

DOYLE HARTMAN

Oil Operator

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MIDLAND, TEXAS 79702

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February 19, 1990

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Handwritten signature and date: 2/23/90

FEDERAL EXPRESS

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Attention: Mr. Frank Hulse

Re: Settlement Discussions

Gentlemen:

Reference is made to our numerous correspondence and settlement discussions relative to Phillips' 160-acre Mexico Eumont lease located in the NE/4 Section 18, T-20-S, R-37-E, Lea County, New Mexico. Reference is also made to the two recent meetings of February 7, 1990 and February 15, 1990 between Jim Gallogly and Frank Hulse of Phillips and James A. Davidson and Bryan Jones representing Doyle Hartman.

Due to Phillips' more than normal concern about maintaining a good working relationship with Union Texas Petroleum and in order not to endanger, in any way, those parts of a Hartman-Phillips settlement that have already been agreed to by both parties, we propose proceeding with the closing (with the exception of the "Hobbs" and "New" leases) as to all of the other properties covered in your letter to us of September 7, 1989 (copy enclosed) and as discussed in our meeting with you of February 7, 1990. As to our proposal that Phillips substitute a farmout of its 50% working interest in the Eumont interval corresponding to its 160-acre "Hobbs" lease, in exchange for not assigning to us its 100% working interest in the Eumont interval corresponding to its 80-acre "New" lease, we propose that Hartman and Phillips verbally agree to continue to negotiate on the matter of the "Hobbs" and "New" leases after a final closing has been concluded as to the 26-month old matter of the Mexico lease. This proposal will give Phillips sufficient time to inform Union Texas of its desire to farmout, to Hartman, its 50% working interest in the Eumont interval corresponding to the Hobbs lease, although our review of that certain Drilling and Farming Out Agreement dated February 13, 1935 does not indicate that Phillips has any obligation whatsoever to seek approval from Union Texas before farming out its "Hobbs" Eumont interest to Hartman.

Therefore, in settlement of the 26-month old dispute between Phillips and Hartman corresponding to Phillips' 160-acre Mexico lease consisting of the NE/4 Section 18, T-20-S, R-37-E, we propose the following:

- 1) Phillips to assign to Hartman 100% of its existing interest from the surface to the base of the Eunice Monument Pool interval in the 320-acre H. M. Britt leases consisting of the W/2 E/2 and E/2 W/2 Section 7, T-20-S, R-37-E;
- 2) Phillips to assign to Hartman 100% of its existing interest from the surface to the base of the Eunice Monument Pool interval in the 80-acre Britt "A" lease consisting of the E/2 SW/4 Section 6, T-20-S, R-37-E;
- 3) Phillips to assign to Hartman 100% of its existing interest from the surface to the base of the Eunice Monument Pool Interval in the 40-acre Britt "B" lease consisting of the SE/4 SW/4 Section 5, T-20-S, R-37-E;
- 4) Phillips to assign to Hartman 100% of its existing interest from the surface to the base of the Eumont Gas Pool interval in the 40-acre Land Office lease consisting of the NE/4 SW/4 Section 19, T-19-S, R-37-E;
- 5) At the time of closing of the proposed settlement, Hartman (as previously requested by Phillips) to pay to Phillips a cash consideration of \$280,000.00.

In consideration of Hartman agreeing to exclude Phillips' 80-acre "New" lease consisting of the E/2 NE/4 Section 26, T-20-S, R-36-E, from a final settlement of the Mexico matter, Phillips verbally agrees to continue in good faith to negotiate a farmout of its "Hobbs" Eumont rights to Hartman (consistent with the terms set out in our letter to you of December 12, 1989) at such time as Phillips has (1) obtained Union Texas' agreement to also farmout its 50% working interest corresponding to the 160-acre Hobbs lease Eumont interval, or (2) Phillips has resolved in writing with Union Texas its unusual concern about Union Texas not wanting Phillips to farmout to Hartman its Eumont rights as to the "Hobbs" lease.

In light of our hearing before the NMOCD on March 7, 1990 pertaining to the 40-acre Britt "B" lease, and inasmuch as it is imperative that we close this settlement no later than March 1, 1990, it is requested you immediately have Jim Gallogly draft a settlement agreement and forward to us for review by our attorney, Gene Gallegos. Your prompt attention to this matter is appreciated and please call if you have any questions relative to this matter.

Phillips Petroleum Company
February 19, 1990
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Very truly yours,

DOYLE HARTMAN



Bryan E. Jones
Landman

BEJ/lr
490:PHILO219

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PHILLIPS PETROLEUM COMPANY

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EXPLORATION AND PRODUCTION GROUP

September 7, 1989

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Doyle Hartman
Oil Operator
P. O. Box 10426
Midland, TX 79702

Attention: Mr. Robert W. Hodge

Re: Settlement Discussions

Gentlemen:

Further to our various letters and meetings of recent date, Phillips has continued to evaluate the June 20, 1989 proposal for settlement. As I indicated to you in our August 31, 1989 discussion, we are interested as the owner of certain interests in the Britt, Britt "A", Britt "B", New and State Land Office producing leases in selling to Doyle Hartman our rights therein, subject, of course, to the execution of a definitive agreement. Also, as I have indicated to you previously, the actual sale of any properties is subject to management review and approval. The Permian Basin Region office would recommend the sale of these properties for a cash consideration of \$280,000. Phillips would be selling all of its interest without warranty in the following properties:

- Britt Acreage - Surface to the base of the Eunice Monument/ W/2 E/2 and E/2 W/2 Section 7, T20S, R37E
Britt "A" Acreage - Surface to the base of the Eunice Monument/ E/2 SW/4 Section 6, T20S, R37E
Britt "B" Acreage - Surface to the base of the Eunice Monument/ SE/4 SW/4 Section 5, T20S, R37E
New Acreage - Surface to the base of the Eumont, with right to penetrate the Eunice Monument for rat hole purposes only/ E/2 NE/4 Section 26, T20S, R36E
Land Office Acreage - Surface to the base of the Eumont with right to penetrate the Eunice Monument for rat hole purposes only/ NE/4 SW/4 Section 19, T19S, R37E

In the event a sale of these properties is acceptable to Mr. Hartman, a formal sales contract will be drafted. Phillips would convey all its rights in such

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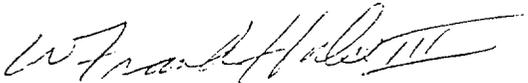
horizons and reserve no overriding royalty interest. Phillips would retain all producing wells except the New Lease No. 1. No wells would be jointly operated. Phillips would shut down Eumont production in the New and Land Office leases permanently. Doyle Hartman would construct a new tank battery for the New Lease and gain the ownership of the No. 1 well. Insofar as the Britt leases are concerned, Hartman would only acquire Phillips' non-operating interests in the wells and subject zones.

You have also expressed an interest in acquiring Phillips' rights in the Hobbs lease. As part of the settlement and subject to all the conditions expressed above, our office would recommend to management granting Hartman the option to acquire Phillips' working interest in the Hobbs lease from the surface to the base of the Eumont for a one-year period, commencing with your acceptance of the terms and conditions of a settlement letter. The purchase price would be \$394,000 for such rights. Such option could be exercised by Hartman only after he acquired the non-operating interest of Phillips' partners. Such property would normally have been subject to preferential rights to purchase. Phillips would agree to waive its preferential right to acquire its partner's interest for the one-year option period. Hartman would acquire no rights as to existing wellbores. Phillips would continue to produce the property as a prudent operator and be entitled to all production until the option was exercised and the transaction closed. However, at such time as Hartman provided documentation as to his purchase of the non-operated interests in the lease, confirmation of his exercise of his option to purchase Phillips' interest and payment for such interest, Phillips would shut in and abandon its Eumont production in its existing wells. If Hartman did not exercise this option, the settlement would still be considered final with no further obligation on the part of Phillips.

Please let us know if this proposal is of interest to Mr. Hartman.

Very truly yours,

PHILLIPS PETROLEUM COMPANY



W. Frank Hulse, III
Senior Landman, CPL

WFH:mm