

AAPL FORM 635

FARMOUT AGREEMENT

DATE: December 6, 1982

TO: Robert M. Edsel
9400 North Central Expressway
Suite 1212
Dallas, Texas 75231

RE: Lea County, New Mexico

In consideration of the benefits to accrue to the parties hereto and the covenants and obligations to be kept by you, it is hereby mutually agreed as follows:

I ACREAGE:

We represent without Warranty of Title of any kind or character that we hold Oil and Gas Leases or Mineral Interests described as follows and covering the following lands:

- Tract 1: NE/4 Section 1, T15S, R36E, containing 160 acres, Lea County, New Mexico.
Tract 2: E/2 NW/4 Section 1, T15S, R36E, containing 80 acres, Lea County, New Mexico.
Tract 3: SW/4 Section 1, T15S, R36E, containing 160 acres, Lea County, New Mexico.
Tract 4: W/2 NW/4 Section 12, T15S, R36E, containing 80 acres, Lea County, New Mexico.

Said Leases being more completely described on Exhibit "A" attached hereto and made a part hereof.

We agree to deliver to you such abstracts and other title papers as we have in our files at this time, and at your sole cost, risk and expense you agree to conduct such Title Examinations and secure such curative matter as is necessary to satisfy yourselves that Title is acceptable to you.

II OBLIGATIONS:

(A) TEST WELL: On or before the 6th day of April, 19 83, you agree to commence, or cause to be commenced the actual drilling of a well for oil and/or gas at the following location:

A legal location of your choice located on the above described land.

and you further agree to drill said Test Well with due diligence in a workmanlike manner to a depth sufficient to thoroughly test the following:

A depth of your choice in search for oil or gas provided that if in the drilling of initial test well salt, cavity, heaving shale, abnormal pressure, blowout, failure of surface casing, or some other condition is encountered at a lesser depth making further drilling impossible or impractical with ordinary rotary drilling methods. If such conditions are encountered, you will have the right to commence a substitute test well within 60 days of your abandonment of the initial test well and still be in compliance with the terms of this agreement.

BEFORE EXAMINER
OIL CONSERVATION COMMISSION

BEFORE THE
OIL CONSERVATION COMMISSION

Santa Fe, New Mexico

Case No. 8678 (De Novo) Exhibit No. 1

Submitted by Wilton Scott

Hearing Date 1-7-86

V INFORMATION AND REPORTS:

As a further express Consideration for this Agreement, and not as a covenant only, you agree to furnish to:

Frank M. Late
P. O. Box 1239
Richardson, Texas 75080

Wilton E. Scott
107 Glynn Way Drive
Houston, Texas 77056

the following:

1. (a) DAILY DRILLING REPORTS on the progress of the well which shall include drilling depth, information on all tests including character, thickness, name of any formation penetrated, shows of oil, gas or water, and detailed reports on all drillstem tests.
- (b) 1 ~~XXXXXX~~ Copies of all forms furnished to any governmental authority.
- (c) 1 Copies of all electrical logging surveys.
- (d) 1 ~~XXXXXX~~ Copies of the well log upon completion.
- (e) 1 ~~XXXXXX~~ Copies of the plugging record, if any.
- (f) Samples of all cores and cuttings, if so requested.
Said copies and samples to be furnished to each party above.

2. Other Information Required:

You agree to furnish to us copies of any seismograph work performed in the subject area if you do not drill any wells under the terms of this agreement.

VI PRODUCTION TESTS:

You agree to properly drillstem test any and all formations in which shows of oil and/or gas are encountered after notifying us of the proposed test and if we desire to be present during testing, you will delay such testing a reasonable amount of time in order to allow our representative to reach the well and witness the test, and you also agree to notify us immediately by telephone or telegraph as to the results of any such test. Notification shall be given to:

Frank M. Late
P. O. Box 1239, Richardson, TX 75080 Name:
141 234-0102 Address:
Telephone No.:
Night Telephone No.:

Wilton E. Scott
107 Glynn Way Drive, Houston, TX 77056
(713) 757-4251
(713) 622-5852

It is understood that our representatives shall have access to the rig floor at all times and to any and all information concerning the Test Well.

VII DELAY RENTALS:

It is agreed that from and after the date of this Agreement we will pay any delay rentals which may become due on the Oil and Gas Leases subject to this Agreement until such time as the Assignment provided for in Section IV above has been executed, and thereafter bill you for _____ 100% _____ of the delay rental paid by us. We agree to prudently make said payments, however, it is understood that we shall not be liable for any failure to so make said payments stemming from a mistake or cause beyond our control.

(B) COMPLETION OR ABANDONMENT: When the Test Well has reached its total depth, you agree:

- (1) That if the Well can be completed as a producer of oil and/or gas to diligently prosecute the completion of said Well without unreasonable delays; or,
- (2) If you determine to abandon the Well you will promptly furnish us with an appropriate electrical log acceptable to us and you further agree that you will not abandon the Well as a dry hole until you have furnished said electrical log to us and thereafter given us at least 48 hours notice of your intention to abandon, unless we consent to an earlier abandonment thereof. After consent has been given, you agree to promptly plug and abandon the Test Well in accordance with all the requirements of any governmental body having jurisdiction.

III FAILURE TO DRILL:

The only consequence of your failure to drill the proposed Test Well hereinabove provided for shall be the ipso facto cancellation of this Agreement in its entirety.

IV COMMITMENT:

UPON WRITTEN REQUEST, and after completion of the Test Well provided for hereinabove in accordance with all the terms and provisions of this Agreement to our satisfaction, we agree:

To assign all oil and gas leases owned by us covering the above-described land by assignment in recordable form, provided such assignment shall contain the following special provisions and reservations:

- 1) We will reserve an overriding royalty equal to 1/16 of 8/8 of production, subject to proportionate reduction, thereby conveying to you 100% of the working interest and a 75% net revenue interest in each of said leases.
- 2) Such overriding royalty shall be convertible, on a well-by-well basis, at our option (collectively and not individually), to either a 1/8 of 8/8 overriding royalty or a 1/4 working interest at that point in time when a well has reached payout; payout being defined as that point in time when you have recovered out of your 75% net revenue interest, less production, severance, windfall profits and other taxes, all of the direct costs and expenses incurred by you in drilling, testing, completing and equipping for production each well drilled by you hereunder. You agree to furnish us with your cost base for each well within 30 days after the completion date of any well drilled hereunder or as soon as is reasonably practical after the completion of said well(s). Our option to convert said overriding royalty must be exercised within 30 days after you have advised us that payout has occurred. Our failure to respond within such time period shall constitute our election not to convert said overriding royalty interest.
- 3) You agree to reassign to us any lease which does not have a producing well located thereon or pooled therewith within 180 days prior to the expiration date of such lease.
- 4) You agree to conduct a continuous drilling program such that not more than 120 days shall elapse between the completion of one well (as a producer or as a dry hole) and the commencement of drilling operations for the next well. Your failure to meet such continuous drilling obligation shall constitute the termination of this agreement and you agree to immediately reassign to us all acreage not contained within a producing proration or spacing unit and further all depths below 50 feet below the deepest depth drilled with respect to each of said producing proration units.

VIII CONSENT REQUIREMENT:

This Agreement is personal in nature and may not be assigned without our written consent being first obtained. When requesting consent to make an assignment of all or a portion of this Agreement you will advise the parties to whom the assignment will be made.

IX STATUS OF PARTIES:

In the drilling of the Test Well and otherwise complying with the terms and provisions of this Agreement, you are acting independently of us and not as a partner in any capacity, mining or otherwise. We shall have no responsibility whatsoever in connection with the drilling of said well and it shall be drilled at your sole cost, risk and expense. You further agree to hold us harmless from any and all debts, claims or damages incurred in connection with the performance of this Agreement.


In regard to all provisions of this Agreement, it is understood and agreed that Time is of the Essence.

X OTHER PROVISIONS:

1. In the event we elect to convert our overriding royalty interest into a 1/4 working interest in any particular well, we agree to execute a mutually acceptable operating agreement (AAPL Standard Form) naming you or your nominee as Operator, and us as Non-Operators, as soon as practicable after making said election. Such operating agreement shall contain, among others, the following special provisions:
 - a) 400% penalty clause for non-consent on subsequent operations.
 - b) \$450 per well per month fixed overhead rate.

If the terms and provisions of this Agreement in its entirety are acceptable to you, will you kindly indicate your approval by signing below in the space provided and returning 1 executed copies of this Agreement to us within 15 days. Failure to do so will result in the cancellation of this Agreement at our option.


WILTON E. SCOTT


F. M. LATE

This Agreement is APPROVED
and ACCEPTED this 6th day
of December, 19 82.


JAMES H. EDESEL

EXHIBIT "A"

Attached hereto and made a part hereof that certain Farmout Agreement by and between WILTON E. SCOTT and F. M. LATE, Farmoutors, to ROBERT M. EDSEL, Farmoutee, dated December 6, 1982.

1. Oil and Gas Lease from Maxine A. Witcher and husband J. B. Witcher to Ralph Nix dated April 27, 1979, and being recorded in Volume 316, Page 897, Oil and Gas Deed Records, Lea County, New Mexico.
2. Oil and Gas Lease from Lois A. Burdick and husband Donald G. Burdick to Ralph Nix dated April 27, 1979, and being recorded in Volume 316, Page 899, Oil and Gas Deed Records, Lea County, New Mexico.
3. Oil and Gas Lease from Loradean A. Scott and husband Wilton E. Scott to Ralph Nix dated April 27, 1979, and being recorded in Volume 316, Page 937, Oil and Gas Deed Records, Lea County, New Mexico.
4. Oil and Gas Lease from Paul Crockett to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 538, Oil and Gas Deed Records, Lea County, New Mexico.
5. Oil and Gas Lease from Mary Crockett Reed to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 544, Oil and Gas Deed Records, Lea County, New Mexico.
6. Oil and Gas Lease from William M. Crockett to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 542, Oil and Gas Deed Records, Lea County, New Mexico.
7. Oil and Gas Lease from Catherine Crockett Legitt to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 546, Oil and Gas Deed Records, Lea County, New Mexico.
8. Oil and Gas Lease from Howard Crockett to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 534, Oil and Gas Deed Records, Lea County, New Mexico.
9. Oil and Gas Lease from David O. Crockett to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 540, Oil and Gas Deed Records, Lea County, New Mexico.
10. Oil and Gas Lease from Bruce Crockett to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 532, Oil and Gas Deed Records, Lea County, New Mexico.
11. Oil and Gas Lease from Hazel Crockett to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 536, Oil and Gas Deed Records, Lea County, New Mexico.
12. Oil and Gas Lease from Marjorie Crockett Hansen to Ralph Nix dated March 11, 1980, and being recorded in Volume 325, Page 548, Oil and Gas Deed Records, Lea County, New Mexico.

Wilton E. Scott
107 Glynn Way Drive
Houston, Texas 77056
May 11, 1983

Robert M. Edsel
1601 Elm Street
4200 Thanksgiving Tower
Dallas, Texas 75201

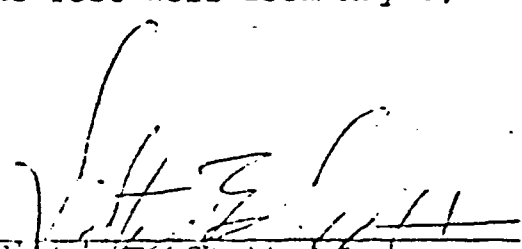
Re: Farmout Agreement dated
December 6, 1982, from Wilton E.
Scott and Frank M. Late to
Robert M. Edsel covering the Oil
and Gas leases described on
Exhibit "A" attached hereto
(hereinafter referred to as the
"Farmout Agreement").

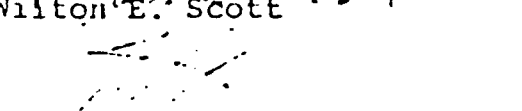
Gentlemen:

Please let this letter, when accepted by you in the
manner provided below, constitute our agreement to amend
the Farmout Agreement, as follows:

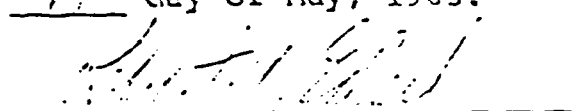
Paragraph I is amended to include the SE/4
Section 1, T-15-S, R-36-E and E/2 NW/4
Section 12, T-15-S, R-36-E, thereby amending
the Farmout Agreement to include 680 total
acres (from 450 acres).

Paragraph II (A) is amended by changing the
commencement date of the Test Well from May 6,
1983, to June 6, 1983.


Wilton E. Scott


Frank M. Late

ACCEPTED AND AGREED TO on the
13th day of May, 1983.


Robert M. Edsel

12. Oil and Gas Lease from Marjorie Crockett Hansen to Ralph Nix dated
March 11, 1980, and being recorded in Volume 325, Page 548, Oil and
Gas Deed Records, Lea County, New Mexico.

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