



P. O. BOX 2267, MIDLAND, TEXAS 79702 (915) 686-3600

January 16, 1985

Joe D. Peterson  
P. O. Box 40  
Lovington, New Mexico 88260

RE: Section 4, T-22-S, R-35-E,  
Lea County, New Mexico  
SC#1-82

Gentlemen:

This will evidence our agreement to assign to you an interest in and to the oil and gas lease presently owned by HNG Oil Company and Inter-North, Inc. under the lands described on Exhibit "A" attached hereto and made a part hereof (hereinafter referred to as "subject lands") by the drilling of an earning well in accordance with the terms and conditions set forth as follows:

I. INITIAL WELL

It is understood and agreed that on or before May 15, 1985, you will commence the actual drilling of an "earning well" at a legal location in Section 4, T-22-S, R-35-E, and thereafter drill the same with due diligence and in a good and workmanlike manner to a depth sufficient to adequately and conclusively test the Yates formation or to a depth of 4,500 feet, whichever is the lesser. You agree to complete the said well as a producer of oil and/or gas or to plug and abandon it within 90 days after the commencement of actual drilling.

II. SUBSTITUTE WELL

In the event any well provided for hereunder is timely commenced, but conditions are encountered therein rendering further drilling impractical and you have theretofore complied with the terms of this agreement, you may continue your rights hereunder by commencing actual drilling of a substitute well on the same tract upon which such well is located within thirty (30) days following the plugging and abandoning of such well. Said substitute well shall thereafter be drilled under all conditions set out herein regarding such well.

Oil Conservation Commission  
Case No. 13711  
March 16, 2007  
OCD EXHIBIT 7

Any reference herein made to such well shall also be deemed to be reference to any substitute well which may be drilled for such well.

### III. COMPLIANCE WITH LEASES, LAWS, RULES AND REGULATIONS

It is understood and agreed that while this agreement is in force and effect, you will comply with all covenants and conditions of said oil and gas lease(s) referenced in Exhibit "A" attached hereto and made a part hereof, and shall comply with all applicable laws, rules, regulations and orders of any governmental body having jurisdiction, including compliance with the non-discrimination provisions of Executive Order 11246 and the regulations issued thereunder if applicable. Any provision hereof which is inconsistent with any such law, rule, regulation or order is hereby modified so as to conform therewith, and this agreement, as so modified, shall continue in full force and effect. In the event you fail to comply with any of the terms and conditions thereof, we shall have the right, at our option, to terminate this agreement or enter upon the subject lands and carry out or cause to be carried out the terms and conditions of the leasehold estate, or both. You further agree to pay any and all royalties, overriding royalties, production payments and other payments out of or with respect to production which are of record and with which said leasehold estate is as of this date encumbered. You shall render and pay all ad valorem taxes, if any, as to any acreage earned hereunder and all equipment appurtenant thereto.

### IV. COST, RISK AND INDEMNIFICATION

All costs, expenses and risk incurred or arising out of the drilling, testing, completing, equipping, or plugging and abandoning of the earning well or any substitute well, and all costs, expenses and risk incurred by you in complying with the terms, conditions and provisions of this agreement shall be borne solely by you. You shall maintain in full force and effect during the life of this agreement insurance which will protect us from claims which may arise out of or result from your operations under this contract. You agree to indemnify and hold us and our employees and agents harmless from all claims, demands, losses and liabilities of every kind and character resulting from or relating to your performance, including subcontractors and their employees, or failure to perform hereunder. You further agree to protect and preserve said leasehold estate from any and all liens, judgments and any other claims thereof, including, but not limited to mechanics and well liens created by or arising from the drilling operations contemplated by this agreement. If such a lien is created, this agreement will, at our option, terminate and be of no further force and effect and we may, at our option, re-enter the subject lands and take over operations. Such option to terminate shall become effective following the expiration of fifteen (15) days written notice from us to that effect. If this agreement is terminated as herein set forth, you shall remain liable for all claims incurred by you prior to said termination.

#### V. RESTORATION OF THE PREMISES AND USE OF LEASE ROADS

All your operations hereunder shall be conducted as would a reasonably prudent operator and you agree to fill in all pits which may be dug in connection with any operations hereunder, leave the surface free and clear of debris and to restore the surface of any land damaged by your operations. If, in any of your operations hereunder, you shall use any of our lease roads, you shall bear your proportionate part on a per well basis of the expense of maintaining such roads and in the event damage is incurred to any jointly used lease road due to your excessive or unusual use thereof, you shall be solely responsible for restoring such road to its prior condition.

#### VI. GEOLOGICAL REQUIREMENTS

You agree to keep an accurate log of each well, to drill the same in good faith effort to discover oil or gas, and to test adequately all oil or gas shows encountered. You will specifically comply with all requirements set out in Exhibit "B" and Exhibit "B-1" attached hereto and made a part hereof.

#### VII. INTEREST EARNED

Upon our being furnished satisfactory evidence of the completion of the "earning well" or substitute therefor in full compliance with all terms of this agreement, and as a well capable of producing oil and/or gas in commercial quantities, we will, upon written request, convey to you our interest in all our rights under the forty (40) acres tract upon which said earning well was drilled, limited from the surface to one hundred feet (100') below the stratigraphic equivalent of the greatest depth drilled under said well, not to exceed the base of the objective formation set forth for the earning well, subject to the following reservations, rights and limitations:

- (a) In such conveyance, we will reserve an overriding royalty equal to the difference between 20% and all presently existing lease royalties, overriding royalties or other burdens on production that are of record as of the date hereof on all oil, gas, casinghead gas and other minerals produced from the said earning well. Said overriding royalty shall be delivered to us free and clear of all liens and all costs of development and operation, but will be subject to a proportionate part of any and all applicable taxes. We shall have the right to take or separately dispose of our proportionate share of all production which is attributable to the overriding royalty herein reserved by us. The rights herein reserved by us, including our overriding royalty, shall apply to any renewals, extensions or top lease of any lease or leases herein committed which you may secure within six (6) months from the expiration thereof;

- (b) You shall have the continuing right to earn an additional forty (40) acres proration units as described in Exhibit "A" of your choice on all of the same terms and conditions as the initial earning well by commencing the drilling of a second earning well within 90 days of reaching total depth of the said initial well. All remaining farmout tracts thereafter may be earned in the same manner under a continuous drilling program with not more than 90 days between reaching total depth of one well and the commencement of another.
- (c) In the event the respective lease subject hereto cover less than the entire and undivided oil, gas and mineral estate in the lands described in said leases, the overriding royalty interest created herein shall be proportionately reduced.

#### VIII. STATUS OF TITLE

Notwithstanding anything herein to the contrary, any assignments delivered hereunder will be made without warranty of title, either express or implied. You agree to furnish us copies of all title opinions, abstracts of title, curative material and all other information which you shall obtain on the subject lands.

#### IX. RIGHT OF INGRESS AND EGRESS

We shall have and reserve the right of ingress and egress to the land committed to this agreement for the enjoyment of any rights reserved or retained by us. In addition, we shall have the right to use any rights of way, easements or roads which you may obtain or build in connection with development and operations, hereunder; however, if we should so choose to use said rights of way, easements or roads, we will pay a fair proportion of the cost of maintaining the same.

#### X. DELAY RENTALS, MINIMUM ROYALTIES AND SHUT-IN PAYMENTS

During the time this agreement is in force, we shall use our best efforts to make payment of any delay rentals, minimum royalties in excess of those paid from actual production as required in said lease and shut-in royalties, of which you agree to reimburse us for 100% of all such costs. This provision shall not render us liable for inadvertent failure to make such payments. You agree to immediately notify us at any time a well is completed on the subject lands which is capable of producing, but is not produced and at any time production from the subject lands ceases for any reason.

#### XI. NOTICES

All notices required to be given under this agreement and other communications except those required under Exhibit "B" hereto, shall be deemed to have been properly given or delivered when delivered personally or sent by registered mail or telegraph, with all postage and charges fully prepaid, addressed to HNG Oil Company, P.O. Box 2267, Midland, Texas 79702, Attn: Land Department and InterNorth, Inc., Building Six, Suite 201, 3300 North "A" Street, Midland, Texas 79705.

## XII. CALL ON PRODUCTION

HNG Oil Company and InterNorth, Inc. hereby excepts and reserves unto themselves, their successors and assigns, the option and exclusive right to purchase all oil, gas well gas, casinghead gas and other hydrocarbons produced and saved from all acreage assigned to you. At our option, all gas production shall be subject to any and all existing Gas Purchase Contracts covering the farmout lands here-under.

## XIII. ASSIGNABILITY

The terms and conditions hereof shall extend to and be binding upon the parties hereto, their respective heirs, successors, legal representatives and assigns, provided, however, that neither this agreement nor any rights here-under shall be assigned by you to a third party without our written consent. In the event you contemplate an assignment of rights to another party or parties, you shall give prompt notice to us of such proposed assignment.

If we consent to such assignment, it shall not be effective until we have received, in writing, an instrument or letter executed by you and your assignee evidencing that such assignment has occurred and that both you and your assignee have assumed all the obligations of this agreement.

## XIV. ABANDONMENT

In the event at any time you contemplate plugging and abandoning the said initial earning well, you shall immediately notify us of your intention to do so. We shall then have forty-eight (48) hours (exclusive of Saturdays, Sundays and legal holidays) after receipt of said notice to decide whether we desire to take over said well. If we elect to take over the well, you shall forfeit your right to assignments to be earned by the drilling of the earning well, or if an assignment has heretofore been made, you agree, to reassign all rights in the acreage allocated to the proration unit for the said well, and convey to us the well and equipment free and clear of all liens, receiving payment from us of the actual salvage value of all salvageable materials and equipment in such well at the time of takeover, less the cost of removing and/or recovering same. If we so elect to take over the well, you shall bear all expenses including rig stand-by-time, up to the time of actual takeover within the 48-hour period. Operations after the date of takeover shall be at our sole cost, risk and expense. You further agree that if at any time you intend to surrender any portion of the assigned subject lands, while not in default of any of the terms and conditions of this agreement, you shall give us written notice thereof at least sixty (60) days before such occurrence and after receiving such notice, we shall then have thirty (30) days within which to notify you that we desire a reassignment of the subject lands or a portion thereof. You shall then be relieved from liability thereafter accruing as to the land covered by such surrender or relinquishment; provided, however, you shall remain responsible for all obligations or liabilities of any kind or nature which may have accrued under the terms of said lease or this agreement as to said lands up to the time of surrender or relinquishment and agree to reassign such lands to us free and clear of all liens and encumbrances.

XV. TERMINATION

Failure on your part to comply with any of your obligations as herein set out shall relieve us of the obligation to make assignments hereunder. Time is of the essence as to this agreement and therefore if you fail timely or properly to commence, drill and complete any well provided for herein, this agreement shall ipso facto terminate in its entirety.

XVI. ACCEPTANCE

If the foregoing correctly sets out your understanding of our agreement, please evidence your acceptance by returning within fifteen (15) days from the date received, one copy of this letter fully executed in the space provided below. Our failure to receive an accepted copy within fifteen (15) days gives us the option of canceling this agreement, or granting you additional time within which to accept it.

Yours very truly,

HNG OIL COMPANY

*W. R. Lewis*

W. R. Lewis  
District Land Manager

Attest:  
*[Signature]*  
Assistant Secretary  
1985

AGREED AND ACCEPTED THIS 21st  
DAY OF March, 1985.

*[Signature]*  
JOE D. PETERSON

INTERNORTH, INC.

By: *[Signature]*

R. A. Grinstead  
Vice President - Exploration  
Exploration & Production Division

EXHIBIT "A"

To Farmout Agreement dated January 16, 1985 between HNG Oil Company and InterNorth, Inc. and Joe D. Peterson

HNG LEASE NO.: 49-01  
DATED: June 1, 1977  
LESSOR: State of New Mexico LG-4234  
LESSEE:  
CURRENT LESSEE: HNG Oil Company and InterNorth, Inc.  
DESCRIPTION: T-22-S, R-35-E, NMPM  
Section 4: Lots 1, 3, SW/4 NE/4, SW/4 NW/4, NE/4 SE/4,  
SW/4 SE/4, NE/4 SW/4, SW/4 SW/4

EXHIBIT "B"

To Farmout Agreement dated January 16, 1985 between HNG Oil Company and InterNorth, Inc. and Joe D. Peterson

The following is a list of services and information which we require under the above agreement:

- (1) Complete access to the derrick floor during the drilling of the well;
- (2) One copy of all forms filed with State or Federal regulatory agencies mailed to the attention of the Joint Interest Section/Land Dept.;
- (3) Notification of spud date - to the Joint Interest Section/Land Dept.;
- (4) A daily summarized progress report called to one of the following persons (Joint Interest Section) until the well is potentialed and on stream or abandoned;  
AC 915 686-3600  
Pam Roberson Ext. 3767  
Dawn Weir Ext. 3606

NOTE: It is not necessary to mail daily detailed reports.

- (5) A complete composite of your daily drilling reports after the well is completed - to the Joint Interest Section/Land Dept.;
- (6) Notification of pipeline connection - date of first sales - to Joint Interest Section;
- (7) One copy of drill stem test charts, including testing company's fluid analysis report to Terry Cherryhomes and one copy to the Reservoir Engineering Department;
- (8) One copy of current mud log and one copy of final print (when mud logger is used) - to Terry Cherryhomes;
- (9) Two field prints and two final prints of all electrical surveys (including dipmeters) to Terry Cherryhomes and one final print to the Reservoir Engineering Department;
- (10) One copy of core analysis to Terry Cherryhomes and one copy to Reservoir Engineering Department;
- (11) Sample cuttings should be made available through Midland Sample Cut. If mud logger is used on well, have set of well cuttings made for Midland Sample Library.

EXCEPTION: Anadarko Basin wells should make samples available to:  
Amarillo Sample Cut and Library  
2611 East Tenth Avenue  
Amarillo, Texas

- (12) If operator elects to run a velocity survey, HNG shall have the right to participate in same on a pro rata basis. If operator does not elect to run a velocity survey, HNG shall have the right to run one for its sole benefit at HNG's risk and expense;
- (13) Notification to one of the persons listed below of all testing, logging or coring operations in time for us to have a representative on location:

Office Telephone Number:	(915) 686-3600
J. S. Martin	Home (915) 683-1680
Bill Thomas	Home (915) 689-0452
Terry Cherryhomes	Home (915) 694-8176

## INSTRUCTIONS

This form is to be filed with the appropriate District Office of the Division not later than 20 days after the completion of any newly-drilled or deepened well. It shall be accompanied by one copy of all electrical and radio-activity logs run on the well and a summary of all special tests conducted, including drill stem tests. All depths reported shall be measured depths. In the case of directionally drilled wells, true vertical depths shall also be reported. For multiple completions, Items 30 through 34 shall be reported for each zone. The form is to be filed in quintuplicate except on state land, where six copies are required. See Rule 1105.

### INDICATE FORMATION TOPS IN CONFORMANCE WITH GEOGRAPHICAL SECTION OF STATE

#### Southeastern New Mexico

#### Northwestern New Mexico

T. Anhy _____	T. Canyon _____	T. Ojo Alamo _____	T. Penn. "B" _____
T. Salt <u>1800</u> _____	T. Strawn _____	T. Kirtland-Fruitland _____	T. Penn. "C" _____
B. Salt <u>3620</u> _____	T. Atoka _____	T. Pictured Cliffs _____	T. Penn. "D" _____
T. Yates <u>3872</u> _____	T. Miss _____	T. Cliff House _____	T. Leadville _____
T. 7 Rivers _____	T. Devonian _____	T. Menefee _____	T. Madison _____
T. Queen _____	T. Silurian _____	T. Point Lookout _____	T. Elbert _____
T. Grayburg _____	T. Montoya _____	T. Mancos _____	T. McCracken _____
T. San Andres _____	T. Simpson _____	T. Gallup _____	T. Ignacio Qtzte _____
T. Glorieta _____	T. McKee _____	Base Greenhorn _____	T. Granite _____
T. Paddock _____	T. Ellenburger _____	T. Dakota _____	T. _____
T. Blinebry _____	T. Gr. Wash _____	T. Morrison _____	T. _____
T. Tubb _____	T. Granite _____	T. Todilto _____	T. _____
T. Drinkard _____	T. Delaware Sand _____	T. Entrada _____	T. _____
T. Abo _____	T. Bone Springs _____	T. Wingate _____	T. _____
T. Wolfcamp _____	T. _____	T. Chinle _____	T. _____
T. Penn. _____	T. _____	T. Pennian _____	T. _____
T. Cisco (Bough C) _____	T. _____	T. Penn. "A" _____	T. _____

#### OIL OR GAS SANDS OR ZONES

No. 1, from <u>3890</u> to <u>4070</u>	No. 4, from _____ to _____
No. 2, from _____ to _____	No. 5, from _____ to _____
No. 3, from _____ to _____	No. 6, from _____ to _____

#### IMPORTANT WATER SANDS

Include data on rate of water inflow and elevation to which water rose in hole.

No. 1, from <u>N/A</u>	to _____	_____	feet	
No. 2, from _____	to _____	_____	feet	
No. 3, from _____	to _____	_____	feet	
No. 4, from _____	to _____	_____	feet	

#### FORMATION RECORD (Attach additional sheets if necessary)

From	To	Thickness in Feet	Formation	From	To	Thickness in Feet	Formation
100	920		Red Bed				
920	1800		Anhy				
1800	3620		Salt, Anhy stringers				

RECEIVED

AUG 19 1987

OCD

MOBIS OFFICE

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT

Form C-104  
Revised 10-01-78  
Format 06-01-83  
Page 1

OIL CONSERVATION DIVISION  
P. O. BOX 2088  
SANTA FE, NEW MEXICO 87501

NO. OF COPIES RECEIVED			
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LAND OFFICE			
TRANSPORTER	OIL		
	GAS		
OPERATOR			
PRORATION OFFICE			

REQUEST FOR ALLOWABLE  
AND  
AUTHORIZATION TO TRANSPORT OIL AND NATURAL GAS

I. Operator  
**Tempo Energy, Inc. / ~~Peterson Petroleum Company~~**

Address  
P.O. Box 5509 Hobbs, N.M. 88241-5509

Reason(s) for filing (Check proper box)

<input checked="" type="checkbox"/> New Well	Change in Transporter of:	Other (Please explain)
<input type="checkbox"/> Recompletion	<input type="checkbox"/> Oil	CASINGHEAD GAS MUST NOT BE FLAGGED AFTER <u>10-1-87</u> UNLESS AN EXCEPTION TO R-4070 IS OBTAINED.
<input type="checkbox"/> Change in Ownership	<input type="checkbox"/> Casinghead Gas <input type="checkbox"/> Dry Gas <input type="checkbox"/> Condensate	

If change of ownership give name and address of previous owner \_\_\_\_\_

THIS WELL HAS BEEN PLACED IN THE POOL DESIGNATED BELOW. IF YOU DO NOT CONCUR NOTIFY THIS OFFICE.

II. DESCRIPTION OF WELL AND LEASE R-8513 10/1/87

Lease Name <b>San Simon State</b>	Well No. <b>6</b>	Pool Name, including Formation <b>Undersigned (Yates)</b>	Kind of Lease State, Federal or Fee State	Lease No. <b>LG-4234</b>
Location Unit Letter <u>H</u> ; <u>2310</u> Feet From The <u>North</u> Line and <u>990</u> Feet From The <u>East</u> Line of Section <u>4</u> Township <u>22-S</u> Range <u>35-E</u> , NMPM, <u>Lea</u> County				

III. DESIGNATION OF TRANSPORTER OF OIL AND NATURAL GAS

Name of Authorized Transporter of Oil <input checked="" type="checkbox"/> or Condensate <input type="checkbox"/> <b>Phillips Petroleum Company (Trucks)</b>	Address (Give address to which approved copy of this form is to be sent)					
Name of Authorized Transporter of Casinghead Gas <input checked="" type="checkbox"/> or Dry Gas <input type="checkbox"/> <b>Phillips Natural Gas Company</b>	Address (Give address to which approved copy of this form is to be sent)					
If well produces oil or liquids, give location of tanks.	Unit <b>H</b>	Sec. <b>4</b>	Twp. <b>22-S</b>	Rge. <b>35-E</b>	Is gas actually connected?	When

If this production is commingled with that from any other lease or pool, give commingling order number: \_\_\_\_\_

NOTE: Complete Parts IV and V on reverse side if necessary.

VI. CERTIFICATE OF COMPLIANCE

I hereby certify that the rules and regulations of the Oil Conservation Division have been complied with and that the information given is true and complete to the best of my knowledge and belief.

*Jerry Sexton*  
(Signature)  
CONSULTANT/AGENT  
(Title)  
AUGUST 4, 1987  
(Date)

OIL CONSERVATION DIVISION

APPROVED 10/2/1987, 19\_\_\_\_

BY ORIGINAL SIGNED BY JERRY SEXTON  
TITLE DISTRICT SUPERVISOR

This form is to be filed in compliance with RULE 1104.  
If this is a request for allowable for a newly drilled or deepened well, this form must be accompanied by a tabulation of the deviation tests taken on the well in accordance with RULE 111.  
All sections of this form must be filled out completely for allowable on new and recompleted wells.  
Fill out only Sections I, III, and VI for changes of owner, well name or number, or transporter, or other such change of condition.  
Form C-104 must be filed for each pool in multiply

**IV. COMPLETION DATA**

Designate Type of Completion - (X)		Oil Well XX	Gas Well	New Well XX	Workover	Deepen	Plug Back	Same Res'v.	Diff. Res'v.
Date Spudded 1-29-87	Date Compl. Ready to Prod. 7-13-87		Total Depth 4103'		P.B.T.D. 4100				
Elevations (DF, RKB, RT, GR, etc.) KB 3615	Name of Producing Formation Yates		Top Oil/Gas Pay 3892'		Tubing Depth 3989				
Perforations 3892-3964      4020-4068						Depth Casing Shoe 4103			
TUBING, CASING, AND CEMENTING RECORD									
HOLE SIZE		CASING & TUBING SIZE		DEPTH SET		SACKS CEMENT			
12 1/2"		9 5/8" 40#		352'		100sx Class C			
7 7/8"		5 1/2" 17#		4103'		1000sx Filler & 200s Class C w/2% CaCl			

**V. TEST DATA AND REQUEST FOR ALLOWABLE (Test must be after recovery of total volume of load oil and must be equal to or exceed top allowable for this depth or be for full 24 hours)**

Date First New Oil Run To Tanks 7-10-87	Date of Test 7-13-87	Producing Method (Flow, pump, gas lift, etc.) PIIMP	
Length of Test 24 hrs.	Tubing Pressure 100#	Casing Pressure 15#	Choke Size N/A
Actual Prod. During Test 88	Oil - Bbls. 8	Water - Bbls. 80	Gas - MCF 25

**GAS WELL**

Actual Prod. Test - MCF/D	Length of Test	Bbls. Condensate/MMCF	Gravity of Condensate
Testing Method (pilot, back pr.)	Tubing Pressure (shut-in)	Casing Pressure (shut-in)	Choke Size

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