 26, Solids 6, Gels 10/14, SPM 80; Pressure 2700; Past 24 hrs. 8 hrs. tripping, 1 1/4 hrs. circulate off gas through chokes, 9 1/2 hrs. circulating and conditioning hole, 2 hrs. RU casing crew & PULD machine, 3 1/4 hrs. PU 5" production liner. REMARKS: Tripped in hole w DP. Circulated off large gas bubble through chokes. After circulating off gas, began losing 20-25 bbls. per hour mud. Continued circulating and after 6 hours, mud loss stopped. Circulated 3 hours more and dropped rabbit. TOOH to PU 5" production liner. At report time, PU liner, like 10 jts. having liner picked up.
Daily Cost: \$64,060 Cum. Cost: \$2,508,489

10/29/97 Day 90: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Running free point;; MW 14.4, Vis 54, pH 9.0, CI 196,000, WL 7.2, Cake 2, PV 20, YP 26, Solids 6, Gels 10/14, Past 24 hrs. 1 hr. finish PU liner, 1 hr. PU liner hanger, 8 hrs. TIH w/liner and hanger, 1 hr. circulate off gas through chokes, 1 hr. rig up cementing manifold, 1 hr. washing to bottom, 1/2 hr. attempting to regain returns, 1 1/2 hr. shut well in for gas, 1 hr. re-establish circulation, 1 hr. circulate off gas, 1 hr. attempt to set liner, 4 hrs. wait on wireline truck, 2 hrs. RU & run free point. REMARKS: RIH w/liner. Tagged up on fill, had 25' of fill. Started washing liner to bottom. Washed 5' of fill and liner bridged off & could not circulate. Had gas bubble coming up backside when liner bridged off. Shut well in. After 1 1/2 hrs., SICP 2500#. Left 500# on D.P. & liner and after 1 1/2 hrs., DP pressure dropped to 0#. Put pump on line and resumed circulating & circulated off gas bubble. While circulating and conditioning hole, bridged off again. Have been unable to re-establish circulation through DP & liner. Annulus is static. Attempted to hang liner 20' off bottom. Cannot rotate DP to set & release liner hanger. At report time, RIH to free point stuck pipe.
Daily Cost: \$16,561 Cum. Cost: \$2,525,050

10/30/97 Day 91: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; TIH w/inside spear;; MW 14.4, Vis 54, pH 9.0, CI 190000, WL 7, Cake 2, PV 20, YP 26, Solids 6, Gels 10/14, Past 24 hrs. 2 1/2 hrs. attempting to run free point, 1 1/2 hr. work liner, 6 hrs. circulating at TOL, 6 1/2 hrs. tripping, 1 1/2 hr. cut drilling line, 1 1/4 hrs. PU fishing tools, 3 1/4 hrs. wait on fishing tools. REMARKS: Could not get free point tools below 1570' inside DP. RD wireline truck. Started working liner, worked 1 1/2 hr. & had movement and could circulate. Pumped marker around and determined that circulation was from the top of liner. TOOH and found liner setting tool threads had sheared. PU inside spear w/pack-off & TIH. At report time, TIH to engage liner w/spear & jars.
Daily Cost: \$71,545 Cum. Cost: \$2,596,595

10/31/97 Day 92: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Running CBL;; MW 14.4, Vis 54, pH 9.0, CI 196000, WL 7.2, Cake 2, PV 20, YP 26, Solids 6, Gels 10/14, Past 24 hrs. 6 1/2 hrs. tripping, 4 hrs. spear into liner & work liner, 1/2 hr. release spear, 8 hrs. circulate off gas bubble and circulate, 5 hrs. RU & run CBL. REMARKS: TIH w/inside spear and pack-off. Engaged liner and started working liner. Could move liner up and down 2'. Had indications of gas movement. Continue working liner. While working liner, all movement stopped. Liner hanger personnel believe that liner packer slips have become engaged and stopped liner movement. Unable to pump through liner. Released spear & pack-off and circulated off gas bubble. At report time, RIH w/CBL tool to log liner.
Daily Cost: \$18,960 Cum. Cost: \$2,615,555

11/1/97 Day 93: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Circulating on TOL;; MW 14.4, Vis 54, pH 9.0, CI 196000, WL 7.2, Cake 2, PV 20, YP 26, Solids 6, Gels 10/14, SPM 80; Pressure 1800; Past 24 hrs. 4 1/2 hrs. finish running CBL, 3 1/2 hrs. evaluate CBL, 5 hrs. trip in hole, 11 hrs. circulate on TOL. REMARKS: Ran CBL. Tool set down @ 15,009'. Spudded tool but could not get any deeper. Logged from 15,009' to TOL @ 12,350'. Will clean out liner to FC @ 15,231 and log remaining interval.
Daily Cost: \$17,476 Cum. Cost: \$2,633,031

11/2/97 Day 94: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Lime; RIH 2 3/8" D.P.;; MW 14.5, Vis 48, pH 9.0, CI 190000, WL 9.6, Cake 2, PV 18, YP 24, Solids 5.5, Gels 6/10, Bit # 19: 3 7/8" HTC OHR ; open ; SPM 80; Pressure 2200; BHA; bit, bit sub, 3003' of 2 3/8" D.P., x-over. Past 24 hrs. 11 hrs. circulating and circulate off gas bubble, 8 hrs. tripping, 4 hrs. PU 2 3/8" DP, 1 hr. rig up tongs & change bales. REMARKS: While circulating waiting on 2 3/8" DP, started gaining fluid while circulating. Shut well in, had 500# on csg. Brought weight back up to 14.5 ppg & circulated off gas bubble. TOOH. PU 96 jts. of 2 3/8" DP & 3 7/8" bit. At report time TIH w/DP @ 12,000'.
Daily Cost: \$48,818 Cum. Cost: \$2,681,849

10/19/97 Day 80: Depth 15,159 ; Ftg. past 24 hrs. 127'; Avg. ft/hr 5.3; Shale; DRLG;; MW 11.7, Vis 45, pH 10, CI 185,000, WL 8.4, Cake 2, PV 14, YP 20, Solids 3.0, Gels 8/12, Bit # 18: WOB 25K; RPM 50; Cum. Hrs. 35 3/4; Cum. Ftg. 189; SPM 90; Pressure 2600; Past 24 hrs. drlg w/ 30' - 40' flare, MW being cut back to 10.8 ppg. Will raise MW while drlg.
Daily Cost: \$22,310 Cum. Cost: \$2,257,386

10/20/97 Day 81: Depth 15,227 ; Ftg. past 24 hrs. 68'; Avg. ft/hr 2.8; Shale; DRLG;; MW 12.5, Vis 39, pH 9.0, CI 190,000, WL 10.4, Cake 1, PV 15, YP 75, Solids 3.5, Gels 4/6, Bit # 18: WOB 25K; RPM 50; Cum. Hrs. 59 1/2; Cum. Ftg. 257; SPM 90; Pressure 2700; Past 24 hrs. 23 3/4 hrs. drlg, 1/4 hr. service rig.
REMARKS: Drlg w/ 15' - 20' flare. Had to raise MW due to gas influx cutting MW back.
Daily Cost: \$18,180 Cum. Cost: \$2,275,566

10/21/97 Day 82: Depth 15,279 ; Ftg. past 24 hrs. 52'; Avg. ft/hr 2.58; Shale; DRLG;; MW 12.6, Vis 41, pH 9.0, CI 190,000, WL 10.0, Cake 2, PV 16, YP 20, Solids 4, Gels 6/10, Bit # 18: WOB 25K; RPM 50; Cum. Hrs. 83 1/4; Cum. Ftg. 44; SPM 90; Pressure 2700; Past 24 Hrs. 23 3/4 hrs. drlg, 1/4 rig service.
Daily Cost: \$21,813 Cum. Cost: \$2,297,379

10/22/97 Day 83: Depth 15,300 ; Ftg. past 24 hrs. 21'; Avg. ft/hr 2.2; Shale; LOGGING;; MW 12.7, Vis 41, pH 9.5, CI 190000, WL 4.2, Cake 1, PV 16, YP 20, Solids 5, Gels 4/8, Bit # 18: WOB 25K; RPM 50; Cum. Hrs. 92 3/4; Cum. Ftg. 330; SPM 90; Pressure 2700; Dev. 3 deg. @ 15,293'. Past 24 hrs. 9 1/2 hrs. drilling, 1/4 hr. rig service, 3 1/2 hrs. circulate for logs, 6 1/4 hrs. SLM out for logs, 4 1/2 hrs. logging.
Daily Cost: \$24,356 Cum. Cost: \$2,321,735

10/23/97 Day 84: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Washing to bottom;; MW 12.8, Vis 42, pH 5.5, CI 190,000, WL 4, Cake 1, PV 13, YP 20, Solids 5, Gels 4/8, SPM 90; Pressure 2700; Past 24 hours 6 1/2 hrs. attempting to log, 5 1/4 hrs. TIH, 10 hrs. washing & reaming, 1 1/4 hr. cut drilling line, 1 hr. circulate off gas. REMARKS loggers hit bridge @ 14,970', unable to work through bridge. TOOH w/bit. Hit bridge @ 14,935', washed to 14,970' & hit second bridge. At report time, washing & reaming @ 15,030', had to circulate off gas @ 14,935 before washing & reaming could begin.
Daily Cost: \$24,336 Cum. Cost: \$2,346,071

10/24/97 Day 85: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Circulating & conditioning hole for logs;; MW 13.8, Vis 43, pH 9.5, CI 190,000, WL 6, Cake 2, PV 18, YP 24, Solids 6.5, Gels 6/10, SPM 93; Pressure 2700; Past 24 hrs. 11 1/2 hrs. washing & reaming to bottom, 6 hrs. circulating, 6 1/2 hrs. 25 STD. short trip. REMARKS: washed to bottom. Made 25 STD. short, trip and waited 1 hour, had bridges @ 14,928', 14,984', 15,120 which took 25,000# wt. To push through & 40' of fill. Raised MW to 13.3#. Made short trip and had bridges @ 14,984' & 15,120 w/10' of fill. Raised MW to 13.8# & made short trip. Had bridges @ 14,984' & 15,120' w/no fill on bottom. Continue raising MW & making short trips untill bridges are gone.
Daily Cost: \$28,483 Cum. Cost: \$2,374,554

10/25/97 Day 86: Depth 15,300 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Rigging up Loggers;; MW 14.5, Vis 54, pH 9.0, CI 190,000, WL 5.0, Cake 2, PV 18, YP 24, Solids 6.5, Gels 6/10, SPM 80; Pressure 2800; Past 24 hrs. 7 hrs. circulating & conditioning mud, 8 1/2 hrs. making 2 short trips, 4 3/4 hrs. TOOH, 3 3/4 hrs. RU loggers. REMARKS: Raised MW to 14.5#, Made 25 std. short trip. Hit bridge @ 14,911', took 10,000# wt. to punch through, no fill on bottom. Circulated & conditioned hole, made another short trip. Did not touch anything. TOOH for logs. RU loggers. Started in hole w/logging tool & bridle line on bottom sheave broke. At report time, rigging up new bridle line on sheave.
Daily Cost: \$13,095 Cum. Cost: \$2,387,649

10/26/97 Day 87: ; MW 14.5, Vis 54, pH 9.0, CI 190,000, WL 5, Cake 2, PV 18, YP 24, Solids 6.5, Gels 6/10, SPM 80; Pressure 2700; Past 24 hrs. 15 1/4 hrs. logging, 4 1/2 hrs. TIH, 4 1/4 hrs. circulating & conditioning hole, 1 hr. circulate off gas thru chokes. REMARKS: Waited 6 hrs. for Schlumberger to get on location. Loggers TD was 15,300'. Ran dual laterolog & micro-SFL log o.k. RIH w/sonic & hit bridge @ 15,010', could not work through bridge. TIH w/bit and did not touch anything @ 15,010' & ran to bottom w/no fill. At report time, circulating on bottom and waiting on Schlumberger to arrive on location before TOOH.
Daily Cost: \$25,495 Cum. Cost: \$2,413,144

10/11/97 Day 72: Depth 14,731 ; Ftg. past 24 hrs. 25'; Avg. ft/hr 3.4; Sand & Shale; DRLG;; MW 11.6, Vis 42, pH 9.0, CI 190000, WL 7.2, Cake 1, PV 15, YP 15, Solids 3, Gels 4/10, Bit # 17: 6 1/2"; Reed EHP 53A; 18, 18, 18; WOB 25K; RPM 50; Cum. Hrs. 7 1/4; Cum. Ftg. 25; SPM 90; Pressure 2600; BHA: bit, bit sub, 2 DC's, IBS, 1 DC, IBS, 27 DC's. Past 24 hrs. 12 1/4 hrs. trips, 2 hrs. LD DST tools, 1/2 hr. reverse out, 1/2 hr. circ. 1 1/2 cut drilling line, 7 1/4 hrs. drilling.
Daily Cost: \$21,655 Cum. Cost: \$2,070,885

DST #5 Remarks: Ran DST #5 in the Atoka formation from 14610' - 14706' (96')

Surface Action Initial Flow: Tool open w/weak blow of 1/2" in 5 gal. Bucket and decreased to almost no blow. Shut tool in.

Surface Action Final Flow: Opened w/no blow and remained that way for entire final flow.

IHYD 8964 #
IFLOW 1958 # - 1941 # 15 min.
ISIP 1941 # - 2475 # 30 min.
FFLOW 1930 # - 1941 # 60 min.
FSIP 1941 # - 3140 # 180 min.
FHYD 8954 #

Drill Pipe Recovery: 3,391' of water blanket.

Sample Chamber Recovery 2,000 cc's of drilling fluid, 1,200 psi, Rw .049 @ 60 deg. F., chlorides 190,000 ppm. BHT 229 degrees F @ 14,592'.

10/12/97 Day 73: Depth 14,803 ; Ftg. past 24 hrs. 72'; Avg. ft/hr 3.5; Shale; DRLG;; MW 11.7, Vis 42, pH 9.5, CI 190000, WL 9.0, Cake 1, PV 14, YP 11, Solids 3.5, Gels 4/6, Bit # 17: WOB 25K; RPM 50; Cum. Hrs. 27 3/4; Cum. Ftg. 95; SPM 90; Pressure 2600; Dev. 3 3/4 deg. @ 14714'. Past 24 hrs. 20 1/2 hrs. drilling, 1/2 hr. rig service, 3 hrs. Totco.
Daily Cost: \$13,081 Cum. Cost: \$2,083,966

10/13/97 Day 73: Depth 14,885 ; Ftg. past 24 hrs. 82'; Avg. ft/hr 3.4; Shale; DRLG;; MW 11.7, Vis 44, pH 9.5, CI 190000, WL 7.6, Cake 1, PV 13, YP 15, Solids 3, Gels 4/6, Bit # 17: WOB 25K; RPM 50; Cum. Hrs. 51 3/4; Cum. Ftg. 179; SPM 90; Pressure 2600; Past 24 hrs.: 24 hrs. drilling.
Daily Cost: \$12,460 Cum. Cost: \$2,096,426

10/14/97 Day 75: Depth 14,970 ; Ftg. past 24 hrs. 85'; Avg. ft/hr 4; Shale; CIRC. FOR LOGS;; MW 11.7, Vis 42, pH 9.5, CI 185000, WL 8.4, Cake 1, PV 12, YP 14, Solids 3, Gels 4/7, Bit # 17: WOB 25K; RPM 50; Cum. Hrs. 72 1/2; Cum. Ftg. 264; SPM 90; Pressure 2600; Dev. 3 3/4 deg. @ 14,847'. Past 24 hrs. 20 3/4 hrs. drilling, 2 hrs. circ., 1 1/2 hrs. WLS.
Daily Cost: \$12,730 Cum. Cost: \$2,109,156

10/15/97 Day 76: Depth 14,970 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; CIRC. FOR LOGS;; MW 11.7, Vis 42, pH 9.5, CI 185000, WL 8.4, Cake 1, PV 12, YP 14, Solids 3, Gels 4/7, Dev. 3 3/4 deg. @ 14970'. Past 24 hrs. 10 hrs. tripping, 1/2 hr. WLS, 8 1/2 hrs. attempting to log, 3 hrs. wait on Schlumberger, 2 hrs. circ. for logs. REMARKS: RU Schlumberger, RIH w/logging tools, hit bridge @ 13,325'. POOH and LD combination logging tool. RIH w/single logging tool and tool stopped @ 13,219'. POOH & RD Schlumberger. TIH & cir. Did not touch anything on trip in hole. Will circ. one more hr. & TOOH.
Daily Cost: \$12,355 Cum. Cost: \$2,121,511

10/16/97 Day 77: Depth 14,970 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Logging;; MW 11.7, Vis 42, pH 9.5, CI 185,000, WL 8.4, Cake 1, PV 12, YP 14, Solids 3, Gels 4/7, Past 24 Hrs: 2 hrs. circulating and spot 100 bbl, pill, 4 hrs. chain 28 stds. out & TOOH, 18 hrs. logging.
Remarks: Logger TD was 14,952, SLM was 14,963'.
Daily Cost: \$14,355 Cum. Cost: \$2,135,866

10/17/97 Day 78: Depth 14,970 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Shale; Logging;; MW 11.7, Vis 42, pH 9.5, CI 185,000, WL 8.4, Cake 1, PV 12, YP 14, Solids 3, Gels 4/7, Past 24 hrs. logging.
Daily Cost: \$12,355 Cum. Cost: \$2,148,221

10/18/97 Day 79: Depth 15,032 ; Ftg. past 24 hrs. 62'; Avg. ft/hr 5.1; Shale; DRLG;; MW 11.7, Vis 42, pH 9.5, CI 185,000, WL 8.4, Cake 1, PV 12, YP 14, Solids 3, Gels 4/7, Bit # 18: 6 1/2"; HTC ATJ 33C; Jet: 18, 18, 18; WOB 25K; RPM 50; Cum. Hrs. 12; Cum. Ftg. 62; SPM 90; Pressure 2600; BHA: bit, junk basket, 2 DC's, IBS, 1 DC, IBS, 27DC's. Past 24 hrs. 7 hrs. logging, 4 1/2 hrs. trip in hole, 1/2 hr. wash to bottom w/ 20' of fill, 12 hrs. drlg.
Daily Cost: \$86,855 Cum. Cost: \$2,235,076

10/3/97 Day 64: Depth 14,328 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; TIH W/MAGNET;; MW 11, Vis 39, pH 9.5, CI 190000, WL 6.2, Cake 1, PV 14, YP 18, Solids 2, Gels 4/10, SPM 90; Pressure 2300; Past 24 hrs. 13 3/4 hrs. tripping, 4 1/2 hrs. trip check DC's, 3 hrs. cut 2' core w/globe basket, 1 1/4 hr. wash & ream 60' to bottom, 1 hr. rig repair, 1/2 hr. LD basket & PU magnet. REMARKS: TOO H for bit change & had left shank & one cone in hole. Trip checked all DC's OK. RIH w/globe basket & cut 2' core. TOO H w/globe basket & rec. shank. Markings on globe basket show cone was on outside of basket. At report time, TIH w/magnet to attempt cone recovery.
Daily Cost: \$15,455 Cum. Cost: \$1,902,545

10/4/97 Day 65: Depth 14,345 ; Ftg. past 24 hrs. 17'; Avg. ft/hr 3; 70% Shale, 30% Sand; DRILLING;; MW 11, Vis 39, pH 9.5, CI 190, WL 6.2, Cake Film, PV 14, YP 18, Solids 2, Gels 4/10, Bit # 15: 6 1/2, Reed EHP53A; 18, 18, 18; WOB 25K; RPM 50; Cum. Hrs. 5 1/2; Cum. Ftg. 17; GD PZ10, 10SPM 90; Pressure 2500; BHA; bit junk basket, BS, DC's, Stabilizer, DC, Stabilizer, DC's. Size DP: 3 1/2, No. DC: 30, OD: 4 5/8, DC Length: 933, DC wt. 32,000. Past 24 hrs.: 15 1/2 hrs. trip, 1/2 hr. fish cone, 1 1/2 hr. circ., 1 hr. cut line, 5 1/2 hrs. drlg.
Daily Cost: \$19,430 Cum. Cost: \$1,921,975

10/5/97 Day 66: Depth 14,409 ; Ftg. past 24 hrs. 64'; Avg. ft/hr 3.7; 80% Shale, 20% Sand; DRILLING;; MW 11.8, Vis 42, pH 9.5, CI 190, WL 11.4, Cake Film, PV 10, YP 20, Solids 3, Gels 5/10, Bit # 15: 6 1/2, Reed BHP 53A, 18, 18, 18; WOB 25K; RPM 50; Cum. Hrs. 22 1/2; Cum. Ftg. 81; GD DZ10, 10SPM 90; Pressure 2600; Past 24 hrs.: 17 hrs. drlg, 1 hr. survey, 4 1/2 hrs. trip, 1 hr. retrieve wireline, 1/2 hr. service rig, Test BOP. REMARKS: Wireline parted. Fished ok.
Daily Cost: \$25,102 Cum. Cost: \$1,947,077

10/6/97 Day 67: Depth 14,496 ; Ftg. past 24 hrs. 87'; Avg. ft/hr 3.9; 60% Shale, 30% Sand; DRILLING;; MW 11.7, Vis 45, pH 9, CI 190, WL 8.2, Cake 1/32, PV 8, YP 12, Solids 3, Gels 4/6, Bit # 15: 6 1/2, Reed BHP 53A, 18, 18, 18; WOB 28K; RPM 50; Cum. Hrs. 44 1/2; Cum. Ftg. 158; GD PZ10, 10SPM 90; Pressure 2600; Past 24 hrs.: 1/2 hr. service rig, 1 1/2 hr. survey, 22 hrs. drlg.
Daily Cost: \$17,110 Cum. Cost: \$1,964,187

10/7/97 Day 68: Depth 14,581 ; Ftg. past 24 hrs. 85'; Avg. ft/hr 3.7; 80% Sand, 10% Lime, 10% Shale; DRLG;; MW 11.7, Vis 42, pH 9.5, CI 195000, WL 8.4, Cake 1/32, PV 12, YP 13, Solids 3, Gels 4/9, Bit # 15: 6 1/2" Reed EHP 53C; 18, 18, 18; WOB 28K; RPM 50; Cum. Hrs. 67 1/2; Cum. Ftg. 253; GD PZ 10, 10SPM 90; Pressure 2600; Past 24 hrs. 23 hrs. drilling, 1/2 hr. rig service, 1/2 hr. repack swivel.
Daily Cost: \$21,430 Cum. Cost: \$1,985,617

10/8/97 Day 69: Depth 14,614 ; Ftg. past 24 hrs. 33'; Avg. ft/hr 3.3; Sand; TIH W/NEW BIT;; MW 11.7, Vis 42, pH 9.5, CI 190000, WL 8.6, Cake 1, PV 12, YP 14, Solids 3, Gels 4/10, Bit # 16: 6 1/2; HTC ATJ33; 16, 16, 16; SPM 90; Pressure 2600; BHA: bit, bit sub, 2-DC's, IBS, 1-DC, IBS, 27-DC's. Dev. 2 3/4 deg. @ 14,595'. Past 24 hrs. 11 1/2 hrs. drilling, 1/2 hr. rig service, 10 1/2 hrs. bit trip, 1 1/2 hrs. rig repair.
Daily Cost: \$17,425 Cum. Cost: \$2,003,042

10/9/97 Day 70: Depth 14,695 ; Ftg. past 24 hrs. 81'; Avg. ft/hr 3.4; Sand; DRLG;; MW 11.7, Vis 41, pH 9.5, CI 190000, WL 9.4, Cake 1, PV 12, YP 18, Solids 3.5, Gels 4/9, Bit # 16: WOB 25K; RPM 50; Cum. Hrs. 23 1/2; Cum. Ftg. 81; SPM 90; Pressure 2600; Past 24 hrs. 1/2 hr. wash 60' to bottom w/no fill, 23 1/2 hrs. drilling.
Daily Cost: \$19,260 Cum. Cost: \$2,022,302

10/10/97 Day 71: Depth 14,706 ; Ftg. past 24 hrs. 11'; Avg. ft/hr 2.7; Sand; TOO H W/DST #5;; MW 11.6, Vis 42, pH 9, CI 190000, WL 7.2, Cake 1, PV 15, YP 15, Solids 3, Gels 4/10, Bit # 16: WOB 25K; RPM 50; Cum. Hrs. 27 1/2; Cum. Ftg. 92; SPM 90; Pressure 2600; Past 24 hrs. 4 hrs. drilling, 1/2 hr. service rig, 1 3/4 hr. circ. for DST #5, 11 1/4 hrs. tripping, 1 1/2 PU DST tool, 4 3/4 DST #5, 1/4 hr. TOO H w/DST #5.
Daily Cost: \$26,928 Cum. Cost: \$2,049,230

9/26/97 Day 57: Depth 13,738 ; Ftg. past 24 hrs. 129'; Avg. ft/hr 20; Sand; RUNNING TOTCO;; MW 10, Vis 29, pH 9, CI 196000, Bit # 13: WOB 24K; RPM 50; Cum. Hrs. 37 1/2; Cum. Ftg. 664; SPM 90; Pressure 2300; BHA: bit, bit sub, 2 DC's, IBS, 1 DC, IBS, 27 DC's. Past 24 hrs. 2 1/2 hrs. finish DST #3, 11 1/2 hrs. tripping, 2 hrs. breakdown & load out DST tools, 1 hr. wash & ream 60' to bottom, 4 1/2 hrs. drilling, 2 hrs. cut drilling line, 1/2 hr. Totco.
Daily Cost: \$16,285 Cum. Cost: \$1,704,957

DST #3 Remarks: Ran DST #3 in the Wolfcamp "C" formation from 13292' - 13609' (317')

Surface Action Initial Flow: Tool open w/weak blow, increased to 10 ounces in 5 min., remained same for 15 min. Shut tool in.

Surface Action Final Flow: Opened w/weak blow, increased to 8 ounces in 5 min., 43 ounces in 10 min., 98 ounces in 15 min., opened 1/2 choke, 30 ounces in 20 min., 3 ounces in 40 min., 2 ounces in 50 min., 1 ounce in 60 min. Shut tool in. Had gas to surface in 27 min. on final flow @ rate TSTM. No fluid to surface.

IHYD 6669 #
IFLOW 1180 # - 1139 # 15 min.
ISIP 1139 # - 1139 # 30 min.
FFLOW 1139 # - 1139 # 104 min.
FSIP 1139 # - 4016 # 180 min.
FHYD 6669 #

Drill Pipe Recovery: 373' of slightly gas cut drilling fluid and 2,000' of water blanket. Drilling fluid sample chlorides 181,000 Rw .049 @ 60 deg. F, Mud pit sample chlorides 181,000 PPM, Rw .049 @ 60 deg. F.

Sample Chamber Recovery 400 cc's of drilling fluid, Rw .049 @ 60 deg. F., chlorides 181,000 ppm., 1.110 cu. ft. gas. BHT 214 deg. F @ 13,274'.

9/27/97 Day 58: Depth 13,973 ; Ftg. past 24 hrs. 235'; Avg. ft/hr 11; Shale & Sand; DRILLING;; MW 10.0, Vis 29, pH 9.5, CI 196,000, Bit # 13: WOB 20K; RPM 50; Cum. Hrs. 57 3/4; Cum. Ftg. 899; SPM 90; Pressure 2300; Time Distribution Past 24 Hrs. 3 1/4 hrs. Totco, 20 1/4 hrs drlg, 1/2 hr rig service.
Daily Cost: \$12,330 Cum. Cost: \$1,717,287

9/28/97 Day 59: Depth 14,068 ; Ftg. past 24 hrs. 95'; Avg. ft/hr 11; Sand & Shale; DRILLING;; MW 10.0, Vis 33, pH 9.0, CI 195,000, Bit # 14: 6 1/2, Sec. S86F, Jet 1-15, 2-15, 3-15 WOB 15K; RPM 50; Cum. Hrs. 1 1/2; Cum. Ftg. 8; SPM 90; Pressure 2300; Time Distribution Past 24 Hrs. 8 hrs. drlg, 1 hr. Totco, 1/2 hr. rig service, 12 hrs. tripping, 2 1/2 hrs. circulate samples.
Daily Cost: \$18,770 Cum. Cost: \$1,736,057

9/29/97 Day 60: Depth 14,165 ; Ftg. past 24 hrs. 97'; Avg. ft/hr 4; Sand; DRLG;; MW 10.4, Vis 36, pH 9.0, CI 195,000, WL 9.8, Cake 1, PV 8, YP 11, Solids 1, Gels 3/6, Bit # 14: WOB 10K; RPM 50; Cum. Hrs. 24 1/2; Cum. Ftg. 105; SPM 90; Pressure 2300; Time Distribution Past 24 Hrs. 23 hrs. drlg, 1 hr. Totco.
Daily Cost: \$65,135 Cum. Cost: \$1,801,192

9/30/97 Day 61: Depth 14,195 ; Ftg. past 24 hrs. 30'; Avg. ft/hr 1.3; Shale; DRLG;; MW 11, Vis 38, pH 10, CI 195000, WL 9.6, Cake 1, PV 9, YP 10, Solids 1, Gels 3/6, Bit # 14: WOB 15K; RPM 50; Cum. Hrs. 48 1/2; Cum. Ftg. 135; SPM 90; Pressure 2300; Past 24 hrs.: 24 hrs. drilling.
Daily Cost: \$50,628 Cum. Cost: \$1,851,820

10/1/97 Day 62: Depth 14,272 ; Ftg. past 24 hrs. 77'; Avg. ft/hr 3.3; Shale; DRLG;; MW 11, Vis 38, pH 10, CI 195000, WL 9.6, Cake 1, PV 9, YP 10, Solids 1, Gels 3/6, Bit # 14: WOB 25K; RPM 50; Cum. Hrs. 71 1/2; Cum. Ftg. 212; SPM 90; Pressure 2700; Dev. 3 3/4 deg. @ 14,154'. Past 24 hrs. drilling, 1 hr. Totco.
Daily Cost: \$17,655 Cum. Cost: \$1,869,475

10/2/97 Day 63: Depth 14,328 ; Ftg. past 24 hrs. 56'; Avg. ft/hr 2.8; Shale; TRIPPING FOR BIT;; MW 11, Vis 39, pH 9.8, CI 190000, WL 6.2, Cake 1, PV 14, YP 18, Solids 2, Gels 4/10, Bit # 14: WOB 25-28K; RPM 50; Cum. Hrs. 91; Cum. Ftg. 268; SPM 90; Pressure 2700; Dev. 2 3/4 deg. @ 14,255'. Past 24 hrs. 19 1/2 hrs. drilling, 1 1/4 hr. Totco, 3 1/4 hrs. tripping out for bit.
Daily Cost: \$17,615 Cum. Cost: \$1,887,090

9/22/97 Day 53: Depth 13,261 ; Ftg. past 24 hrs. 187'; Avg. ft/hr 13; Sand; CIRCULATING SAMPLES;; MW 10.0, Vis 29, pH 9.5, CI 195,000, Bit # 13: WOB 30K; RPM 50; Cum. Hrs. 14 1/4; Cum. Ftg. 187; SPM 90; Pressure 2300; Time Distribution Past 24 Hrs. 2 hrs. Wait on DST Tools, 1 1/2 hrs. PU & LD DST Tools, 4 1/2 hrs. TIH, 1 hr. circulate bottoms up, 14 1/4 hrs. drlg, 3/4 hrs. circulate samples 13,171 & 13,261.
Daily Cost: \$18,991 Cum. Cost: \$1,647,742

9/23/97 Day 54: Depth 13,383 ; Ftg. past 24 hrs. 122'; Avg. ft/hr 23; Sand; RUNNING DST #2;; MW 10, Vis 29, pH 9.5, CI 195000, Bit # 13: 6 1/2"; HP 53A; 13, 13, 13; WOB 30K; RPM 50; Cum. Hrs. 19 1/2; Cum. Ftg. 309; SPM 90; Pressure 2300; Dev. 3/4 deg. @ 13,383'. Past 24 hrs. 5 1/4 hrs. circ. samples @ 13,261', 13,383', 1/2 hr. service rig, 5 1/4 hrs. drilling, 8 hrs. tripping, 2 hrs. PU DST Tools, 1 hr. run 2,000' water blanket, 1 hr. cut drilling line, 1 hr. DST #2. REMARKS: Running DST #2 in Wolfcamp formation from 13,049'-13,383', (334').
Daily Cost: \$12,330 Cum. Cost: \$1,660,072

9/24/97 Day 55: Depth 13,475 ; Ftg. past 24 hrs. 92'; Avg. ft/hr 13; Sand; DRLG;; MW 10, Vis 29, pH 9.5, CI 195000, Bit # 13: WOB 30K; RPM 50; Cum. Hrs. 26 1/2; Cum. Ftg. 401; SPM 90; Pressure 2300; Past 24 hrs. 4 hrs. finish DST #2, 10 hrs. tripping, 2 hrs. LD DST Tools, 1/2 hr. wash & ream 60' to bottom, 7 1/2 hr. drilling.
Daily Cost: \$15,730 Cum. Cost: \$1,675,802

DST #2 Remarks: Ran DST #2 in the Wolfcamp "C" formation from 13049' - 13383' (334')

Surface Action Initial Flow: Tool open w/weak blow, increased to 9" in bucket in 5 min., blow decreased to 6" in 15 min. Shut tool in.

Surface Action Final Flow: Opened w/weak blow, increased to 1# in 15 min., 3# in 20 min., opened on 1/2" surface shoke. Decreased to 2# in 25 min., .3/4# in 40 min., 1/2 # in 50 min., 3 ounces in 70 min., Shut tool in. Had gas to surface in 30 min. on final flow @ rate of approx. 33 mcfd. No fluid to surface.

IHYD	6490 #	
IFLOW	1138 # - 1078 #	15 min.
ISIP	1078 # - 1078 #	30 min.
FFLOW	1037 # - 1037 #	115 min.
FSIP	1037 # - 4258 #	180 min.
FHYD	6490 #	

Drill Pipe Recovery: 279' of slightly gas cut drilling fluid and 2,000' of water blanket. Drilling fluid sample chlorides 130,000, Rw .049 @ 60 deg. F, mud pit sample chlorides 181,000 PPM, Rw .049 @ 60 deg. F.

Sample Chamber Recovery 1,600 cc's of drilling fluid, Rw .049 @ 60 deg. F., chlorides 180,000 ppm., .465 cu. ft. gas. BHT 194 deg. F @ 13,031.

9/25/97 Day 56: Depth 13,609 ; Ftg. past 24 hrs. 134'; Avg. ft/hr 20; sand; RUNNING DST #3;; MW 10, Vis 29, CI 196000, Bit # 13: WOB 30K; RPM 50; Cum. Hrs. 33; Cum. Ftg. 535; SPM 90; Pressure 2300; Dev. 1 3/4 deg. @ 13,609'. Past 24 hrs.: 6 1/2 hrs. drilling, 1/2 hr. rig service, 1 1/4 hrs. circulate samples, 2 1/2 hrs. circulate for DST #3, 9 1/4 hrs. tripping, 2 hrs. PU DST tools, 2 1/4 hrs. DST #3.
Daily Cost: \$12,870 Cum. Cost: \$1,688,672

9/13/97 Day 44: Depth 12,604 ; Ftg. past 24 hrs. 0';Avg. ft/hr 0; Lime; CIRCULATING CSG.; MW 9.8, Vis 29, pH 10, CI 160000, Past 24 hrs. 2 1/2 hrs. trip in hole, 4 1/2 hrs. circulate gas off & spot 100 bbl. 11# pill on bottom, 11 1/2 hrs. LD DP & DC's, 1 hr. rig repair, 3 1/2 hrs. RU and start running 7 5/8" csg., 1 hr. circulating waiting on replacement PU machine.
Daily Cost: \$10,340 Cum. Cost: \$1,123,218

9/14/97 Day 45: Depth 12,604 ; Ftg. past 24 hrs. 0';Avg. ft/hr 0; Lime; WCC & NU BOP STACK;; Past 24 hrs. 1 1/2 hrs. wait on replacement, PU & LD machine, 8 1/2 hrs. run 7 5/8" csg., 2 hrs. clrc. csg., 1 3/4 hr. cement, 10 1/4 hrs. WOC.
Daily Cost: \$375,240 Cum. Cost: \$1,498,458

Casing: Ran 7 5/8" Second Intermediate Casing as follows:

<u>Joints Ran</u>	<u>Joint Description</u>	<u>Footage '</u>
	7 5/8" Halliburton Float Shoe	1.65 '
2	7 5/8", 39#, P-110, 8rd LTC, new API shoe joints	84.13 '
	7 5/8" Davis-Lynch Float Collar	1.25 '
276	7 5/8", 39#, P-110, 8rd LTC, new API casing	12535.31 '
277 joints	Total Casing	12622.34 '
	Less Above KB	18.34 '
	Casing set @	12604.00 '

Ran centralizers in middle of first shoe joint and on collars of joints #3, 5, 7, 9, 206, 207, 208, 209. Halliburton cmt'd w/550 sacks of Class "H" Lite containing 1/4#/sack flocele + 5# sack gilsonite + 6% gel + .4% Halad - 9 + .2% HR-7 mixed @ 12.20 ppg, yield 2.09 cu. ft./sk., mixing water 11.18 gals./sack followed by 300 sacks of Class "H" containing .3% CFR-3 + .5% gas stop + .3% HR-4 mixed @ 16.40 ppg, yield 1.06 cu.ft./sk., mixing water 4.27 gals./sk. Plug down to 12,516' w/580# @ 7:40 PM CST, 9-13-97. Floats held OK.

9/15/97 Day 46: Depth 12,604 ; Ftg. past 24 hrs. 0';Avg. ft/hr 0; Lime; PU 3 1/2" DP;; Bit # 11: 6 1/2" RBI C37LRG; 12, 12, 12;BHA: bit, 6 pt. Reamer, short DC, IBS, 1 DC, IBS, 29 DC's. Past 24 hrs. 12 hrs. testing BOP's & choke manifold, 12 PU DC's & DP. REMARKS: Tested BOP choke manifold, all floor valves and safety valves to 7,500# OK. Tested annular preventor to 3,500# OK. Tested csg. to 2,500# for 30 min., held OK. At report time, PU DP @ 5400'.
Daily Cost: \$24,960 Cum. Cost: \$1,523,418

9/16/97 Day 47: Depth 12,604 ; Ftg. past 24 hrs. 0';Avg. ft/hr 0; Lime; TIH W/BIT;; MW 9.8, Vis 29, pH 9.5, CI 160000, Bit # 11: Past 24 hrs. 13 3/4 hrs. finish PU DP, 9 hrs. trip to unplug jets in bit, 1 1/4 hr. unplug bit & BH reamer. REMARKS: Finish PU DP and tagged FC. PU Kelly to start drilling out and could not pump through drill string. Tried to reverse out and were not successful. TOOH and found bit & BH reamer plugged w/scale & rust. Unplugged same and TIH @ report time.
Daily Cost: \$21,747 Cum. Cost: \$1,545,165

9/17/97 Day 48: Depth 12,649 ; Ftg. past 24 hrs. 45';Avg. ft/hr 5.6; Lime & Shale; WASHING TO BOTTOM;; MW 9.8, Vis 29, pH 9.5, CI 160000, Bit # 12: 6 1/2" Reed HP62A, 14, 14, 14;WOB 25K; RPM 50; SPM 90; Pressure 2200; Past 24 hrs. 11 1/2 hrs. tripping, 8 hrs. drilling, 1/2 hr. test casing to 2500#, 2 hrs. drill out shoe joints, 1 1/2 hrs. pump repairs, 1/2 hr. service rig.
Daily Cost: \$19,411 Cum. Cost: \$1,564,576

9/18/97 Day 49: Depth 12,721 ; Ftg. past 24 hrs. 72';Avg. ft/hr 3; Shale; DRLG;; MW 10, Vis 29, pH 9.5, CI 195000, WOB 25K; RPM 50; Cum. Hrs. 23 1/4; Cum. Ftg. 72; SPM 92; Pressure 2300; Past 24 hrs. 23 1/4 hrs. drilling, 3/4 hr. wash & ream 30' to bottom.
Daily Cost: \$16,063 Cum. Cost: \$1,580,639

9/19/97 Day 50: Depth 12,834 ; Ftg. past 24 hrs. 113';Avg. ft/hr 4.7; Shale; DRLG;; MW 10.0, Vis 29, pH 9.5, CI 195,000, Bit # 12: WOB 30K; RPM 50; Cum. Hrs. 45 1/4; Cum. Ftg. 185; SPM 92; Pressure 2300; Distribution Past 24 Hrs. 22 hrs. drlg, 1/2 hr. rig service, 1 1/2 hr. Totco.
Daily Cost: \$21,011 Cum. Cost: \$1,601,650

9/20/97 Day 51: Depth 12,974 ; Ftg. past 24 hrs. 140';Avg. ft/hr 6.2; Shale; DRLG;; MW 10.0, Vis 29, pH 9.5, CI 195,000, Bit # 12: WOB 30K; RPM 50; Cum. Hrs. 67 1/2; Cum. Ftg. 325; SPM 92; Pressure 2300; Time Distribution Past 24 Hrs. 22 1/4 hrs. drlg, 1/2 hr rig service, 1 1/4 hr Totco.
Daily Cost: \$14,771 Cum. Cost: \$1,616,421

9/21/97 Day 52: Depth 13,074 ; Ftg. past 24 hrs. 100';Avg. ft/hr 7.5; Sand & Lime; WAITING ON DST TOOLS;; MW 10.0, Vis 29, pH 9.5, CI 195,000, Bit # 12: WOB 30K; RPM 50; Cum. Hrs. 80 3/4; Cum. Ftg. 425;
Daily Cost: \$12,330 Cum. Cost: \$1,628,751



9/5/97 Day 36: Depth 11,950 ; Ftg. past 24 hrs. 49'; Avg. ft/hr 13; Shale, Lime & Sand; RUNNING DST #1;; MW 9.8, Vis 29, pH 10, CI 160000, Bit # 9: WOB 50K; RPM 60; Cum. Hrs. 30 3/4; Cum. Ftg. 382; SPM 105; Pressure 1700; Dev. 1/2 deg. 11,932'. Past 24 hrs. 3 3/4 hrs. drilling, 1 1/4 hr. Totco, 4 1/4 hrs. circulating for DST #1, 11 hrs. strapping & tripping, 2 1/2 hrs. PU DST Tools, 1 hr. DST #1. REMARKS: Strapped out of hole on DST #1. Tally was 12' shallow to board depth. Corrected out 12' on depth.

Daily Cost: \$10,690

Cum. Cost: \$981,752

9/6/97 Day 37: Depth 11,995 ; Ftg. past 24 hrs. 45'; Avg. ft/hr 11; Shale; DRLG;; MW 9.8, Vis 28, pH 10, CI 162000, Bit # 9: WOB 55K; RPM 60; Cum. Hrs. 35 1/4; Cum. Ftg. 415; SPM 105; Pressure 1700; BHA: bit, bit sub, 23 DC's, 2-x overs. Past 24 hrs. 5 1/2 hrs. DST #1, 9 1/2 hrs. tripping, 1 1/2 hrs. LD DST Tools, 2 1/4 hrs. rig repair, 3/4 hrs. circ., 4 1/2 hrs. drilling.

Daily Cost: \$13,540

Cum. Cost: \$995,292

DST #1 Remarks: Ran DST #1 in the Wolfcamp B formation from 11882' - 11963' (81')

Surface Action Initial Flow: Tool open w/good blow, increased to 15# in 7 min., opened on 1/2" surface choke. Blow decreased to 12# in 15 min. Shut tool in. Had GTS 4 min. into initial shut in.

Surface Action Final Flow: Opened w/good blow, increased to 9# in 2 min. on 1/2" surface choke. Decreased to 8# in 5 min., 5# in 15 min., 2# in 30 min., 20 ounces in 60 min., and 18 ounces in 90 min. Shut tool in. No fluid to surface.

IHYD 5830 #

IFLOW 124 # - 145 # 15 min.

ISIP 145 # - 1486 # 30 min.

FFLOW 104 # - 124 # 90 min.

FSIP 124 # - 6430 # 240 min.

FHYD 5910 #

Drill Pipe Recovery: 240" of slightly gas cut drilling fluid. Drilling fluid sample Rw .49 @ 60 deg. F, chlorides 195,000 ppm., Mud pit sample chlorides 195,000 PPM, Rw .049 @ 60 deg. F.

Sample Chamber Recovery 1,200 cc's of drilling fluid, Rw .049 @ 60 deg. F., chlorides 195,000 ppm., trace of gas. BHT 192 degrees F @ 11,864'.

9/7/97 Day 38: Depth 12,130 ; Ftg. past 24 hrs. 135'; Avg. ft/hr 8.5; Shale; DRLG;; MW 9.8, Vis 29, pH 10, CI 162000, Bit # 9: WOB 55K; RPM 60; Cum. Hrs. 51 3/4; Cum. Ftg. 550; SPM 105; Pressure 1700; Past 24 hrs. 16 hrs. drilling, 1/2 hr. rig service, 7 1/2 hrs. tripping for hole. REMARKS: Had to trip for hole in DP 83 stds. Down. Had hole 17" above pin end.

Daily Cost: \$10,895

Cum. Cost: \$1,006,187

9/8/97 Day 39: Depth 12,305 ; Ftg. past 24 hrs. 175'; Avg. ft/hr 7.4; Shale; DRLG;; MW 9.8, Vis 28, pH 10, CI 162000, Bit # 9: WOB 55K; RPM 60; Cum. Hrs. 74 3/4; Cum. Ftg. 725; SPM 105; Pressure 1700; Past 24 hrs. 23 1/2 hrs. drilling, 1/2 hr. rig service & work BOP's.

Daily Cost: \$12,005

Cum. Cost: \$1,018,192

9/9/97 Day 40: Depth 12,355 ; Ftg. past 24 hrs. 50'; Avg. ft/hr 10; Sh; DRLG;; MW 9.8, Vis 29, pH 10.0, CI 160,000, Bit # 10: 9 1/2" HTC J-44C, 14, 14, 14, WOB 55K; RPM 60; Cum. Hrs. 4; Cum. Ftg. 47; SPM 105; Pressure 1700; Past 24 hrs.: 5 hrs. drlg., 15 3/4 hrs. tripping for holes in D.P., 1/2 hr. service rig, 1/2 hr. change rotating head rubber, 2 1/2 hrs. circ. off gas. REMARKS: Had to trip for 2 holes in D.P. One hole was 88 stds. down, 2nd hole was 2 jts. above D.C.'s, cracked tool jt. in HWDP

Daily Cost: \$21,714

Cum. Cost: \$1,039,906

9/10/97 Day 41: Depth 12,572 ; Ftg. past 24 hrs. 217'; Avg. ft/hr 10; Shale; DRLG;; MW 9.8, Vis 29, pH 10.5, CI 160000, Bit # 10: WOB 55K; RPM 60; Cum. Hrs. 26 1/2; Cum. Ftg. 264; SPM 105; Pressure 1700; 22 hrs. drilling, 1/2 hr. rig service, 1 hr. Totco, 1/2 hr. rig repair.

Daily Cost: \$11,320

Cum. Cost: \$1,051,226

9/11/97 Day 42: Depth 12,604 ; Ftg. past 24 hrs. 32'; Avg. ft/hr 4; Lime; LOGGING;; MW 9.8, Vis 29, pH 10.5, CI 160000, Past 24 hrs. 8 hrs. drilling, 1 1/2 hr. rig service, 3 1/2 hrs. circ. for logs, 5 1/2 hrs. TOOH for logs, 6 1/2 hrs. RU & log.

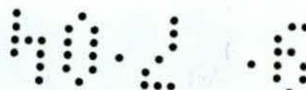
Daily Cost: \$18,462

Cum. Cost: \$1,069,688

9/12/97 Day 43: Depth 12,604 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Lime; CIRCULATING OFF GAS;; MW 9.8, Vis 29, pH 10.5, CI 160000, SPM 105; Pressure 1700; Past 24 hrs. 16 1/2 hrs. finish logging, 4 hrs. start TTH, 1 hr. circ. off gas, 2 hrs. cut drilling line, 1/2 hr. pull wear bushing.

Daily Cost: \$43,190

Cum. Cost: \$1,112,878



8/24/97 Day 24: Depth 8,565 ; Ftg. past 24 hrs. 560'; Avg. ft/hr 24; Lime & Shale; MILLING;; MW 8.4, Vis 28, pH 9.5, CI 30000, Bit # 6: WOB 50K; RPM 60; Cum. Hrs. 48 3/4; Cum. Ftg. 1253; SPM 105; Pressure 1800; Dev. 1/4 deg. @ 8287'. Past 24 hrs. 22 3/4 hrs. drilling, 1 1/4 hr. Totco & rig service.
Daily Cost: \$10,280 Cum. Cost: \$803,606

8/25/97 Day 25: Depth 9,030 ; Ftg. past 24 hrs. 465'; Avg. ft/hr 20; Lime & Shale; DRLG;; MW 8.5, Vis 28, pH 10, CI 30000, Dev. 1 deg. @ 8725'. Past 24 hrs. 23 hrs. drilling, 1 hr. Totco & rig service.
Daily Cost: \$10,280 Cum. Cost: \$813,886

8/26/97 Day 26: Depth 9,288 ; Ftg. past 24 hrs. 258'; Avg. ft/hr 18; Shale & Lime; DRLG;; MW 8.9, Vis 28, pH 9.5, CI 30,000, Bit # 7: 9 1/2" Sec. M84S, 12,12,12WOB 50KK; RPM 60; Cum. Hrs. 11 1/2; Cum. Ftg. 203; SPM 105; Dev. 1/2 deg @ 9,085. Past 24 hrs.: 14 hrs. drlg., 7 hrs. bit trip, 1 hr. wash & ream 60' to btm.
Daily Cost: \$23,455 Cum. Cost: \$837,341

8/27/97 Day 27: Depth 9,538 ; Ftg. past 24 hrs. 250'; Avg. ft/hr 18; Lime & Shale; DRLG;; MW 8.9, Vis 28, pH 9.5, CI 62000, Bit # 7: WOB 50K; RPM 60; Cum. Hrs. 24 3/4; Cum. Ftg. 453; SPM 105; Pressure 1800; Past 24 hrs. 13 1/4 hrs. drilling, 1/2 hr. service rig, 9 1/2 hrs. tripping for holes in DP. 3/4 hr. pump repairs.
Daily Cost: \$12,814 Cum. Cost: \$850,155

8/28/97 Day 28: Depth 9,951 ; Ftg. past 24 hrs. 413'; Avg. ft/hr 18; Lime & Shale; DRLG;; MW 9.1, Vis 28, pH 10, CI 62000, Bit # 7: WOB 50K; RPM 60; Cum. Hrs. 46 1/2; Cum. Ftg. 866; SPM 105; Pressure 1800; Dev. 1/4 deg. @ 9580'. Past 24 hrs. 22 3/4 hrs. drilling, 1 1/4 hrs. Totco & rig service.
Daily Cost: \$17,165 Cum. Cost: \$867,320

8/29/97 Day 29: Depth 10,428 ; Ftg. past 24 hrs. 477'; Avg. ft/hr 20; Lime & Shale; DRLG;; MW 9.3, Vis 29, pH 10, CI 88000, Bit # 7: WOB 50K; RPM 60; Cum. Hrs. 70 1/4; Cum. Ftg. 1343; SPM 105; Pressure 1800; Dev. 1/4 deg. @ 10049. Past 24 hrs. 22 3/4 hrs. drilling, 1 1/4 hrs. Totco & rig service.
Daily Cost: \$13,638 Cum. Cost: \$880,958

8/30/97 Day 30: Depth 10,534 ; Ftg. past 24 hrs. 106'; Avg. ft/hr 22; Lm; Cutting drlg. line;; MW 9.3, Vis 29, pH 9.5, CI 88,000, Bit # 7: WOB 50K; RPM 60; Cum. Hrs. 73 3/4; Cum. Ftg. 1449; SPM 105; Pressure 1800; Past 24 hrs.: 3 1/2 hrs. drlg., 1/2 hr. rig service, 20 hrs. tripping for holes in D.P.
Daily Cost: \$11,255 Cum. Cost: \$892,213

8/31/97 Day 31: Depth 10,936 ; Ftg. past 24 hrs. 402'; Avg. ft/hr 20; Lm & Sh; DRLG;; MW 9.4, Vis 29, pH 9.5, CI 94,000, Bit # 7: WOB 50K; RPM 60; Cum. Hrs. 93; Cum. Ftg. 1851; SPM 105; Pressure 2,000#; Dev. 1/4 deg. @ 10,542'. Past 24 hrs.: 19 1/4 hrs. drlg., 3/4 hr. Totco, 1 hr. cut drlg. line, 2 1/2 hrs. finish TIH, 1/2 hr. rig service.
Daily Cost: \$19,411 Cum. Cost: \$911,624

9/1/97 Day 32: Depth 11,182 ; Ftg. past 24 hrs. 246'; Avg. ft/hr 20; Lm; DRLG;; MW 9.4, Vis 29, pH 9.5, CI 94,000, Bit # 8: 9 1/2" Varel 547C, 12,13,13; WOB 50K; RPM 60; Cum. Hrs. 11; Cum. Ftg. 230; SPM 105; Pressure 2,000; Dev. 1/2 deg. @ 10,952'. Past 24 hrs. 12 1/2 hrs. drlg., 1/2 hr. totco, 1 hr. install rotating head, 9 hrs. trip for bit, 1 hr. wash & ream 60' to btm. REMARKS: Strapped OOH on bit trip. Made 20' correction to depth. Strap was 20' shallow to board.
Daily Cost: \$14,340 Cum. Cost: \$925,964

9/2/97 Day 33: Depth 11,540 ; Ftg. past 24 hrs. 358'; Avg. ft/hr 17; Lm & Sd; DRLG;; MW 9.4, Vis 29, pH 9.5, CI 124,000, Bit # 8: WOB 50K; RPM 60; Cum. Hrs. 33 1/2; Cum. Ftg. 588; SPM 105; Pressure 2000; Dev.: 1/2 deg @ 11,432'. Past 24 hrs.: 22 1/2 hrs. drlg., 1 1/2 hr. totco & rig service.
Daily Cost: \$12,173 Cum. Cost: \$938,137

9/3/97 Day 34: Depth 11,612 ; Ftg. past 24 hrs. 72'; Avg. ft/hr 9; Sh; DRLG;; MW 9.4, Vis 29, pH 9.5, CI 124,000, Bit # 9: 9 1/2" HTC ATMSSR, 14,14,14WOB 50K; RPM 60; Cum. Hrs. 3; Cum. Ftg. 32; SPM 105; Pressure 1700; Past 24 hrs.: 8 1/2 hrs. drlg. 1/2 hr. service rig, 11 1/2 hrs. trip for bit, 1 1/2 hr. cut drlg. line, 1 1/2 hr. rig repair, 1/2 hr. wash & ream 60' to btm.
Daily Cost: \$21,340 Cum. Cost: \$959,477

9/4/97 Day 35: Depth 11,913 ; Ftg. past 24 hrs. 301'; Avg. ft/hr 12; Sh, Sd. & Lm; DRLG;; MW 9.8, Vis 29, pH 9.5, CI 160,000, Bit # 9: WOB 55K; RPM 60; Cum. Hrs. 27; Cum. Ftg. 333; SPM 105; Pressure 1700; Past 24 hrs.: 24 hrs. drlg.
Daily Cost: \$11,585 Cum. Cost: \$971,062



8/15/97 Day 15: Depth 4,211 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; WOC;; Past 24 hrs. wash csg. to bottom, 1 hr. RU Halliburton, 3 hrs. circ. csg., 2 1/2 hrs. cmt'g, 14 1/2 hrs. WOC & NU.
Daily Cost: \$222,078 Cum. Cost: \$683,918

Casing: Ran 10 3/4 First Intermediate Casing as follows:

<u>Joints Ran</u>	<u>Joint Description</u>	<u>Footage '</u>
	10 3/4" Halliburton Float Shoe	1.60 '
2	10 3/4", 51#, L-80, BTC, new API shoe joints	87.79 '
	10 3/4" Halliburton Float Collar	1.00 '
94	10 3/4", 51#, L-80, BTC, new API casing	4125.78 '
96 joints		
	Total Casing	4216.78 '
	Less Above KB	5.17 '
	Casing set @	4211.00 '

Ran centralizers in middle of first shoe joint and on collars of joints #4, 6, 8. Halliburton cmt'd w/3,100' sacks of Class "C" Lite containing 1/4#/sack flocele +3#/sk. Gilsonite + 4% gel + 6# salt/sack mixed @ 12.60 ppg, yield 2.02 cubic feet/sk., mixing water 10.68 gals./sack followed by 500 sacks of Class "C" Neet containing 2% CaCl2 mixed @ 14.80 ppg, yield 1.34 cubic feet/sk., mixing water 6.31 gals./sk. Plug down 4,127" w/1650# @ 3:00 PM CST, 8-15-97. Floats held OK. Circ. 250 sacks to the pit.

8/16/97 Day 16: Depth 4,211 ; Ftg. past 24 hrs. 0'; TIH w/bit;; MW 8.4, Vis 28, pH 9.5, Bit # 5: 9 1/2" STC F-3, 12,12,12BHA: bit, bit sub, 1 - 7 1/2" DC, 3 pt. reamer, 1 - 7 1/2" DC, 3 pt. reamer, 21 - 7 1/2" & 7" DC's
Daily Cost: \$27,185 Cum. Cost: \$711,103

8/17/97 Day 17: Depth 4,841 ; Ftg. past 24 hrs. 670'; Avg. ft/hr 38; Sand; Drilling;; MW 8.7, Vis 28, pH 9.5, Bit # 5: WOB 50K; RPM 60; Cum. Hrs. 17 1/4; Cum. Ftg. 670; SPM 105; Pressure 1800#; Dev.: 1 deg. @ 4,345', 1 deg. @ 4831'. Past 24 hrs.: 3 1/2 hrs. PU BHA & TIH, 1 3/4 hrs. drill out shoe joints, 1/2 hr. test csg. to 1500#, o.k., 17 1/4 hrs. drlg., 1 hr. totco. REMARKS: Pressure tested csg. to 1,500#, o.k. Tested BOP stack, choke manifold, all floor valves to 5,000#, o.k.
Daily Cost: \$9,905 Cum. Cost: \$721,008

8/18/97 Day 18: Depth 5,700 ; Ftg. past 24 hrs. 859'; Avg. ft/hr 37; Sand; Drilling;; MW 8.7, Vis 28, pH 10.0, Bit # 5: WOB 50K; RPM 60; Cum. Hrs. 40 1/4; Cum. Ftg. 1489; SPM 105; Pressure 1800#; Dev.: 1/4 deg. @ 5332'. Past 24 hrs.: 23 hrs. drlg., 1 hr. totco & rig service.
Daily Cost: \$9,905 Cum. Cost: \$730,913

8/19/97 Day 19: Depth 6,252 ; Ftg. past 24 hrs. 552'; Avg. ft/hr 23; Sand & Lime; DRLG;; MW 8.6, Vis 28, pH 9.5, CI 40000, Bit # 5: WOB 50K; RPM 60; Cum. Hrs. 63 3/4; Cum. Ftg. 2041; Dev. 3/4 @ 5832'. Past 24 hrs. 23 1/2 hrs. drilling, 1/2 hr. Totco & rig service.
Daily Cost: \$11,386 Cum. Cost: \$742,299

8/20/97 Day 20: Depth 6,705 ; Ftg. past 24 hrs. 453'; Avg. ft/hr 19; Sand & Lime; DRLG;; MW 8.6, Vis 28, pH 9.5, CI 40000, Bit # 5: WOB 50K; RPM 60; Cum. Hrs. 86 1/4; Cum. Ftg. 2494; SPM 105; Pressure 1800; 23 1/2 hrs. drilling, 1/2 hr. Totco & rig service.
Daily Cost: \$14,608 Cum. Cost: \$756,907

8/21/97 Day 21: Depth 7,135 ; Ftg. past 24 hrs. 430'; Avg. ft/hr 18; Sd & Sh; DRLG;; MW 8.6, Vis 28, pH 10.0, CI 40,000, Bit # 5: WOB 50K; RPM 60; Cum. Hrs. 103 3/4; Cum. Ftg. 2924; SPM 105; Pressure 1800#; Dev. 1 1/2 deg. @ 6832'. Past 24 hrs. 23 1/2 hrs. drlg., 1/2 hr. totco & rig service.
Daily Cost: \$10,213 Cum. Cost: \$767,120

8/22/97 Day 22: Depth 7,392 ; Ftg. past 24 hrs. 257'; Avg. ft/hr 17; Lime & Sand; DRLG;; MW 8.8, Vis 28, pH 9.5, CI 44000, Bit # 6: 9 1/2" Sec S86F; (2, 12, 12; WOB 50K; RPM +0; Cum. Hrs. 3 1/2; Cum. Ftg. 80; SPM 105; Pressure 1800; Dev. 1/2 deg. @ 7312'. Past 24 hrs. 15 1/4 hrs. drilling, 1/4 hr. Totco, 3 1/2 hrs. bit trip, 2 hrs. wash & ream 80' to bottom.
Daily Cost: \$15,345 Cum. Cost: \$782,465

8/23/97 Day 23: Depth 8,005 ; Ftg. past 24 hrs. 613'; Avg. ft/hr 26; Lime & Shale; DRLG;; MW 8.4, Vis 28, pH 9.5, CI 30000, Bit # 6: WOB 50K; RPM 60; Cum. Hrs. 26; Cum. Ftg. 693; Dev. 1 deg. @ 7790'. Past 24 hrs. 22 1/2 hrs. drilling, 1 1/2 hrs. Totco & rig service.
Daily Cost: \$10,861 Cum. Cost: \$793,326



8/6/97 Day 6: Depth 1,993 ; Ftg. past 24 hrs. 529'; Avg. ft/hr 30; Salt & Anhydrite; TOO H TO UNPLUG BIT;; MW 10, Vis 29, pH 9.5, CI 195000, Bit # 2: WOB 35-50K; RPM 75; Cum. Hrs. 28; Cum. Ftg. 978; Dev. 2 deg. @ 1539', 2 deg. @ 1663', 2 deg. @ 1787'. Past 24 hrs. 18 hrs. drlg., 1/2 hr. Totco, 1/2 hr. rig service, 1/2 hr. restart generators, 1 hr. attempt to unplug bit, 3 1/2 hrs. TOO H. REMARKS: Generators overheated and all three went down, let cool and restarted ok. While running Totco @ 1,993', bit became plugged, all attempts to unplug bit were unsuccessful. At report time TOO H to unplug bit.
Daily Cost: \$52,907 Cum. Cost: \$327,157

8/7/97 Day 7: Depth 2,258 ; Ftg. past 24 hrs. 265'; Avg. ft/hr 15; Salt & Anhydrite; DRLG;; MW 10, Vis 29, pH 9, CI 195000, Bit # 3: 14 3/4"; RR; 18, 18, 18; WOB 35K; RPM 75; Cum. Hrs. 17 3/4; Cum. Ftg. 265; SPM 90/90; Pressure 1500; Dev. 2 1/4 deg. @ 1945', 2 1/2 deg. @ 2070'. Past 24 hrs. 2 1/2 hrs. tripping, 1/2 hr. wash & ream 60' to bottom, 1/2 hrs. service rig, 17 3/4 hrs. drilling, 3/4 hr. Totco, 2 hrs. rig repair. REMARKS: Low clutch air line broke and had to be replaced.
Daily Cost: \$12,947 Cum. Cost: \$340,104

8/8/97 Day 8: Depth 2,583 ; Ftg. past 24 hrs. 325'; Avg. ft/hr 15; Salt & Anhydrite; DRLG;; MW 10, Vis 29, pH 9.5, CI 195000, Bit # 3: WOB 50K; RPM 60; Cum. Hrs. 39 1/2; Cum. Ftg. 590; SPM 90/90; Pressure 1500; Dev. 2 1/4 deg. @ 2243', 1 1/2 deg. @ 2383'. Past 24 hrs. 2 1/4 hrs. Totco, 21 3/4 hrs. drlg. REMARKS: Started losing 50-60 bbls of fluid per hour @ 2275'. Pumping LCM sweeps around. At report time, fluid loss down to 10-20 bbls. per hour. Continuing to pump LCM sweeps.
Daily Cost: \$19,182 Cum. Cost: \$359,286

8/9/97 Day 9: Depth 2,960 ; Ftg. past 24 hrs. 377'; Avg. ft/hr 15; DRLG;; MW 9.9, Vis 29, pH 9.0, CI 195000, Bit # 3: WOB 65K; RPM 65; Cum. Hrs. 61 1/4; Cum. Ftg. 967; SPM 105; Pressure 1000; Dev. 1 1/4 deg. @ 2589', 1 deg. @ 2789'. Past 24 hrs. 1 3/4 hrs. Totco, 1/4 hr. rig service, 21 3/4 hrs. drilling. REMARKS: Losing 30-40 bbls./hr. fluid. Continue pumping sweeps.
Daily Cost: \$19,297 Cum. Cost: \$378,583

8/10/97 Day 10: Depth 3,290 ; Ftg. past 24 hrs. 330'; Avg. ft/hr 14; Salt & Anhydrite; DRLG;; MW 9.9, Vis 29, pH 9.5, CI 195000, Bit # 3: WOB 65K; RPM 65; Cum. Hrs. 85 1/4; Cum. Ftg. 1297; SPM 705; Pressure 1000; Dev. 1 deg. @ 2992', 3/4 deg. @ 3208'. Past 24 hrs. 22 1/2 hrs. drilling, 1 hr. Totco, 1/2 hr. service rig. REMARKS: Losing 30-40 bbls of fluid per hour.
Daily Cost: \$12,657 Cum. Cost: \$391,240

8/11/97 Day 11: Depth 3,548 ; Ftg. past 24 hrs. 258'; Avg. ft/hr 10; Anhydrite; DRLG;; MW 9.9, Vis 29, pH 9.5, CI 195000, Bit # 3: WOB 60K; RPM 65; Cum. Hrs. 107 1/4; Cum. Ftg. 1555; Dev. 2 deg. @ 3396'. Past 24 hrs. 23 hrs. drilling, 1 hr. Totco & rig service. REMARKS: Losing 30-40 bbls. fluid per hour. Continue pumping LCM sweeps.
Daily Cost: \$12,487 Cum. Cost: \$403,727

8/12/97 Day 0: Depth 3,720 ; Ftg. past 24 hrs. 172'; Avg. ft/hr 11.12; Lime; DRLG;; MW 10, Vis 29, pH 9, CI 195000, Bit # 4: 14 3/4 STC F-3 RR; 11, 11, 11; WOB 40K; RPM 65; Cum. Hrs. 12 1/2; Cum. Ftg. 156; SPM 105; Pressure 2200; Dev. 2 1/2 deg. @ 3,553', 2 1/2 deg. @ 3,651'. Past 24 hrs. 1/2 hr. rig service, 15 hrs. drilling, 1 hr. Totco, 6 hrs. bit trip, 1 1/2 hr. wash & ream 110' to bottom. REMARKS: Hole still losing 30-40 BFPH. Continue w/LCM sweeps.
Daily Cost: \$19,447 Cum. Cost: \$423,174

8/13/97 Day 13: Depth 4,112 ; Ftg. past 24 hrs. 392'; Avg. ft/hr 18; Lime & Sand; DRLG;; MW 10, Vis 29, pH 9.5, CI 195000, Bit # 4: WOB 60K; RPM 65; Cum. Hrs. 35; Cum. Ftg. 548; SPM 105; Pressure 2200; Dev. 2 1/4 deg. @ 3740', 1 deg. @ 3834', 1 1/4 deg. @ 4036'. Past 24 hrs. 22 1/2 hrs. drilling, 1 1/2 hrs. Totco & rig service. REMARKS: Hole taking 20-25 BFPH. Continue w/LCM sweeps.
Daily Cost: \$11,577 Cum. Cost: \$434,751

8/14/97 Day 14: Depth 4,211 ; Ftg. past 24 hrs. 99'; Avg. ft/hr 24; Lime; RUNNING 10 3/4" CSG.; MW 10, Vis 29, pH 9.5, Solids 190000, Bit # 4: WOB 50K; RPM 65; Cum. Hrs. 39; Cum. Ftg. 647; SPM 105; Pressure 2200; Past 24 hrs. 4 hrs. drilling, 1/2 hr. Totco, 4 1/2 hrs. TOO H, 8 1/2 hrs. RU & run 10 3/4" csg., 3 1/2 hrs. circ., 2 1/2 hrs. wait on casing tong hose, 1/2 hr. circ. csg. REMARKS: Strapped out of hole, no correction.
Daily Cost: \$27,089 Cum. Cost: \$461,840

Penwell Energy, Inc

Well History

OATMAN

From 1/1/1920 through 4/3/2000

822' FNL & 2315' FWL, Sec. 6, Blk. 54, T-5-S, Abst. 2147, Survey T&P RR. Co./G.N. Gentry
Reeves County, TX

Directions: From intersection Bus. 20 & FM Hi. 2119, follows Hi 2119 for 8.7 miles. Then turn right going NE for .5 miles to the Kirk et at Well No. 1. Then from Kirk et at No. 1 go .1 miles NE to gate, Go thru gate and continue along Ranch road .6 miles to fence and barn. Then go N. along W side fence .5 miles and road turns Westerly, continue .4 miles to road inter. Then go N. along Ranch road 1.2 miles, Location is .1 miles West of road in thick brush.

8/1/97 Day 1: Depth 644 ; Ftg. past 24 hrs. 604'; Avg. ft/hr 26; Surface Rock; DRLG;; MW 9.0, Vis 36, Bit # 1: 20"; RT; 18, 18, 18; WOB 50K; RPM 90; Cum. Hrs. 22 3/4; Cum. Ftg. 604; GD PZ 10, 5 1/2" X10; SPM 90/94; Pressure 1000; BHA: bit, x-over sub, shock sub, 1-10" DC, 3 pt. Reamer, 1-10" DC, 3 pt. Reamer, 3-10" DC's, x-over, 12-8" DC's. Past 24 hrs. 22 3/4 hrs. drilling, 1 1/4 hrs. Totco. REMARKS: MIRU Norton Drilling Co., Rig #9. 7-26-97 thru 7-30-97. Spudded 20" surface hole @ 6:00 AM CST 7-31-97.

Daily Cost: \$129,630

Cum. Cost: \$129,630

8/2/97 Day 2: Depth 1,100 ; Ftg. past 24 hrs. 496'; Avg. ft/hr 32; Anhy.; Waiting on magnet.; MW 9.5, Vis 34, Bit # 1: WOB 50K; RPM 90; Cum. Hrs. 37 1/2; Cum. Ftg. 1060; SPM 90; Pressure 1000; Dev. 1 deg. @ 887'; 1 1/2 deg. @ 1100'. Past 24 hrs.: 14 3/4 hrs. drlg., 1 hr. Totco, 1 hr. circ. hole, 4 3/4 hrs. tripping, 2 1/2 hrs. Wait on magnet.

Daily Cost: \$8,845

Cum. Cost: \$138,475

8/3/97 Day 3: Depth 1,100 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Anhy; Cementing surface csg.; Past 24 hrs.: 1 hr. wait on magnet, 11 1/4 hrs. trip for cone, 3/4 hr. fish for cone, 8 hrs. running 16" surface csg., 1 hr. circ. & work csg., 1/2 hr. RU Halliburton, 1 1/2 hrs. cement csg.

Daily Cost: \$53,365

Cum. Cost: \$191,840

8/4/97 Day 4: Depth 1,100 ; Ftg. past 24 hrs. 0'; Avg. ft/hr 0; Anhy; WOC;; MW 10.0, Vis 29, pH 10.0, Cl 160,000, Bit # 2: 14 3/4" Sec. SS85, 18,18,18BHA: bit, shock sub, 1 - 10" D.C., 3 pt. reamer, 1 - 10" D.C., 3 pt. reamer, 3 - 9 1/2" DC's, X-over, 12 - 8 3/4" DC's. Size DP 5", No. DC's 17, OD 8 3/4", 9 1/2", DC Length 542, DC Wt. 62,000#. Past 24 hrs.: 1/2 hr. finish cementing surface csg., 23 1/2 hrs. WOC, weld on "A" section & NU BOP.

Daily Cost: \$10,585

Cum. Cost: \$202,425

Casing: Ran 16" Surface Casing as follows:

<u>Joints Ran</u>	<u>Joint Description</u>	<u>Footage'</u>
	16" Halliburton Notched Texas Pattern Shoe	1.30'
2	16", 75#, J-55, BTC, new API shoe joints	85.86'
	16" Halliburton Float Collar	1.60'
24	16", 75#, J-55, BTC, new API casing	930.92'
26 joints		
	Total Casing	1019.68'
	Less Above KB	4.68'
	Casing set @	1015'

Stopped two jts. off btm. to install circ. sweage. After installing sweage, could not move csg. Had full circ. but could not move csg. All attempts to move csg. were unsuccessful. Decided to cmt. csg. two jts. off btm. Ran centralizers in middle of first shoe jt. and on collars of jts. #3,5,7. Halliburton cmt'd 2/710 sks. of PBCZ Cl. "C" cmt. containing 1/4#/sk. flocele mixed @ 12.8 ppg., yield 1.88 ft 3. Ft., mixing water 10.26 gals./sk. followed by 275 sks. of PBCZ Cl. "C" cmt. containing 1/4#/sk. flocele mxd @ 13.50 ppg., yield 1.63 ft 3. Ft., mixing water 8.37 gals./sk. Plug down to 930' w/500# @ 6:30 AM CST 8/3/97. Float held o.k. Circ'd 60 sks. to the pit.

8/5/97 Day 5: Depth 1,464 ; Ftg. past 24 hrs. 449'; Avg. ft/hr 42; Salt & Anhydrite; DRLG;; MW 10, Vis 29, pH 9.5, Cl 195000, Bit # 2: WOB 30-35K; RPM 75; Cum. Hrs. 10 1/2; Cum. Ftg. 449; SPM 90/90; Pressure 1400; Dev. 2 deg. @ 1464'. Past 24 hrs. 4 hrs. PU BHA & TIH, 7 1/2 hrs. repairing flow nipple & flow line, 1/2 hr. test Hydriil & manifold, 1 1/2 hr. drlg. plug & shoe jts., 10 1/2 hrs. drlg. REMARKS: Tested surface casing, Hydriil and manifold to 600# for 30 min., all held ok.

Daily Cost: \$71,825

Cum. Cost: \$274,250

File No.

MF 099055 13.

Drilling Reports

Date Filed:

8/14/97

Jerry E. Patterson, Commissioner

By

[Signature]

7002 0860 0007 9386 6006

U.S. Postal Service
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Certified Mail Provides:

- A mailing receipt
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IMPORTANT: Save this receipt and present it when making an inquiry.

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

August 5, 2004

CERTIFIED MAIL 702 0860 0007 9386 6006

CrownQuest Operating, LLC
ATTN: Ms. Charlotte Mitchell
303 W. Wall Street, Suite 1400
Midland, TX 79701-5126

Pd

RE: State of Texas Lease MF-099055

Dear Ms. Mitchell:

Please be advised that CrownQuest continues to have an outstanding liability with the Texas General Land Office concerning the subject lease. Total revenue of \$5,064.34, comprised of \$1,512.36 in penalty and \$3,551.98 in interest is still due.

Additional royalty, totaling \$8,940.08, associated with the subject lease was paid by Penwell Energy, prior lease operator, on June 28, 2004. CrownQuest/EnerQuest Oil & Gas Ltd. became the operator in January 2003, assuming responsibility for the lease –

- (i) including all liabilities, obligations, penalties, and the like incurred by any prior lessee, including liability to the state for unpaid royalty; and,
- (ii) assume all obligations, liabilities, and consequences arising from all covenants, conditions, and terms (whether express or implied) of the lease.¹

GLO Attorney Wendell Smith contacted you regarding this matter previously; see enclosed letter. However, CrownQuest did not and has not responded.

Please remit payment of \$5,064.34 to this office by September 3, 2004. If you have any questions, please call me at 512/463-6860.

Sincerely,

Michael W. Dunn
Energy Inspections Division
Energy Resources

Enclosures

cc: Wendell Smith, Attorney, Texas General Land Office

¹ Texas Administrative Code, Title 31. Natural Resources and Conservation, Part I. General Land Office, Chapter 9, Exploration and Leasing of Oil and Gas, §9.8(c)(2)(g).

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

July 12, 2004

Crownquest Operating LLC
303 W. Wall Street, Suite 1400
Midland, TX 79701-5126

Re: State Lease M-99055

Dear Sir or Madam:

Your request for a waiver of penalties and interest has been forwarded to this office for review and presentation to the School Land Board. The School Land Board makes the final decision on all waiver requests. To that end the following criteria have been established for reviewing such requests:

1. Was the error that led to the billing brought to the attention of the staff; and/or
2. Is the reduction in conjunction with the resolution of an outstanding audit issue?

I have not been presented with any information showing the applicability of either of the above to your situation. This billing was not generated as a result of Crownquest or Penwell Energy advising this office of a problem. Nor are there any outstanding audit issues being resolved. What we appear to have is the current and past operator disagreeing as to who should be responsible for paying the penalty and interest. Royalties totaling \$8,940.08 have been paid, leaving \$5,064.34 outstanding.

Based on the above the staff recommendation to the School Land Board would be to deny the waiver request. However, should you have additional information that you feel should be taken into consideration, please forward the same to me at your earliest convenience. In the absence of any additional information I would ask that you remit the penalty and interest as soon as possible.

Thank you, in advance for your prompt and courteous attention to this matter.

Sincerely,

Wendell Smith, Attorney
512-463-5132
512-463-6311 (fax)

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

File No. M-99055 (14)
Ltr to Crownquest
from Energy Inspections

Date Filed: 3/5/04

Jerry E. Patterson, Commissioner

By _____

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

November 4, 2004

Larry Noble
Pacesetter Energy Inc.
3700 Forums Dr., Suite 104
Flower Mound, TX 75028

RE: Assignment filing; GLO ID 4866

Dear Mr. Noble,

The General Land Office received the following instrument(s) and has filed them in the appropriate files. Please see attached "Exhibit A" for reference.

Assignment and Bill of Sale, executed July 1st, 2004, from
Enerquest Oil & Gas, Ltd.; Fort Worth Royalty Company, Penroc
Oil Corp., as Assignors, to Pacesetter Energy, Inc., as Assignee.
MF099055.

Filing fees of \$0.00 were received in connection with the above lease. If you have any questions, please feel free to call me at (800) 998-4GLO, or at my direct number at (512) 463-6521.

Sincerely,

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Exhibit "A"

<i>GLO ID</i>		<i>County</i>	<i>Lease</i>
4866	Reeves		MF099055

Thursday, November 04, 2004

4866
ASSIGNMENT AND BILL OF SALE

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

STATE OF TEXAS
COUNTY OF REEVES

§
§ KNOW ALL MEN BY THESE PRESENTS
§

That, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, **ENERQUEST OIL & GAS, LTD.**, a Texas limited partnership ("EnerQuest"), whose address is P. O. Box 11150, Midland, Texas 79702; **FORT WORTH ROYALTY COMPANY** ("Fort Worth") whose address is 1315 West 10th Street, Fort Worth, Texas 76102-3437 and **PENROC OIL CORPORATION** ("Penroc") whose address is P. O. Box 2769, Hobbs, New Mexico 88241 (EnerQuest, Fort Worth and Penroc hereinafter collectively referred to as "Assignor"), subject to the reservation contained herein, do hereby grant, bargain, sell, transfer, assign, convey and deliver unto

Pacesetter Energy Inc
3700 Forum Dr., Ste 104
Flower Mound, TX 75025

ENERQUEST OIL & GAS, LTD.
THE OIL & GAS ASSET
CLEARINGHOUSE, INC.
P.O. BOX 67178
HOUSTON, TX 77267-1788

(herein called "Assignee"), subject to all of the provisions hereof and all acreage, depth and other limitations, if any, set forth on Exhibit "A" attached hereto and made a part hereof, all of the following (herein called collectively the "Interests"):

1. All of Assignor's right, title and interest in and to the entire estates created by the oil, gas and mineral leases described in Exhibit "A" (herein called the "Leases"), and Assignor's interest in the land covered thereby (herein called the "Land"), together with all property and rights incident thereto, including all rights in, to and under all agreements, product purchase and sales contracts, leases, permits, rights-of-way, easements, licenses, farmouts, options and orders directly relating thereto, insofar only to the extent the same relate directly to the Leases and Land and are assignable or partially assignable;
2. All of Assignor's right, title and interest in and to the well(s) and wellbore(s);
3. All of Assignor's right, title and interest in and to all unitization, pooling and operating agreements, and the units created thereby, including any and all units formed under orders, regulations, rules and other official acts of any governmental authority having requisite jurisdiction, together with any right, title and interest of Assignor created thereby in the Land, insofar only to the extent the same relate directly to the Leases and Land and are assignable or partially assignable.
4. Assignor grants and conveys hereby to Assignee, full right of subrogation with respect to warranties running in favor of Assignor.

Assignor specifically excepts from this Assignment and reserves unto Assignor and Assignor's successors and assigns, any and all overriding royalty interests, surface fee interests, fee mineral interests and/or royalty interests owned by Assignor in the Leases and/or Land. Any interest reserved hereunder shall be owned by the parties comprising Assignor in the manner that said parties currently own the interest which is being reserved, if any.

Anything to the contrary contained herein notwithstanding, the Interests shall not cover or include any seismic, geophysical or other similar information or data.

Assignee, by its acceptance hereof, understands and agrees to the following provisions:

1. ASSIGNOR MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO TITLE TO THE INTERESTS. ASSIGNOR MAKES NO REPRESENTATION OR WARRANTY OF ANY KIND WHATSOEVER WITH RESPECT TO THE QUANTITY, QUALITY, CONDITION, SIZE, WEIGHT, SERVICEABILITY OR ANY OTHER ASPECT OF THE WELLS, WELLBORES, FIXTURES, EQUIPMENT OR OTHER PERSONAL PROPERTY INCLUDED AMONG THE INTERESTS, WHICH ARE BEING CONVEYED HEREBY TO ASSIGNEE AS IS, WHERE IS, AND WITH ALL FAULTS AND DEFECTS AND IN THEIR PRESENT CONDITION AND STATE OF REPAIR. ASSIGNOR SPECIFICALLY DISCLAIMS,

WITHOUT LIMITATION, ALL WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND ANY REPRESENTATIONS OR WARRANTIES, EITHER EXPRESS OR IMPLIED, THAT THE INTERESTS, OR ANY PORTION THEREOF, ARE IN COMPLIANCE WITH ANY FEDERAL OR STATE ENVIRONMENTAL RULES OR REGULATIONS.

2. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ASSIGNEE AGREES TO INDEMNIFY, PROTECT, DEFEND AND HOLD HARMLESS ASSIGNOR, ITS PARTNERS AND ASSIGNORS AND ITS PARTNERS' LEGAL REPRESENTATIVES, AGENTS, ATTORNEYS IN FACT, AFFILIATED COMPANIES, DIRECTORS, OFFICERS, STOCKHOLDERS, EMPLOYEES, HEIRS, SUCCESSORS AND ASSIGNS ("INDEMNITEES") FOR, FROM AND AGAINST ANY AND ALL CLAIMS, LOSSES, DAMAGES, LIABILITIES, LIENS, FINES, PENALTIES, CAUSES OF ACTION, SUITS, CHARGES, JUDGMENTS, ADMINISTRATIVE ORDERS, REMEDIATION REQUIREMENTS, ENFORCEMENT ACTIONS OF ANY KIND, AND ALL COSTS AND EXPENSES INCURRED IN CONNECTION THEREWITH (INCLUDING, BUT NOT LIMITED TO, ATTORNEYS' FEES AND EXPENSES, INCLUDING ALL ATTORNEY'S FEES AND EXPENSES INCURRED BY ASSIGNOR IN ENFORCING THIS INDEMNITY) OF ANY NATURE, KIND OR DESCRIPTION OF ANY PERSON OR ENTITY, DIRECTLY OR INDIRECTLY ARISING OUT OF, CAUSED BY OR RESULTING FROM (IN WHOLE OR IN PART), OWNERSHIP, POSSESSION, CONTROL AND/OR OPERATION OF THE INTERESTS, WHETHER BY ASSIGNOR OR ASSIGNEE, OR, ANY ACT OR OMISSION OF ASSIGNOR, ASSIGNEE, ANY SUBCONTRACTOR, ANYONE DIRECTLY OR INDIRECTLY EMPLOYED BY THEM, OR ANYONE THAT THEY CONTROL OR EXERCISE CONTROL OVER WHETHER OCCURRING BEFORE OR AFTER THE EFFECTIVE DATE HEREOF, (COLLECTIVELY, "LIABILITIES"), EVEN IF SUCH LIABILITIES ARISE FROM OR ARE ATTRIBUTED TO THE SOLE OR CONCURRENT NEGLIGENCE OF ASSIGNOR. IN THE EVENT OF FAILURE BY ASSIGNEE TO FULLY PERFORM IN ACCORDANCE WITH THIS INDEMNIFICATION PARAGRAPH, ASSIGNOR AT ITS OPTION, AND WITHOUT RELIEVING ASSIGNEE OF ITS OBLIGATIONS HEREUNDER, MAY SO PERFORM, BUT ALL COSTS AND EXPENSES SO INCURRED BY ASSIGNOR IN THAT EVENT SHALL BE REIMBURSED BY ASSIGNEE TO ASSIGNOR, TOGETHER WITH INTEREST ON THE SAME FROM THE DATE ANY SUCH EXPENSE WAS PAID BY ASSIGNOR UNTIL REIMBURSED BY ASSIGNEE, AT THE RATE OF INTEREST PROVIDED TO BE PAID ON JUDGEMENTS, BY THE LAW OF THE JURISDICTION TO WHICH THE INTERPRETATION OF THIS AGREEMENT IS SUBJECT. THIS INDEMNIFICATION SHALL NOT BE LIMITED TO DAMAGES, COMPENSATION OR BENEFITS PAYABLE UNDER INSURANCE POLICIES, WORKERS' COMPENSATION ACTS, DISABILITY BENEFIT ACTS OR OTHER EMPLOYEES' BENEFIT ACTS. THIS INDEMNITY IS INTENDED TO ALLOCATE RESPONSIBILITY BETWEEN ASSIGNOR AND ASSIGNEE, AMONG OTHER THINGS, AS CONTEMPLATED BY SECTION 107(E)(1) OF CERCLA AND ANY SUCCESSOR FEDERAL STATUTE, RULE OR REGULATIONS OR COMPARABLE STATE STATUTE, RULE OR REGULATION.
3. IN THE EVENT, AND ONLY IN THE EVENT THAT THE INDEMNITY PROVISIONS IN THE PRECEDING PARAGRAPH (2) ARE DECLARED VOID, OR OTHERWISE ARE UNENFORCEABLE, THEN, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ASSIGNEE AGREES TO INDEMNIFY, PROTECT, DEFEND AND HOLD HARMLESS INDEMNITEES FOR, FROM AND AGAINST THE LIABILITIES, EVEN IF SUCH LIABILITIES ARISE FROM OR ARE ATTRIBUTED TO THE SOLE OR CONCURRENT NEGLIGENCE OF ASSIGNOR. IN THE EVENT OF FAILURE BY ASSIGNEE TO FULLY PERFORM IN ACCORDANCE WITH THIS INDEMNIFICATION PARAGRAPH, ASSIGNOR AT ITS OPTION, AND WITHOUT RELIEVING ASSIGNEE OF ITS OBLIGATIONS HEREUNDER, MAY SO PERFORM, BUT ALL COSTS AND EXPENSES SO INCURRED BY ASSIGNOR IN THAT EVENT SHALL BE REIMBURSED BY ASSIGNEE TO ASSIGNOR, TOGETHER WITH INTEREST ON THE SAME FROM THE DATE ANY SUCH EXPENSE WAS PAID BY ASSIGNOR UNTIL REIMBURSED BY ASSIGNEE, AT THE RATE OF INTEREST PROVIDED TO BE PAID ON JUDGEMENTS, BY THE LAW OF THE JURISDICTION TO WHICH THE INTERPRETATION OF THIS AGREEMENT IS SUBJECT. THIS INDEMNIFICATION SHALL NOT BE LIMITED TO DAMAGES, COMPENSATION OR BENEFITS PAYABLE UNDER INSURANCE POLICIES, WORKERS' COMPENSATION ACTS, DISABILITY BENEFIT ACTS OR OTHER EMPLOYEES' BENEFIT ACTS. THIS INDEMNITY IS INTENDED TO ALLOCATE RESPONSIBILITY BETWEEN ASSIGNOR AND ASSIGNEE, AMONG OTHER THINGS, AS CONTEMPLATED BY SECTION 107(E)(1) OF CERCLA AND ANY SUCCESSOR FEDERAL STATUTE, RULE OR REGULATIONS OR COMPARABLE STATE STATUTE, RULE OR REGULATION. IN ORDER TO SUPPORT THESE INDEMNITY OBLIGATIONS TO THE EXTENT THAT THEY ARE APPLICABLE TO LIABILITIES ARISING FROM OR ARE ATTRIBUTED TO THE NEGLIGENCE OF ASSIGNOR, ASSIGNEE SHALL OBTAIN AND MAINTAIN AT ITS OWN EXPENSE INSURANCE EQUAL TO THE GREATER OF (1)



\$500,000 OR (2) THE MAXIMUM AMOUNT AUTHORIZED BY LAW. THE INSURANCE PROVIDED IN SUPPORT OF THESE INDEMNITY OBLIGATIONS SHALL IN NO WAY LIMIT ASSIGNEE'S INDEMNITY OBLIGATION.

4. Assignee is an experienced and knowledgeable investor in oil and gas properties and has the financial and business expertise to evaluate the merits and risks of the transactions covered by this Assignment and Bill of Sale. Assignee acknowledges that it has had the opportunity to seek the advice of persons it deemed appropriate concerning the consequences of the provisions of this Assignment and Bill of Sale.
5. Subject to the other provisions hereof, Assignee shall assume full liability and responsibility from and after the Effective Date of this Assignment and Bill of Sale for any wells located on the Leases as the same pertain to the Interests assigned by Assignor to Assignee hereunder and for the operating and/or plugging and abandonment of such wells.
6. Assignee shall pay all Ad Valorem taxes assessed against the Leases and Land from and after January 1, 2004, insofar only as such Ad Valorem taxes are applicable to or pertain to the Interests assigned by Assignor to Assignee hereunder, the production therefrom and the wells, wellbores, fixtures, equipment and other personal property therein and thereon or used and obtained in connection therewith.
7. This Assignment and Bill of Sale is specifically made subject to all royalties, overriding royalties, payments out of production, oil payments and other similar interests, burdening the Leases and/or Land, if any of record on the date hereof, and Assignee shall bear and assume the responsibility for any such burdens. This Assignment and Bill of Sale is further made subject to the terms, conditions and provisions of any agreements to which the Leases, Land, permits, rights-of-way, easements and licenses assigned hereby may be subject, if any, whether or not of record, and Assignee shall comply with all the terms, conditions and provisions of any such agreements. Assignee shall assume and perform all valid obligations of Assignor accruing after the Effective Date of this Assignment and Bill of Sale under or in respect of the interests and rights assigned hereunder.
8. Immediately following the execution of this Assignment and Bill of Sale, Assignee shall secure all lease and operating bonds, permits and other similar documents necessary to operate the Interests which may be required by any Federal, State or local governmental authority having requisite jurisdiction over the Interests. Further, Assignee shall conduct all operations on the Interests in accordance with all applicable laws, rules and regulations.
9. Assignee acknowledges that it has had the opportunity to fully and completely inspect all environmental and other conditions relating to the Land.
10. Assignee shall pay all taxes occasioned by the sale of the Interests and all documentary, filing and recording fees required in connection with the filing and recording of this Assignment and Bill of Sale or any other types of conveyances related thereto.
11. Refunds to which Assignor may become entitled pursuant to overpayments made to royalty interest owners, overriding royalty interest owners, net profits interest owners, production payment owners or working interest owners (herein called collectively the "Owners") which are discovered by Assignee within one (1) year from the effective date of this Assignment shall remain the property of Assignor. In this regard, immediately after Assignee obtains knowledge of any such refunds, Assignee shall use best efforts to recoup the appropriate amount(s) from any such Owners by withholding the appropriate amounts from any payments made to such Owners or by abstaining from making any payment to such Owners, as the case may be. Any such refunds received or recouped by Assignee after the Effective Date of this Assignment and Bill of Sale and applicable to the period prior to the Effective Date of this Assignment and Bill of Sale shall constitute trust funds in the hands of Assignee for the benefit of Assignor, and Assignee shall promptly remit to Assignor the amount thereof. Assignee shall not, without the prior written approval of Assignor, take any action or agree to any compromise of settlement with such Owners which would diminish or reduce in any manner the amount of the refunds. Assignee shall promptly furnish Assignor copies of all correspondence to or from such Owners relating to such refunds.
12. Pursuant to the terms of the applicable operating agreements or by operation of law, the other working interest owners in the Leases may owe certain amounts of money to Assignor which relate to the period of time prior to the Effective Date of this Assignment and Bill of Sale. Assignor's claim or right to such money which is discovered by Assignee within one (1) year from the Effective Date of this Assignment, does not constitute part of the Interests and shall remain the property of Assignor. Assignor hereby reserves any and all rights necessary to prosecute such claim or right to the fullest extent possible, including all accrued rights under the applicable operating agreements and amendments thereto, or by operation of law. Immediately after Assignee obtains knowledge of any such claim or right by Assignor, Assignee shall use best efforts to recoup the appropriate amount(s) from any working interest owner against whom Assignor may assert a claim or right as provided for



herein, or abstain from making any payment to such working interest owner as the case may be. Any funds received or recouped by Assignee or which Assignee abstains from paying after the Effective Date of this Assignment and Bill of Sale pursuant to a claim of Assignor hereunder shall constitute trust funds in the hands of the Assignee for the benefit of Assignor, and Assignee shall promptly remit to Assignor the amount thereof. Assignee shall not, without the written approval of Assignor, take any action or agree to any compromise or settlement with such working interest owner(s) which might diminish or reduce in any manner the amount of Assignor's claim or right to funds as set forth herein, or the recoupment provided for herein. Assignee shall promptly furnish Assignor copies of all correspondence to or from the working interest owners relating to such recoupment. Further, Assignor shall have the same rights as Assignee has under applicable operating agreements to audit the books and records of the operators of the Interests, and Assignor shall be entitled to collect from such operators all amounts claimed due for any period of time prior to the Effective Date of this Assignment and Bill of Sale as a result of such audits.

TO HAVE AND TO HOLD the Interests, together with all and singular the rights and appurtenances thereunto and in anywise belonging unto Assignee, its heirs and executors, successors and assigns, forever; and with full substitution and subrogation of Assignee, and all persons or entities claiming by, through and under Assignee, in and to all covenants, warranties and indemnities given or made by Assignor's predecessors in title and with full subrogation of all rights accruing under applicable statutes of limitation or prescription and all rights of action of warranty against all former owners of the Interests.

All subsequent conveyances or assignments of the Interests, in whole or in part, shall incorporate the covenants and limitations identical in substance to the foregoing for Assignor's continuing benefit, and shall similarly bind Assignee's successors and assigns.

References in this Assignment and Bill of Sale, including use of a pronoun, shall include, where applicable, masculine, feminine, singular or plural individuals or legal entities.

In the event of a dispute between the parties hereto in connection with this Assignment and Bill of Sale, the prevailing party in the resolution of such dispute, whether by litigation or otherwise, shall be entitled to full recovery of reasonable attorney's fees, costs and expenses incurred in connection therewith, including costs of court, against the non-prevailing party.

This Assignment and Bill of Sale shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and the covenants hereof shall run with the land.

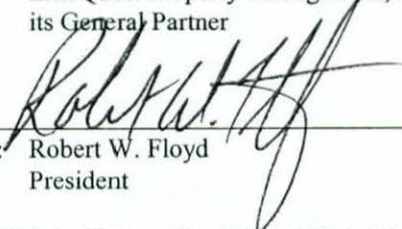
This Assignment and Bill of Sale may be executed in any number of counterparts by the parties hereto and may be assembled into one document for recording purposes. Each counterpart hereof shall be deemed to be an original instrument binding upon each Assignor executing the same, but all such counterparts shall constitute but one assignment.

IN WITNESS WHEREOF, this Assignment and Bill of Sale is executed this 15th day of July, 2004, but is effective as of August 1, 2004 at 7:00 a.m. (hereinafter referred to as the "Effective Date").

ASSIGNOR:

ENERQUEST OIL & GAS, LTD.

By: EnerQuest Property Management, LLC,
its General Partner

By: 
Name: Robert W. Floyd
Title: President

FORTH WORTH ROYALTY COMPANY

By: _____
Name: _____
Title: _____

PENROC OIL CORPORATION

By: _____
Name: _____
Title: _____

ASSIGNEE:

Procesetter Energy Inc

By: Robert L. Millard II
Robert L. Millard II, President

ACKNOWLEDGEMENTS

STATE OF TEXAS }
 }
COUNTY OF MIDLAND }

The foregoing instrument was acknowledged before me this 1st day of July, 2004, by Robert W. Floyd, President of EnerQuest Property Management, LLC, a Texas limited liability company, as General Partner of EnerQuest Oil & Gas, Ltd., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.



u. 7 2
Notary Public Signature

STATE OF TEXAS }
 }
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 2004, by _____ of Fort Worth Royalty Company, a _____ corporation, on behalf of said corporation.

Notary Public Signature

STATE OF NEW MEXICO }
 }
COUNTY OF LEA }

The foregoing instrument was acknowledged before me this _____ day of _____, 2004, by _____ of Penroc Oil Corporation, a _____ corporation, on behalf of said corporation.

Notary Public Signature



herein, or abstain from making any payment to such working interest owner as the case may be. Any funds received or recouped by Assignee or which Assignee abstains from paying after the Effective Date of this Assignment and Bill of Sale pursuant to a claim of Assignor hereunder shall constitute trust funds in the hands of the Assignee for the benefit of Assignor, and Assignee shall promptly remit to Assignor the amount thereof. Assignee shall not, without the written approval of Assignor, take any action or agree to any compromise or settlement with such working interest owner(s) which might diminish or reduce in any manner the amount of Assignor's claim or right to funds as set forth herein, or the recoupment provided for herein. Assignee shall promptly furnish Assignor copies of all correspondence to or from the working interest owners relating to such recoupment. Further, Assignor shall have the same rights as Assignee has under applicable operating agreements to audit the books and records of the operators of the Interests, and Assignor shall be entitled to collect from such operators all amounts claimed due for any period of time prior to the Effective Date of this Assignment and Bill of Sale as a result of such audits.

TO HAVE AND TO HOLD the Interests, together with all and singular the rights and appurtenances thereunto and in anywise belonging unto Assignee, its heirs and executors, successors and assigns, forever; and with full substitution and subrogation of Assignee, and all persons or entities claiming by, through and under Assignee, in and to all covenants, warranties and indemnities given or made by Assignor's predecessors in title and with full subrogation of all rights accruing under applicable statutes of limitation or prescription and all rights of action of warranty against all former owners of the Interests.

All subsequent conveyances or assignments of the Interests, in whole or in part, shall incorporate the covenants and limitations identical in substance to the foregoing for Assignor's continuing benefit, and shall similarly bind Assignee's successors and assigns.

References in this Assignment and Bill of Sale, including use of a pronoun, shall include, where applicable, masculine, feminine, singular or plural individuals or legal entities.

In the event of a dispute between the parties hereto in connection with this Assignment and Bill of Sale, the prevailing party in the resolution of such dispute, whether by litigation or otherwise, shall be entitled to full recovery of reasonable attorney's fees, costs and expenses incurred in connection therewith, including costs of court, against the non-prevailing party.

This Assignment and Bill of Sale shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and the covenants hereof shall run with the land.

This Assignment and Bill of Sale may be executed in any number of counterparts by the parties hereto and may be assembled into one document for recording purposes. Each counterpart hereof shall be deemed to be an original instrument binding upon each Assignor executing the same, but all such counterparts shall constitute but one assignment.

IN WITNESS WHEREOF, this Assignment and Bill of Sale is executed this 30th day of June, 2004, but is effective as of August 1, 2004 at 7:00 a.m. (hereinabove referred to as the "Effective Date").

ASSIGNOR:

ENERQUEST OIL & GAS, LTD.

By: EnerQuest Property Management, LLC,
its General Partner

By: _____

Name: Robert W. Floyd

Title: President

FORTH WORTH ROYALTY COMPANY

By: _____

Name: _____

Title: _____

PENROC OIL CORPORATION

By: [Signature]

Name: MOHAMMED YAMIN MERCHANT

Title: PRESIDENT



ASSIGNEE:

By: _____

ACKNOWLEDGEMENTS

STATE OF TEXAS }
 }
COUNTY OF MIDLAND }

The foregoing instrument was acknowledged before me this _____ day of _____, 2004, by Robert W. Floyd, President of EnerQuest Property Management, LLC, a Texas limited liability company, as General Partner of EnerQuest Oil & Gas, Ltd., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.

Notary Public Signature

STATE OF TEXAS }
 }
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 2004, by _____ of Fort Worth Royalty Company, a _____ corporation, on behalf of said corporation.

Notary Public Signature

STATE OF NEW MEXICO }
 }
COUNTY OF LEA }

The foregoing instrument was acknowledged before me this 30th day of JUNE, 2004, by MOHAMMED YAMIN MERCHANT, PRESIDENT of Penroc Oil Corporation, a TEXAS corporation, on behalf of said corporation.

Joy A. Buchelt
Notary Public Signature

MY COMMISSION EXPIRES: MAY 28, 2006

herein, or abstain from making any payment to such working interest owner as the case may be. Any funds received or recouped by Assignee or which Assignee abstains from paying after the Effective Date of this Assignment and Bill of Sale pursuant to a claim of Assignor hereunder shall constitute trust funds in the hands of the Assignee for the benefit of Assignor, and Assignee shall promptly remit to Assignor the amount thereof. Assignee shall not, without the written approval of Assignor, take any action or agree to any compromise or settlement with such working interest owner(s) which might diminish or reduce in any manner the amount of Assignor's claim or right to funds as set forth herein, or the recoupment provided for herein. Assignee shall promptly furnish Assignor copies of all correspondence to or from the working interest owners relating to such recoupment. Further, Assignor shall have the same rights as Assignee has under applicable operating agreements to audit the books and records of the operators of the Interests, and Assignor shall be entitled to collect from such operators all amounts claimed due for any period of time prior to the Effective Date of this Assignment and Bill of Sale as a result of such audits.

TO HAVE AND TO HOLD the Interests, together with all and singular the rights and appurtenances thereunto and in anywise belonging unto Assignee, its heirs and executors, successors and assigns, forever; and with full substitution and subrogation of Assignee, and all persons or entities claiming by, through and under Assignee, in and to all covenants, warranties and indemnities given or made by Assignor's predecessors in title and with full subrogation of all rights accruing under applicable statutes of limitation or prescription and all rights of action of warranty against all former owners of the Interests.

All subsequent conveyances or assignments of the Interests, in whole or in part, shall incorporate the covenants and limitations identical in substance to the foregoing for Assignor's continuing benefit, and shall similarly bind Assignee's successors and assigns.

References in this Assignment and Bill of Sale, including use of a pronoun, shall include, where applicable, masculine, feminine, singular or plural individuals or legal entities.

In the event of a dispute between the parties hereto in connection with this Assignment and Bill of Sale, the prevailing party in the resolution of such dispute, whether by litigation or otherwise, shall be entitled to full recovery of reasonable attorney's fees, costs and expenses incurred in connection therewith, including costs of court, against the non-prevailing party.

This Assignment and Bill of Sale shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and the covenants hereof shall run with the land.

This Assignment and Bill of Sale may be executed in any number of counterparts by the parties hereto and may be assembled into one document for recording purposes. Each counterpart hereof shall be deemed to be an original instrument binding upon each Assignor executing the same, but all such counterparts shall constitute but one assignment.

IN WITNESS WHEREOF, this Assignment and Bill of Sale is executed this 1st day of July, 2004, but is effective as of August 1, 2004 at 7:00 a.m. (hereinafter referred to as the "Effective Date").

ASSIGNOR:

ENERQUEST OIL & GAS, LTD.

By: EnerQuest Property Management, LLC,
its General Partner

By: _____
Name: Robert W. Floyd
Title: President

FORTH WORTH ROYALTY COMPANY

By: _____
Name: Robert W. Floyd
Title: General Partner

PENROC OIL CORPORATION

By: _____
Name: _____
Title: _____

ASSIGNEE:

By: _____

ACKNOWLEDGEMENTS

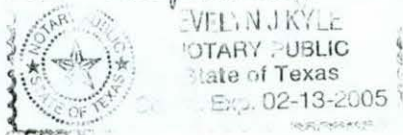
STATE OF TEXAS }
 }
COUNTY OF MIDLAND }

The foregoing instrument was acknowledged before me this _____ day of _____, 2004, by Robert W. Floyd, President of EnerQuest Property Management, LLC, a Texas limited liability company, as General Partner of EnerQuest Oil & Gas, Ltd., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.

Notary Public Signature

STATE OF TEXAS }
 }
COUNTY OF Tarrant }

The foregoing instrument was acknowledged before me this 15th day of July, 2004, by Steven G. Egan, General Partner of Fort Worth Royalty Company, a Texas limited liability corporation, on behalf of said corporation.



Evelyn J. Kyle
Notary Public Signature

STATE OF NEW MEXICO }
 }
COUNTY OF LEA }

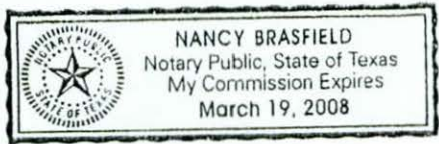
The foregoing instrument was acknowledged before me this _____ day of _____, 2004, by _____ of Penroc Oil Corporation, a _____ corporation, on behalf of said corporation.

Notary Public Signature

(Oatman)

STATE OF TEXAS }
COUNTY OF Harris }

The foregoing instrument was acknowledged before me this 14th day of July, 2004, by Robert L. Millard II, President of Pacesetter Energy Inc., a _____ corporation, on behalf of said corporation.



Nancy Brasfield
Notary Public Signature

STATE OF TEXAS }
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 2004, by _____ of _____, as General Partner of _____, a _____ limited partnership, on behalf of said _____ and said limited partnership.

Notary Public Signature

STATE OF TEXAS }
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 2004, by _____.

Notary Public Signature

EXHIBIT A

Book	Page	Date	Lessor	Lessee	Description
575	449	5/15/1997	Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust u/w/o Mabel Clark Reed	Penwell Energy, Inc.	East half and Northwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
575	506	5/15/1997	Rita Reed George, ssp	Penwell Energy, Inc.	East half and Northwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
575	553	5/15/1997	Warren Malcolm Clark, as Trustee of the Warren Maloclm Clark Trust u/w/o Mabel Clark Reed	Penwell Energy, Inc.	East half and Northwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
575	599	5/15/1997	W.W. Oatman	Penwell Energy, Inc.	East half and Northwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
574	411	4/4/1997	John C. Harris, III, ssp	Penwell Energy, Inc.	South half of Southwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
574	414	4/4/1997	Angela H. Caughlin, ssp	Penwell Energy, Inc.	South half of Southwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
574	417	4/4/1997	Mary C. Grimaldo, ssp	Penwell Energy, Inc.	South half of Southwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, Reeves County, Texas
574	802	4/4/1997	Bobbie G. Pirtle, ssp	Penwell Energy, Inc.	North half of Southwest quarter of Section 6, Block 54, Township 5, T&P Ry. Co. Survey, save and except the West 1/3 of the N/2 SW/4 & East 1/3 of N/2 SW/4 of Section 6

Certificate of Record

28.00
Recording Fee
12.00
~~Certified Copy Fee~~ refund
40.00
Total Paid

001748

FILED FOR RECORD

2004 JUL 26

Return to:

Oil & Gas Asset Clearinghouse
P.O. Box 671787
Houston, TX 77267-1787

COMPARED

McRae

THE STATE OF TEXAS, }
COUNTY OF REEVES. }

ANY PROVISION HEREIN WHICH RESTRICTS THE
SALE, RENTAL, OR USE OF THE DESCRIBED REAL
PROPERTY BECAUSE OF COLOR OR RACE IS INVALID
AND UNENFORCEABLE UNDER FEDERAL LAW.

I, hereby certify that this instrument with its certificates of authenticity was FILED on the
date and at the time stamped hereon and was duly RECORDED in the OFFICIAL PUBLIC
RECORDS of Real Property of Reeves County, Texas, as indicated.

OPR VOL. 681 PAGE 714 DATE RECORDED 7/27/2004



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

By: *Estelle Anaya*, Deputy

S/M Inc., Dallas 1-800-648-7022

File No. MF 099055 15.
Assignment
Date Filed: 11/4/04
By Jerry E. Patterson, Commissioner
[Signature]

11/4/04

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

COPY

September 9, 2004

Larry Noble
Pacesetter Energy, Inc.
3700 Forums Dr., Ste 104
Flower Mound, Texas 75028

RE: Partial Release State Lease MF099055
T&P Ry Co Sry, Blk 54, T5S, Sec. 6, 480 ac mol
Reeves County

Dear Mr. Noble:

Thank you for your letter of recent date and attached well data.

A review of our records indicates that we have not received a release of the referenced lease as required under the Development Clause Paragraph (15) and Paragraph 38 of Exhibit A. The Development Clause requires the Lessee to file a recorded or a certified copy of the release with the General Land Office. According to the information you provided it appears you should release all depths 100' below the deepest producing depth or 15,210'. In other words you will retain the N/2 of Section 6 being 320 acres, more or less, from the surface to 15,210'.

At your earliest convenience, please provide our office with a release of the terminated acreage along with the required filing fee of \$25.00.

Thank you for your cooperation, please let me know if you have any questions.

Sincerely,

Carl F. Bonn, CPL
Mineral Leasing
Office: (512) 463-5407
Fax: (512) 475-1543

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

PACESETTER ENERGY, INC.

2103

Ref Nbr	Inv Nbr	Inv Date	Vendor	GLO001	Check Date	10/7/2004	
003390	Release-Oatma	10/7/2004	Invoice Amount	Amount Paid	Disc Taken	Net	Check Amt
			25.00	25.00	0.00		X 25.00

05006427

Attn: Carl Bonn

RECEIVED
OCT 11 PM 2:01
ENERGY/INSTRUMENTS

126

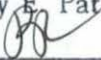
16.

File No. MF 099055

Letter and
Partial Release fee

Date Filed: 10/11/04

Jerry E. Patterson, Commissioner

By 

10.11.04

MF099055

PARTIAL RELEASE OF OIL AND GAS LEASES

State: Texas
County: Reeves
Lessee: Pacesetter Energy, Inc.
Effective Date: October 15, 2004

On May 15, 1997, the State of Texas, acting by and through its agents: Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust U/W/O Mabel Clark Reed; Rita Reed George; Warren Malcolm Clark, as Trustee of the Warren Malcolm Clark Trust U/W/O Mabel Clark Reed; and, W. W. Oatman, as Lessors, granted to Penwell Energy, Inc., as Lessee, Oil and Gas Leases (hereinafter referred to as the "Leases") variously recorded in Volume 575, at Pages 449, 506, 553, and 599 of the Records in the county and state named above, which Leases were on and covered the following lands in that county:

The E/2 & NW/4 of Section 6, Block 54, T.-5, T & P Railroad Company Survey

By a series of assignments the subsequent Lessee under the terms of the Oil and Gas Leases described herein above became Pacesetter Energy, Inc. (herein referred to as the "Lessee") who is now the holder of said Oil and Gas Leases. The Leases provide that at the end of their stated primary term, the Leases, and Lessee's rights in the Leases shall terminate as to all depths below 100 feet below the base of the deepest producing formation on the leased premises.

The primary terms of the Leases have elapsed and Lessee's continuous drilling operations have ceased.

For adequate consideration, Lessee relinquishes and releases the Leases and surrenders to the present owner(s) of the mineral estate the Lease as to the lands described above below the stratigraphic equivalent of the depth of 15,212 feet, as found in Penwell Energy, Inc.'s Oatman #1, Sidetrack #1 Well as identified on a Schlumberger Dual Lateralog ran on January 16, 1998. N/Z

Furthermore, Lessee relinquishes, releases and surrenders, to the present owners of the mineral estate, all of Lessee's rights, title and interests in the Leases as to that portion of the lands subject to this Lease, described as follows:

The SE/4 of Section 6, Block 54, T.-5, T & P Railroad Company Survey

This Partial Release is no way intended to release or impair Lessee's ownership and rights in the Leases as to lands which are not specifically described above.

xc: Mary Silva 2-2-05

This Partial Release is signed by Lessee as of the date of the acknowledgment below, but is deemed effective for all purposes as of the Effective Date stated above.

Pacesetter Energy, Inc.,
a Texas corporation

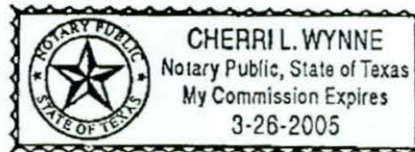
By:


Robert L. Millard II, President

State of Texas

County of ~~Tarrant~~

DEWTON



This instrument was acknowledged before me on this 9th day of NOVEMBER, 2004, by Robert L. Millard II, President of Pacesetter Energy, Inc., a Texas corporation, on behalf of said corporation.

My Commission Expires: 3-26-2005


Notary Public - State of Texas

Certificate of Record

10.00

Recording Fee

Certified Copy Fee

10.00

Total Paid

003073

2004

Return to:

(Envelope)

Pacesetter Energy, Inc.

3700 Jorns Dr., Ste 104

Flower Mound, TX 75028

M Chavez

COMPARED

THE STATE OF TEXAS, }
COUNTY OF REEVES. }

ANY PROVISION HEREIN WHICH RESTRICTS THE
SALE, RENTAL, OR USE OF THE DESCRIBED REAL
PROPERTY BECAUSE OF COLOR OR RACE IS INVALID
AND UNENFORCEABLE UNDER FEDERAL LAW.

I, hereby certify that this instrument with its certificates of authenticity was FILED on the
date and at the time stamped hereon and was duly RECORDED in the OFFICIAL PUBLIC
RECORDS of Real Property of Reeves County, Texas, as indicated.

OPR VOL. 688 PAGE 772 DATE RECORDED 12/15/04

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

By:

Norma Chavez

Deputy

FAX COVER SHEET

DATE: February 2, 2005
TO: Mr. Carl F. Bonn
FAX #: 512-475-1543
FROM: Paul Buckner
972/691.3332 (ext. 211)
972/874.8743 (fax)
pbuckner@pacesetterenergy.com

Number of pages (including cover page) 4

Subject:

Comments:

Paul

Should there be any problems with the transmission of this fax, please call 972/691.3332 (ext. 208)

THIS MESSAGE IS INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY WHICH IT IS ADDRESSED AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL AND EXEMPT FROM DISCLOSURE. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone and return the original message to us by mail. Thank you.

XC: Mary Silva 2-2-05

3700 Forums Drive - Suite 104, Flower Mound, Texas 75028

File No. MF-99055

Partial Release

Date Filed: 9/26/05

Jerry E. Patterson, Commissioner

By _____

#17

PARTIAL RELEASE

M-99055

9-26-05

JA

UNITED STATES POSTAL SERVICE

TX 780

31 OCT '16

PM 2:1



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

- Sender: Please print your name, address, and ZIP+4® in this box•

MF 099055

TRAVIS MATTHEWS

TEXAS GENERAL LAND OFFICE

PO BOX 12873

AUSTIN, TX 78711-2873

USPS TRACKING#



9590 9403 0530 5173 4157 46

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3.
- 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.

1. Article Addressed to:

Silverback Exploration, LLC
Attn: David Frye
1826 North Loop 1604 West
Suite 250
San Antonio, Texas 78248



9590 9403 0530 5173 4157 46

2. Article Number (Transfer from service label)

7009 0960 0001 1892 3591

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X☐ Agent☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

10/31/16

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☐ No

3. Service Type

☐ Adult Signature☐ Adult Signature Restricted Delivery☒ Certified Mail®☐ Certified Mail Restricted Delivery☐ Collect on Delivery☐ Collect on Delivery Restricted Delivery☐ Insured Mail

Mail Restricted Delivery

(00)

☐ Priority Mail Express®☐ Registered Mail™☐ Registered Mail Restricted Delivery☐ Return Receipt for Merchandise☐ Signature Confirmation™☐ Signature Confirmation Restricted Delivery

U.S. Postal Service™

CERTIFIED MAIL™ RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at www.usps.com®

OFFICIAL USE

Postage

\$

Certified Fee

Return Receipt Fee
(Endorsement Required)

Restricted Delivery Fee
(Endorsement Required)

Postmark
Here

Total Postage

Silverback Exploration, LLC

Sent To

Attn: David Frye

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

**1826 North Loop 1604 West
Suite 250**

City, State, ZIP+

San Antonio, Texas 78248

7009 0960 0001 1892 3591

Certified Mail Provides:

- A mailing receipt
- A unique identifier for your mailpiece
- A record of delivery kept by the Postal Service for two years

Important Reminders:

- Certified Mail may **ONLY** be combined with First-Class Mail® or Priority Mail®.
- Certified Mail is *not* available for any class of international mail.
- **NO INSURANCE COVERAGE IS PROVIDED** with Certified Mail. For valuables, please consider Insured or Registered Mail.
- For an additional fee, a *Return Receipt* may be requested to provide proof of delivery. To obtain Return Receipt service, please complete and attach a Return Receipt (PS Form 3811) to the article and add applicable postage to cover the fee. Endorse mailpiece "Return Receipt Requested". To receive a fee waiver for a duplicate return receipt, a USPS® postmark on your Certified Mail receipt is required.
- For an additional fee, delivery may be restricted to the addressee or addressee's authorized agent. Advise the clerk or mark the mailpiece with the endorsement "*Restricted Delivery*".
- If a postmark on the Certified Mail receipt is desired, please present the article at the post office for postmarking. If a postmark on the Certified Mail receipt is not needed, detach and affix label with postage and mail.

IMPORTANT: Save this receipt and present it when making an inquiry.

Search Criteria:

Lease Name: OATMAN, Lease No.: 171497 , Well No.: 1

Well Type: Gas

District: 08

Lease Production and Disposition

Date Range: Sep 2015 - Aug 2016

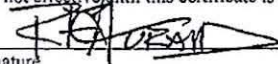
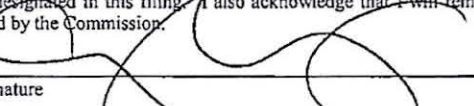
Date	GW Gas (M	Condensate	Production Disposition	Production Disposition	Operator N	Operator N	Field Name	Field No.
Sep 2015	1,215	1,215	0	0	ARRIS OPEI	33176	GREASEWC	36579200
Oct 2015	814	814	0	0				
Nov 2015	1,212	1,212	0	0				
Dec 2015	921	921	0	0				
Jan 2016	1,270	1,270	0	0				
Feb 2016	1,000	1,000	1	1				
Mar 2016	1,260	1,260	0	0				
Apr 2016	1,181	1,181	0	0				
May 2016	1,159	1,159	0	0				
Jun 2016	1,150	1,150	0	0				
Jul 2016	0	0	0	0	SILVERBAC	781913	GREASEWC	36579200
Aug 2016	0	0	0	0				
Total	11182	11182	1	1				

CERTIFICATE OF COMPLIANCE
AND TRANSPORTATION AUTHORITY

P-4

5/02—WWW-1

READ INSTRUCTIONS ON BACK

1. Field name exactly as shown on proration schedule Greasewood (Atoka)		2. Lease name as shown on proration schedule Oatman					
3. Current operator name exactly as shown on P-5 Organization Report Silverback Exploration, LLC		4. Operator P-5 no. 781913	5. Oil Lse/Gas ID no. 171497	6. County Reeves	7. RRC district 08		
8. Operator address including city, state, and zip code 1826 N LOOP 1604 W STE 250 San Antonio, TX 78248-4531		9. Well no(s) (see instruction E) 1					
		10. Classification ☐ Oil ☒ Gas ☐ Other (see instruction A)			11. Effective Date 7/1/2016		
12. Purpose of Filing. (Complete section a or b below.) (See instructions B and G)							
a. Change of: ☒ operator ☒ oil or condensate gatherer ☒ gas gatherer ☒ gas purchaser ☐ gas purchaser system code							
OR ☐ field name from: _____ ☐ lease name from: _____							
b. New RRC Number for: ☐ oil lease ☐ gas well ☐ other well (specify) _____ Due to: ☐ new completion or recompletion ☐ reclass oil to gas ☐ reclass gas to oil ☐ consolidation, unitization, or subdivision (oil lease only)							
13. Authorized GAS WELL, GAS or CASINGHEAD GAS Gatherer(s) and/or Purchaser(s). (See instruction G).							
Gatherer	Purchaser	Name of GAS WELL GAS or CASINGHEAD GAS Gatherer(s) or Purchaser(s) As Indicated in Columns to the Left (Attach an additional sheet in same format if more space is needed)			Purchaser's RRC Assigned System Code	Percent of Take	Full-well stream
X	X	Enterprise Products Operating, LLC (253161) RECEIVED ENTPO RRC OF TEXAS JUL 06 2016 OIL & GAS WELL COMPLIANCE AUSTIN, TX			0001	100	
14. Authorized OIL or CONDENSATE Gatherer(s). (See instruction G).							
Name of OIL or CONDENSATE Gatherer(s) - List Highest Volume Gatherer First (Attach an additional sheet in same format if more space is needed)				Percent of Take	RRC USE ONLY		
Enterprise Grude Oil LLC (253147)				100	Reviewer's initials: KT Approval date: 7/20/14		
15. PREVIOUS OPERATOR CERTIFICATION FOR CHANGE OF OPERATOR P-4 FILING. Being the PREVIOUS OPERATOR, I certify that operating responsibility for the well(s) designated in this filing, located on the subject lease has been transferred in its entirety to the above named Current Operator. I understand, as Previous Operator, that designation of the above named operator as Current Operator is not effective until this certificate is approved by the Commission.							
Name of Previous Operator Arris Operating, LLC				Signature 			
Name (print) Rich Aurand				☒ Authorized Employee of previous operator ☐ Authorized agent of previous operator (see instruction G)			
Title President				06/24/2016 (303) 825-0680			
				Date Phone with area code			
16. CURRENT OPERATOR CERTIFICATION. By signing this certificate as the Current Operator, I certify that all statements on this form are true and correct and I acknowledge responsibility for the regulatory compliance of the subject lease including plugging of well(s) pursuant to Rule 14. I further acknowledge that I assume responsibility for the physical operation, control, and proper plugging of each well designated in this filing. I also acknowledge that I will remain designated as the Current Operator until a new certificate designating a new Current Operator is approved by the Commission.							
Name (print) Ashley Martinez				Signature 			
Title Administrative Assistant				☒ Authorized Employee of current operator ☐ Authorized agent of current operator (see instruction G)			
				6/29/2014 (626) 215-3104			
				Date Phone with area code			
E-mail Address (optional)							

*PROCESSED AS AN OPERATOR CHANGE ONLY PER ASHLEY MARTINEZ

DAVID FRYE



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

Certified USPS 7009 0960 0001 1892 3591

October 27, 2016

Silverback Exploration, LLC
Attn: David Frye
1826 North Loop 1604 West, Suite 250
San Antonio, Texas 78248

Re: MF 099055 being 320 acres N/2 of Sec. 6, Blk. 54 T&P Ry Co., Reeves County Texas.

Dear Mr. Frye:

Our records indicate that API # 42-389-32134 has ceased to produce since July 1, 2016. It appears that this lease is terminated effective September 1, 2016 due to no production. The Texas Administrative Code dealing with Shut-In Royalty is Title 31, Part 1, Chapter 9, Subchapter C, Rule §9.36.

You have thirty days from the receipt of this letter in which to present evidence to the General Land Office that this termination has not occurred. If such evidence has not been presented at the expiration of the 30 day period, the lease shall be endorsed "terminated" with no further communication from this office prior to the endorsement.

Pursuant to the Texas Administrative Code, we request that you file with this office a certified, recorded copy of a Release of State Oil and Gas Lease, effective as of the termination date and recorded in the county in which the lease tract is located. After recording the release, mail a certified copy of the release, along with the filing fee of \$25.00, to my attention at the GLO.

We look forward to hearing from you.

Yours truly,

Travis Matthews
Landman, Energy Resources
512-463-5118
512-475-1543 (fax)
travis.matthews@glo.texas.gov

File No. MF099055

18

TERMINATION LETTER

Date Filed: 10-27-16

By TM George P. Bush, Commissioner

RELEASE OF OIL, GAS, AND MINERAL LEASE

STATE OF TEXAS §
 §
COUNTY OF REEVES §

Whereas, Warren Malcolm Clark, as Trustee of the Warren Malcolm Clark Trust u/w/o Mabel Reed Clark, as Agent for the State of Texas, Lessor and Penwell Energy, Inc., Lessee, entered into that certain Oil, Gas, and Mineral Lease dated May 15, 1997, recorded in Book 575, Page 553, Official Public Records of Reeves County, Texas, covering the following lands in Reeves County, Texas (the "Lease"):

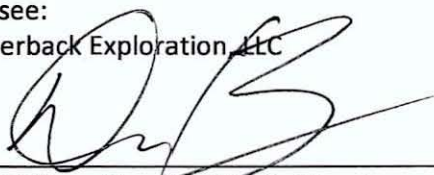
480.00 acres, more or less, being the East half (E/2) and the Northwest quarter (NW/4) of Section 6, Block 54, Township 5, T&P R.R. Company Survey, Reeves County, Texas.

Whereas, Silverback Exploration LLC ("Lessee"), a Delaware limited liability company, whose address is 1826 N Loop 1604 W, Suite 250, San Antonio, TX 78248, is the current owner of the Lease.

Now, therefore, for valuable and sufficient consideration received, Lessee does hereby forever **release, relinquish, surrender, and quitclaim** all of Lessee's right, title and interest in and to the Lease, and any extension or amendment thereof.

Executed as of the date of acknowledgement below, but effective as of September 27, 2016.

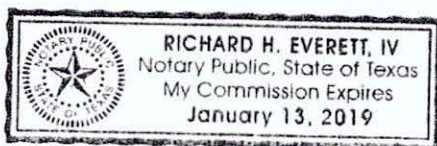
Lessee:
Silverback Exploration, LLC



David Frye, Vice President of Land

STATE OF TEXAS §
 §
COUNTY OF BEXAR §

This instrument was acknowledged before me on the 13th day of OCTOBER, 2016, by David Frye, Vice President of Land of Silverback Exploration, LLC, a Delaware limited liability company.

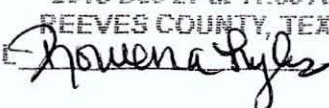




Notary Public, State of Texas

Return to:
E & G Energy, Inc.
4925 Greenville Ave. Suite 825
Dallas, Texas 75206

1 of 1

Inst No. 16-17420
DIANNE O. FLOREZ
COUNTY CLERK
2016 Dec 27 at 11:50 AM
REEVES COUNTY, TEXAS
By:  DEPUTY

True & Correct Copy of a
document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 1 of 1



THE STATE OF TEXAS
COUNTY OF REEVES

I, Dianne O. Florez, Clerk of the County Court in and for said County and State do hereby certify that the foregoing is a true and correct copy of Release oil & gas mineral lease dated October 13, 2016.

filed for record in my office this 27 day of December at 11:50 A.M., under Clerk's File No. 16-17420, to be recorded in the

Official Public Records
Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas
this 27 day of December, 2016.

By Myra Aranda Deputy.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

RELEASE OF OIL, GAS, AND MINERAL LEASE

STATE OF TEXAS §
 §
COUNTY OF REEVES §

Whereas, Carolyn C. Oatman, Trustee of the Carolyn C. Oatman Trust u/w/o Mabel Clark Reed, as Agent for the State of Texas, Lessor and Penwell Energy, Inc., Lessee, entered into that certain Oil, Gas, and Mineral Lease dated May 15, 1997, recorded in Book 575, Page 449, Official Public Records of Reeves County, Texas, covering the following lands in Reeves County, Texas (the "Lease"):

480.00 acres, more or less, being the East half (E/2) and the Northwest quarter (NW/4) of Section 6, Block 54, Township 5, T&P R.R. Company Survey, Reeves County, Texas.

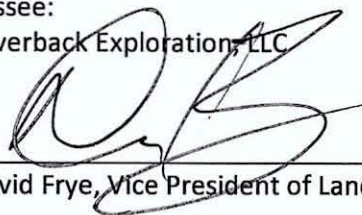
Whereas, Silverback Exploration LLC ("Lessee"), a Delaware limited liability company, whose address is 1826 N Loop 1604 W, Suite 250, San Antonio, TX 78248, is the current owner of the Lease.

Now, therefore, for valuable and sufficient consideration received, Lessee does hereby forever **release, relinquish, surrender, and quitclaim** all of Lessee's right, title and interest in and to the Lease, and any extension or amendment thereof.

Executed as of the date of acknowledgement below, but effective as of September 27, 2016.

Lessee:

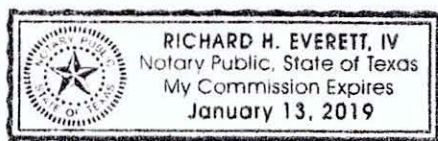
Silverback Exploration, LLC



David Frye, Vice President of Land

STATE OF TEXAS §
 §
COUNTY OF BEXAR §

This instrument was acknowledged before me on the 13TH day of OCTOBER, 2016, by David Frye, Vice President of Land of Silverback Exploration, LLC, a Delaware limited liability company.

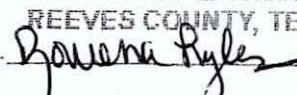




Notary Public, State of Texas

Return to:
E & G Energy, Inc.
4925 Greenville Ave. Suite 825
Dallas, Texas 75206

1 of 1

Inst No. 16-17421
DIANNE O. FLOREZ
COUNTY CLERK
2016 Dec 27 at 11:50 AM
REEVES COUNTY, TEXAS
By: RL  DEPUTY

True & Correct Copy of a
Document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 1 of 1



THE STATE OF TEXAS
COUNTY OF REEVES
I, Dianne O. Florez, Clerk of the County Court in and
for said County and State do hereby certify that the foregoing is a true and correct copy of
Release oil & gas mineral lease dated October 13
filed for record in my office this 27 day of December at
11:50 A.M., under Clerk's File No. 16-17421, to be recorded in the
Official Public Records
Records of Reeves County, Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas
this 27 day of December, 2016.
By Myra Aranda Deputy. DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

RELEASE OF OIL, GAS, AND MINERAL LEASE

STATE OF TEXAS §
 §
COUNTY OF REEVES §

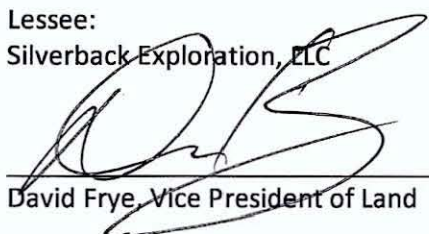
Whereas, W.W. Oatman, as Agent for the State of Texas, Lessor and Penwell Energy, Inc., Lessee, entered into that certain Oil, Gas, and Mineral Lease dated May 15, 1997, recorded in Book 575, Page 599, Official Public Records of Reeves County, Texas, covering the following lands in Reeves County, Texas (the "Lease"):

480.00 acres, more or less, being the East half (E/2) and the Northwest quarter (NW/4) of Section 6, Block 54, Township 5, T&P R.R. Company Survey, Reeves County, Texas.

Whereas, Silverback Exploration LLC ("Lessee"), a Delaware limited liability company, whose address is 1826 N Loop 1604 W, Suite 250, San Antonio, TX 78248, is the current owner of the Lease.

Now, therefore, for valuable and sufficient consideration received, Lessee does hereby forever **release, relinquish, surrender, and quitclaim** all of Lessee's right, title and interest in and to the Lease, and any extension or amendment thereof.

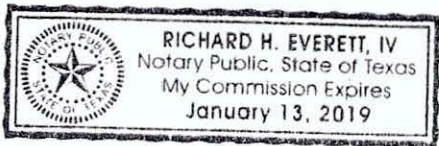
Executed as of the date of acknowledgement below, but effective as of September 27, 2016.

Lessee:
Silverback Exploration, LLC


David Frye, Vice President of Land

STATE OF TEXAS §
 §
COUNTY OF BEXAR §

This instrument was acknowledged before me on the 13TH day of OCTOBER, 2016, by David Frye, Vice President of Land of Silverback Exploration, LLC, a Delaware limited liability company.

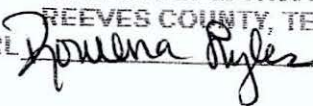




Notary Public, State of Texas

Return to:
E & G Energy, Inc.
4925 Greenville Ave. Suite 825
Dallas, Texas 75206

1 of 1

Inst No. 16-17422
DIANNE O. FLOREZ
COUNTY CLERK
2016 Dec 27 at 11:50 AM
REEVES COUNTY, TEXAS
By: RL  DEPUTY

True & Correct Copy of a
document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 1 of 1

THE STATE OF TEXAS
COUNTY OF REEVES

I, Dianne O. Florez, Clerk of the County Court in and for said County and State do hereby certify that the foregoing is a true and correct copy of Release oil & gas mineral lease dated October 13, filed for record in my office this 27 day of December at Wise, under Clerk's File No. 16-17422, to be recorded in the Official Public Records Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas this 27 day of December, 2016.

By Myra Aranda Deputy.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

RELEASE OF OIL, GAS, AND MINERAL LEASE

STATE OF TEXAS §
 §
COUNTY OF REEVES §

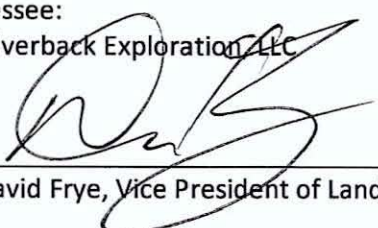
Whereas, Rita Reed George, sole and separate property, as Agent for the State of Texas, Lessor and Penwell Energy, Inc., Lessee, entered into that certain Oil, Gas, and Mineral Lease dated May 15, 1997, recorded in Book 575, Page 506, Official Public Records of Reeves County, Texas, covering the following lands in Reeves County, Texas (the "Lease"):

480.00 acres, more or less, being the East half (E/2) and the Northwest quarter (NW/4) of Section 6, Block 54, Township 5, T&P R.R. Company Survey, Reeves County, Texas.

Whereas, Silverback Exploration LLC ("Lessee"), a Delaware limited liability company, whose address is 1826 N Loop 1604 W, Suite 250, San Antonio, TX 78248, is the current owner of the Lease.

Now, therefore, for valuable and sufficient consideration received, Lessee does hereby forever **release, relinquish, surrender, and quitclaim** all of Lessee's right, title and interest in and to the Lease, and any extension or amendment thereof.

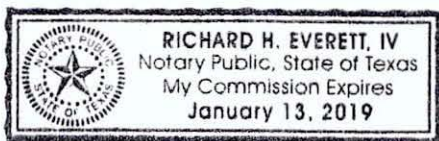
Executed as of the date of acknowledgement below, but effective as of September 27, 2016.

Lessee:
Silverback Exploration LLC


David Frye, Vice President of Land

STATE OF TEXAS §
 §
COUNTY OF BEXAR §

This instrument was acknowledged before me on the 13TH day of OCTOBER, 2016, by David Frye, Vice President of Land of Silverback Exploration, LLC, a Delaware limited liability company.

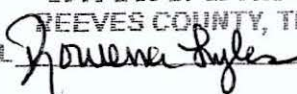




Notary Public, State of Texas

Return to:
E & G Energy, Inc.
4925 Greenville Ave. Suite 825
Dallas, Texas 75206

1 of 1

Inst No. 16-17423
DIANNE O. FLOREZ
COUNTY CLERK
2016 Dec 27 at 11:50 AM
REEVES COUNTY, TEXAS
By: RL  DEPUTY

True & Correct Copy of a
document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 1 of 1

19

File No. MF 099055
REEVES County
RELEASES
Date Filed: 2/23/17
By George P. Bush, Commissioner

THE STATE OF TEXAS
COUNTY OF REEVES
I, Dianne O. Florez, Clerk of the County Court in and
for said County and State do hereby certify that the foregoing is a true and correct copy of
Release oil & gas Eminent lease dated October 13
filed for record in my office this 27 day of December at
USPA, under Clerk's File No. 16-17423, to be recorded in the
Official Public Records
Records of Reeves County, Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas
this 27 day of December, 2016.
By Myra Aranda Deputy. DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS