





Devon Energy Corporation
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

Phone: (405) 228-4415
Fax: (405) 552-8113

February 7, 2003

EGL Resources, Inc.
P.O. Box 10886
Midland, Texas 79701

DRAFT

Attention: Mr. Wes Perry

**Re: Participation and Farmout Agreement
Rio Blanco Prospect
Lea County, New Mexico**

BEFORE THE
OIL CONSERVATION EXAMINER
Case No. 13048 Exhibit No. 18
Submitted By:
Devon Energy Production Co.
Hearing Date: April 10, 2003

Gentlemen:

EGL Resources, Inc., P.O. Box 10886, Midland, Texas 79701, (hereinafter referred to as "EGL") is the owner and holder of certain oil and gas interests located in Section 4, Township 23 South, Range 34 East, Lea County, New Mexico. Devon Energy Production Company, L.P., 20 N. Broadway, Suite 1500, Oklahoma City, OK 73102 (hereinafter referred to as "Devon"), and EGL have agreed to terms by which Devon may earn an undivided interest in said oil and gas interests from EGL (Devon and EGL may each be referred to herein as a "Party" or be collectively referred to herein as the "Parties"). The terms agreed to by the Parties as set forth in this Participation and Farmout Agreement ("Agreement") follow:

1. SUBJECT LEASES:

EGL represents and warrants to Devon that he is the owner and holder of undivided interests in certain oil and gas leases and term assignments of oil and gas leases ("Leases") covering lands in Section 4, T23S-R34E, Lea County, New Mexico (hereinafter referred to as the "Contract Area"), entitling EGL to an undivided 25% of 8/8ths interest of all oil, gas and other minerals produced from and attributable to the Contract Area ("EGL's Interests"), which interests and Leases are more fully described on Exhibit "A" attached hereto and made a part hereof for all purposes, and are hereinafter referred to as the "Leases".

2. SEISMIC DATA REVIEW:

Upon execution of this Agreement by the Parties, Devon shall make available for EGL's review, WesternGeco's Southwest Lea Phase I 3-D seismic data ("Data"), only insofar as said Data covers Sections 3, 4, 5, 6, 7, 8, 9 and 10, T23S-R34E, Lea County, New Mexico. Devon will make said Data available to EGL, or its agent, on weekdays during normal business hours, subject to EGL providing Devon forty-eight (48) hours prior written notice. EGL's right to review said Data shall be

limited to the extent that such review relates to operations contemplated under the terms of this Agreement. EGL's right to review said Data shall terminate one (1) year from the date of this Agreement.

3. FARMOUT/PARTICIPATION ELECTION:

(a) Farmout of Minimum Interest. EGL agrees to farmout to Devon an undivided interest in EGL's Interests under terms whereby Devon will bear 9.5% of all costs of re-entering, drilling, testing and equipping the Test Well, defined in Paragraph 4 hereof (the "Minimum Interest"), as set forth in Paragraph 6 hereof, in return for Devon receiving an assignment of an undivided interest in EGL's Interest sufficient to vest in Devon an undivided 2/3rds of 9.5% ownership in all oil, gas and other minerals produced from or attributable to the Contract Area, and a similar interest in EGL's Interests which cover lands other than the Contract Area.

(b) Election To Farmout Additional Interest. EGL shall have the right, but not the obligation, to farmout to Devon an additional undivided interest of up to an additional 15.5% (the "Additional Interest") under the same terms, i.e., Devon will bear all costs of re-entering, drilling, testing and equipping the Test Well attributable to the Additional Interest in return for Devon receiving an assignment of an interest in EGL's Interest sufficient to vest in Devon an ownership interest in all oil, gas and other minerals produced from or attributable to the Contract Area, and a similar interest in EGL's Interests which cover lands other than the Contract Area, equaling an undivided 2/3rds of such Additional Interest. EGL shall have the right to make its election concerning the farmout of the Additional Interest after reviewing the Data, but prior to Devon's commencement of re-entry and drilling operations on the Test Well. EGL's timely election to exercise such right shall be made in writing, by certified mail, return receipt requested, or by facsimile, receipt confirmed.

(c) Additional Earning Conditions. In each instance, Devon's right to earn such interests will be subject to Devon's timely re-entry and drilling of the Test Well.

4. TEST WELL:

On or before May 1, 2003, Devon will commence or cause to be commenced re-entry and drilling operations on the Rio Blanco "4" Federal COM #1 Well ("Test Well"), located 1,980' FNL and 1,980' FWL of Section 4, T23S-R34E, Lea County, New Mexico, and pursue such drilling operations with due diligence to a depth of 15,000' subsurface or a depth sufficient to adequately test the Devonian formation, whichever is the lesser depth ("Objective Depth"). The Parties agree that the spacing unit established for said Test Well will be the N/2 of Section 4, T23S-R34E. If during the re-entry or drilling of the Test Well, Devon shall encounter granite or any other practically impenetrable substance or encounter mechanical difficulties or if the hole is lost for any reason not reasonably within the control of Devon, Devon shall have the right to plug and abandon said Test Well. Should Devon plug and abandon the Test Well and fail to commence operations for the drilling of a replacement Test Well at or near the same location within one hundred eighty (180) days after plugging and abandonment operations have been completed, or if Devon should fail to timely commence re-entry operations for the Test Well as herein provided, this agreement shall terminate, and the Parties shall have no rights or obligations hereunder, except those earned or incurred prior to such termination. Operations hereunder shall be conducted in accordance with the terms and provisions of that certain Operating Agreement ("Operating Agreement") attached hereto as Exhibit "E", covering the drilling and spacing unit for the Test Well and designating Devon as Operator.

5. ASSIGNMENT:

By timely commencing said Test Well, diligently pursuing drilling operations on said Test Well to the Objective Depth, completing said well as a well capable of producing oil and/or gas in commercial quantities, Devon shall earn an assignment from EGL of an undivided 2/3rds of the Minimum Interest and, if applicable, 2/3rds of the Additional Interest as described in Paragraph 3 above. Said assignment shall be subject to (i) all of the terms and conditions of each of the Leases, and (ii) the royalty interests, overriding royalty interests, and other similar interests burdening the Leases of record on the date hereof. The form of assignment shall be as set forth on Exhibit "B" attached hereto and made a part hereof. In said assignments, EGL shall retain as an overriding royalty interest the difference, if any, by which twenty three percent (23%) exceeds the leasehold burdens on the Leases that are of record on the date hereof, delivering to Devon no less than a 77% net revenue interest in such Leases. The overriding royalty interest retained by EGL shall be subject to proportionate reduction in the event that EGL owns less than 100% of the working interest in the Leases or in the event such Leases cover less than the full undivided mineral estate in any applicable drilling and spacing unit.

6. TEST WELL COST AND EXPENSE OBLIGATIONS

All of the costs, risks and expenses of drilling, testing, completing and equipping the Test Well which are attributable to the Minimum Interest and, if applicable, the Additional Interest shall be borne by Devon; provided, however, Devon's responsibility for the total of such costs attributable to EGL's carried 1/3rd interest therein shall be limited to 110% of the total costs set forth in the Authority For Expenditure ("AFE") attached hereto as Exhibit "C" which are attributable to such carried 1/3rd interest. All such costs in excess of 110% of the AFE total cost shall be borne by EGL. All other costs, including without limitation costs of operation and production, shall be borne by the Parties as provided in the Operating Agreement.

7. AREA OF MUTUAL INTEREST

(a) Devon and EGL hereto agree to establish an area of mutual interest ("AMI") covering the following lands in Township 23 South, Range 34 East, Lea County, New Mexico: Section 3 (W/2): Section 4 (All), Section 5 (E/2), Section 8 (E/2), Section 9 (All), and Section 10 (W/2). The AMI shall remain in force for the term of this agreement, unless sooner terminated by mutual agreement of the parties hereto. Notwithstanding anything contained herein to the contrary, any oil and gas interests, including but not limited to oil and gas leases, assignments, farmout agreements, mineral interests, royalty interests, and overriding royalty interests, acquired by Devon hereunder or otherwise owned by either Party prior to the date of this Agreement shall not be subject to the terms of this Agreement.

(b) Should either Party acquire during the term of the AMI an oil and gas interest in the AMI (herein called an "Acquired Interest"), such Party (the "Acquiring Party") shall promptly notify the other Party hereto, in writing certified mail return receipt requested, of such Acquired Interest, the consideration paid or to be paid for the Acquired Interest, any other obligations (including, without limitation, drilling obligations) undertaken or to be undertaken as a part of such Acquired Interest and any other terms of such Acquired Interest. Further the written notification shall contain all available title information, and copies of leases, agreements by which the interests may be acquired, and all other pertinent instruments. The written notice shall also describe in detail the cost and expense of such Acquired Interest and any other obligation that may be incurred pursuant thereto. The other Party shall, within twenty (20) days after receipt of such notice, notify the Acquiring Party, in writing, whether or not it wishes to participate in such Acquired Interest; provided, however, that failure of such Party to respond with the time and in the manner set forth above shall be deemed to be an election **NOT** to participate in such Acquired Interest.

(c) Should a Party elect to participate in the Acquired Interest with the Acquiring Party, such Party shall pay (or to the extent not yet due, agree to pay when due) its Participating Percentage (defined as the party's working interest in the Test Well after such well is equipped for production) of the direct costs incurred by the Acquiring Party associated with said Acquired Interest; and agrees to assume its Participating Percentage share of any other obligations which are undertaken as part of such Acquired Interest (such as "drill to earn obligations"). Upon receipt of such payment or other undertaking, such Party shall be assigned as herein provided its Participating Percentage of the Acquired Interest by the Acquiring Party. The Acquiring Party shall invoice a participating Party for its determined Participating Percentage of the actual costs of the Acquired Interests if applicable, and such invoice shall be payable with fifteen (15) days of receipt thereof. A participating party that fails to timely pay the invoice as provided herein shall be deemed to have elected to **NOT** participate in the Acquired Interest.

(d) Each well drilled within the AMI shall be covered by a separate operating agreement (setting forth the interests of such participants, naming Devon as operator if it is a participant and describing the applicable well as the initial well and the applicable drilling and spacing unit as the contract area thereunder) in the form of the Operating Agreement, among the parties agreeing to participate therein.

(e) Any assignments to be made pursuant to the terms of this Paragraph 7 shall be made on the general form attached hereto as Exhibit "D".

8. **ADDRESSES AND PHONE NUMBERS OF THE PARTIES:**

The addresses and phone numbers of the Parties are as follows:

Devon Energy Production Company, L.P.
20 N. Broadway, Suite 1500
Oklahoma City, OK 73102
Phone 405-228-4415
Fax 405-552-8113

EGL Resources, Inc.
P.O. Box 10886
Midland, Texas 79701
Phone 915-687-6560
Fax 915-682-5852

9. **RIGHTS OF ASSIGNMENT:**

The rights of a Party hereunder may be freely assigned in whole or in part. Any assignment or transfer of any interest in and to the Leases and this Agreement by either party hereto shall be made expressly subject to the terms and conditions of this Agreement. Any such assignment or transfer of any interest shall not be binding upon the other Party hereto (including any previous assignees hereunder) until thirty (30) days following their receipt of written notification from the Party assigning said rights.

10. **NOTICES:**

Any notice hereunder shall be in writing and shall be deemed to have been given after the Party giving notice has deposited it in the U.S. mail, postage prepaid, return receipt requested, properly addressed to the other Party at the appropriate address provided in Paragraph 8 of this Agreement. Written notice in any other manner shall be deemed to have been given at the time actually received by the other Party. Any Party may change its address for the purposes of this Agreement by giving notice of such change to the other Party, which shall not be binding upon the receiving Party until ten (10) days following receipt of said notice.

11. OVERHEAD CHARGES:

The Parties agree concerning the overhead charges set forth in Article III. of Exhibit "C" attached to the Operating Agreement, that such charges shall not exceed \$7,000.00 for drilling operations, and \$700.00 for producing operations, without the consent of the Parties.

12. JOINT INTEREST BILLINGS:

Notwithstanding the provisions of the Operating Agreement to the contrary, Devon shall not, as Operator thereunder, net revenues for the sale of production due EGL against costs and expenses which have been billed to and are to be paid by EGL, provided that any failure by EGL to timely pay such costs and expenses has been made the subject of a written claim by EGL, delivered to Devon at or before the date the payment of such costs and expenses are due, in good faith questioning the correctness of such billing and stating all of the reasons EGL believes the amount billed is improper or incorrect. The Parties shall attempt in good faith to themselves determine whether EGL's claims are proper, but failing to reach agreement involving the same, the question shall be determined by a majority of three accountants familiar with oil and gas accounting practices, one appointed by EGL, one by Devon and the third selected by the two so appointed, and the result shall be binding on the Parties. The cost of such accountants shall be paid by Devon, if it is determined that Devon's billing was incorrect, or by EGL if such billing was determined to be correct. In the event it is determined that such billing was correct, EGL shall immediately pay the same and, if such payment is not immediately made, Devon shall have all of the rights afforded by the Operating Agreement to collect the same.

13. GOOD FAITH AND FURTHER ASSURANCES:

Each Party agrees to use its good faith and best efforts to carry out the purposes and intents of this Agreement and each Party will cure promptly any defects in the creation, execution, delivery and performance of each of such Party's obligations under this Agreement or to correct any omissions in this Agreement or to more fully state the obligations of the Parties as intended to be set out herein, including the prompt execution and delivery of any and all instruments and documents contemplated hereunder.

14. GOVERNING AGREEMENT:

This Agreement supersedes any and all prior agreements between the Parties hereto, whether oral or written, regarding the matters contained herein. This Agreement may not be amended except in a written instrument executed by each Party hereto. The Parties participated equally in the drafting and negotiation of this Agreement.

15. BINDING EFFECT AND COUNTERPART EXECUTION:

The terms, covenants and conditions of this Agreement shall be deemed to be covenants running with the leasehold estates subject to this Agreement and shall extend to, bind and inure to the benefit of the Parties hereto, their heirs, successors and assigns, as applicable. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original for all purposes.

16. NO PARTNERSHIP:

The liabilities of the Parties hereunder shall be several and not joint or collective. It is not the intention of the Parties that this Agreement create any partnership relationship between them, nor that they should be held liable as partners.

TERM OF AGREEMENT

This Agreement shall remain in force and effect for a term of two (2) years from this date unless terminated prior to such date by mutual agreement of the Parties.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the day and year first above written.

DEVON ENERGY PRODUCTION COMPANY, L.P.

By: _____ **DRAFT NOT FOR EXECUTION**

Agreed to and accepted this _____ day of _____, 2003:

EGL RESOURCES, INC.

By: _____ **DRAFT NOT FOR EXECUTION**

Participation and Farmout Agreement, Rio Blanco Prospect, Lea County, New Mexico

*** TX REPORT ***

TRANSMISSION OK

TX/RX NO	0448	
CONNECTION TEL		919156825852
SUBADDRESS		
CONNECTION ID		
ST. TIME	02/07 17:20	
USAGE T	02'07	
PGS. SENT	7	
RESULT	OK	

devon

Devon Energy Corporation
20 North Broadway
Oklahoma City, Oklahoma 73102-8280

FAX

To: Wes Perry - EGL Resources, Inc.

From: Kelly Robertson - Devon Energy

Fax: (915) 682-5852

Date: February 7, 2003

Phone:

Pages: 7 (including cover page)

Re: Rio Blanco Prospect

CC:

☐ Urgent

☐ For Review

☐ Please Comment

☒ Please Reply

☐ Please Recycle

• Comments:

Attached is the Participation and Farmout Agreement for your review. The exhibits, excluding the Joint Operating Agreement which you already have a draft copy of, will be forthcoming on Monday, February 10, 2003.