

**BASS ENTERPRISES PRODUCTION CO.**

FIRST CITY BANK TOWER  
201 MAIN ST.  
FORT WORTH, TEXAS 76102  
817/390-8400

OIL CONSERVATION DIVISION  
RECEIVED  
90 JAN 18 AM 9 01

January 16, 1990

Bureau of Land Management  
P.O. Box 1397  
Roswell, New Mexico 88201

Attention: Mr. Joe Lara

New Mexico Oil Conservation Division  
P.O. Box 2088  
Santa Fe, New Mexico 87501

Attention: Mr. Bill LeMay

Commissioner of Public Lands  
State of New Mexico  
P.O. Box 1148  
Santa Fe, New Mexico 87504-1148

Attention: Mr. Floyd Prondo

Re: Poker Lake Unit Well No. 72  
South Poker Lake Delaware Pool  
NE/4 SE/4 Section 28, T24S-R31E, N.M.P.M.  
Eddy County, New Mexico  
Bass Property No. 10003-26  
Poker Lake Unit

Gentlemen:

Reference is made to commercial determination and request for participating area transmitted to you in connection with the subject well under letter of December 11, 1989 by Charles B. Gillespie, Jr..

This is to advise that Bass Enterprises Production Co., as operator of the Poker Lake Unit, has reviewed the above referenced commercial determination and request for

Letter to Mr. Joe Lara  
January 16, 1990  
Page 2

participating area and hereby approve same in its capacity as unit operator of the Poker Lake Unit. Additionally, we respectfully request that you grant approval for the request for commercial determination and participating area as set forth in Mr. Gillespie's letter of December 11, 1989.

Should you have any questions regarding this please feel free to contact me at (817) 390-8584.

Sincerely,



R. Andrew Maxwell

RAM:tlo

cc: Charles B. Gillespie, Jr.  
P.O. Box 8  
Midland, Texas 79702  
Attention: Mr. Bill Crowe

George Teer  
Glena DeBerry



# United States Department of the Interior

## BUREAU OF LAND MANAGEMENT

Roswell District Office

P.O. Box 1397

Roswell, New Mexico 88202-1397



IN REPLY  
REFER TO:  
14-08-001-303  
3180 (065)

Bass Enterprises Production Co.  
Attention: Louis W. Wilpitz  
First City Bank Tower  
201 Main St.  
Fort Worth, Texas 76102

LAND RECEIVED	
JAN 26 1990	
WAH _____	WFI _____
JTW _____	JWB _____
JH _____	DDC _____
RAM _____	HBF _____
LWW _____	WPS _____
	SF _____

Re: Delaware "A" Participating Area  
Poker Lake Unit Well No. 70

**JAN 22 1990**

Gentlemen:

Your letter of December 14, 1989, in which you have requested approval of a commercial well determination and participating area for the above referenced well as was submitted by Charles B. Gillespie, Jr. for the Poker Lake Unit in Eddy County, NM, has been approved and is effective as of April 4, 1989.

The Delaware "A" participating area embraces 40 acres described as the SE $\frac{1}{4}$ SE $\frac{1}{4}$ , sec. 28, T. 24 S., R. 31 E., NMPM, Eddy County, New Mexico. Such participating area is based on the completion of the Poker Lake Unit Well No. 70 located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ , T. 24 S., R. 31 E., completed on April 4, 1989. This well was determined to be a paying well pursuant to section 9 of the unit agreement by letter of January 12, 1990.

Copies of the approved application are being distributed to the appropriate offices and one copy is being returned herewith. You are requested to furnish all interested principals with appropriate evidence of this approval.

If you have any questions please contact Jerry Dutchover or the Branch of fluid Minerals at (505) 622-9042.

Sincerely,

Joe G. Lara  
Assistant District Manager,  
Minerals

1 Enclosure

14-08-001-303  
3180 (065)

FEB 06 1990

FEB

Bass Enterprises Production Company  
Attention: Mr. R. Andrew Maxwell  
First City Bank Tower  
201 Main Street  
Fort Worth, Texas 76102

Re: Commercial Well Determination, your Poker Lake Unit well No. 72, NE1SE1  
sec. 28, T. 24 S., R. 31 E., Eddy County, New Mexico, Federal Lease NM-0522

Gentlemen:

We are in receipt of your letter of January 16, 1990, along with additional information submitted by Charles B. Gillespie, Jr.'s that supports your recommendation that the subject well be determined commercial.

We agree with your recommendation the subject well be deemed a-commercial in the Delaware Formation. Therefore, the well is determined to be commercial and will be included in the Delaware "A" participating area.

Should you have additional questions concerning this determination, please call David Glass at (505)-622-9042.

Sincerely,

(ORIG. SGD.) JOE G. LARA

Joe G. Lara  
Assistant District Manager,  
Minerals

cc:

Commissioner of Public Lands, Santa Fe  
MMS-Denver  
NM (943C)  
NM (065, B. Lopez, J. Dutchover)  
Lease File NM-0522  
NM (067)

✓ Charles B. Gillespie, Jr.  
Attention: Mr. David W. Hastings  
P. O. Box Eight  
Midland, TX 79702

## Farmout Agreement

THIS AGREEMENT IS MADE and entered into this 11th day of November 1988, by and between Sid R. Bass, Inc., Thru Line Inc., Lee M. Bass, Inc., Robert M. Bass Group, Inc., Perry R. Bass, Inc. and San Jose Exploration, Inc., 3100 First City Bank Tower, 201 Main Street, Fort Worth, Texas 76102 and Hondo Oil and Gas, Inc., P.O. Box 2208, Roswell, New Mexico 88202 (hereinafter sometimes referred to as "Farmoutor") and Charles B. Gillespie, Jr., P.O. Box 8, Midland, Texas 79702 (hereinafter sometimes referred to as "Farmoutee") concerning certain operations to be conducted by Farmoutee in Eddy county, New Mexico and certain rights and interests earned by Farmoutee.

Now, therefore, for and in consideration of the mutual covenants and agreements herein expressed, Farmoutor and Farmoutee do hereby agree as follows:

- I. Farmout Area. Farmoutor's oil and gas leases and lands subject hereto are described in Exhibit "A" and shown as the area indicated on Exhibit "A-1" attached hereto and made a part hereof. Such leases and lands are hereinafter sometimes collectively referred to as the "Farmout Area".
  
- II. Test Well. On or before December 31, 1988, Farmoutee will commence the actual drilling of a well (sometimes hereinafter referred to as "Test Well") with a drilling rig capable of drilling to the objective depth at a legal location in the Southeast-quarter of the Southeast-quarter (SE/4 SE/4) Section 28, T24S-R31E N.M.P.M., Eddy County, New Mexico and drill same to a minimum depth of 7200 feet or to a depth sufficient to adequately test the Brushy Canyon formation, whichever is the lesser depth (such depth being hereinafter sometimes referred to as "Contract Depth"). Nothing herein contained shall be construed as a limitation on Farmoutee's right to drill said Test Well deeper than the Contract Depth. Farmoutee agrees to complete the Test Well either as a commercial producer of oil into the tanks, a fully equipped gas well or as a plugged and abandoned dry hole within 120 days of release of the drilling rig. Farmoutee further agrees that in the event Farmoutee fails to timely commence, drill to the contract depth and complete said Test Well as provided herein, the penalty shall be the termination of this agreement and the loss of all rights and interest that may be earned under the provisions hereof. Additionally, should Farmoutee fail to commence, drill, test and complete the Test Well in such a manner as to fulfill and satisfy the 1988 Poker Lake Unit Plan of Development that is on file with the Bureau of Land Management in Roswell, New Mexico, the penalty shall be (1) the termination of this agreement and (2) the payment to Farmoutor by Farmoutee of \$250,000.00 in the form of a cashier's check fully payable within thirty (30) days from the date Farmoutee fails to perform in accordance with the terms hereunder. In the event title should fail to the test well drillsite, this Agreement will become null and void along with all obligations created hereunder.

Notwithstanding anything to the contrary, in the event approval of Farmoutee's Application for Permit to Drill (APD) the Test Well under this provision or additional wells that may be drilled under other provisions in this agreement is delayed by the Bureau of Land Management pursuant to the Federal Onshore Oil and Gas Leasing Reform Act of 1987, the time periods provided hereunder shall be extended a period of time equal to, but not greater than, the delay in obtaining an APD due to said Leasing Reform Act. The thirty (30) day notice period before an APD is approved by the Bureau of Land Management will not be considered a delay under this agreement. An extension of any such time period for the drilling of a well hereunder shall not exceed a total of one hundred eighty (180) days without the written approval of Farmoutor. Farmoutee shall provide Farmoutor copies of all notices and correspondence and notice of all verbal communications within ten (10) days after occurrence of same regarding a delay in obtaining an APD.

- III. Substitute Test Well. If, prior to reaching the Contract Depth the test well provided for herein, Farmoutee encounters impenetrable substances or other drilling conditions beyond its control, which in Farmoutee's opinion makes further drilling of said well impracticable, Farmoutee shall have the right to commence operations for the drilling of a substitute test well ("Substitute Test Well") at a legal location of Farmoutee's choice on the Farmout Area within sixty (60) days from the abandonment of the Test Well. The Substitute Test Well will be drilled to the depth and under the same terms and conditions herein provided for the Test Well, and if drilled, the Substitute Test Well shall be considered as the Test Well under the provisions of this agreement. *ok*
- IV. Drilling of the Test Well or Substitute Test Well. All wells to be drilled by Farmoutee hereunder will be drilled, tested, completed and equipped, plugged and abandoned, and all necessary or required surface restoration performed, at Farmoutee's sole risk, cost and expense. It is agreed in this regard that all drilling (including plugging and abandoning) operations together with all other operations conducted by Farmoutee on the properties covered hereby shall be conducted by Farmoutee with due diligence in a proper and workmanlike manner.
- V. Assignment. Farmoutor agrees that when and if Farmoutee has timely and properly commenced the said Test Well and has completed same as a well capable of producing oil and/or gas in paying quantities within 120 days from the date the drilling rig is released, if Farmoutee has furnished Farmoutor with satisfactory evidence that there are no unpaid or delinquent bills for labor and material in connection with Farmoutee's operations except for any disputed bills that are being adjudicated in a court of law, and if Farmoutee has otherwise complied with all of the terms and conditions contained herein, Farmoutor will

assign to Farmoutee, subject to the reservations and conditions contained herein, without warranty of title, express or implied, the following interests:

A. All of Farmoutor's interest in that portion of the Farmout Area located within the Test Well Drillsite, subject however to a reservation in Farmoutor of the following interests:

1. An overriding royalty upon production from said Test Well Drillsite of said Test Well equal to the difference in lease burdens of record as of the date of this Agreement and twenty five percent (25%) of the value at the well (determined in the same manner as determined for royalty payment purposes) of the oil, gas and other hydrocarbons produced and saved from the Test Well and not used for operations on the Test Well Drillsite. The overriding royalty reserved by Farmoutor under the terms hereof shall be paid or at Farmoutor's option delivered to Farmoutor free and clear of all exploration, development and operating expenses and all other liens and encumbrances, but shall bear its proportionate share of any severance or production taxes assessed against and chargeable to same. In the event Farmoutor owns less than 100% of the oil and gas estate in the Test Well Drillsite, the limited overriding royalty reserved herein shall be reduced proportionately to accord with Farmoutor's net interest in the oil and gas estate in the Test Well Drillsite.
2. All rights at or below the stratigraphic equivalent of 100' below the deepest depth capable of producing oil and/or gas drilled in said Test Well.

Execution and delivery of such assignment shall not relieve the parties hereto of any of the duties and obligations contained herein. Any assignment made to Farmoutee hereunder shall be effective as of the date of this Farmout Agreement.

As used herein, the term "Test Well Drillsite" or "Drillsite" means a production unit as established by Farmoutee which shall not exceed the largest size pooled unit permissible under the terms of the lease on which the Test Well is drilled (and any additional leases pooled therewith to form such a unit if a gas well) or the maximum size allowed by the New Mexico Oil Conservation Division or other governmental agency having jurisdiction, but shall in no event exceed 320.00 acres in size.

Farmoutee agrees to accept the foregoing assignment of the Test Well Drillsite subject to all of the terms, provisions and conditions of all the

oil and gas leases covering such Test Well Drillsite and any intermediate assignments thereof; and Farmoutee assumes and agrees to comply fully with and to perform timely each and every duty, obligation, provision and condition contained therein, both expressed and implied, insofar as they concern the Test Well Drillsite. Farmoutee further agrees to save and hold harmless Farmoutor at all times from any and all damages and costs which may arise or be adjudged against Farmoutor or Farmoutee's failure or refusal to comply fully and faithfully with each and every duty, obligation and covenant, insofar as they concern the assigned premises.

VI. Reassignment. After an assignment has been earned hereunder, it is agreed that in the event any of the drillsites covered by the oil and gas leases so earned are not being maintained by commercial production from Farmoutee's wells, operations or as otherwise set out in the affected oil and gas leases, Farmoutee will, upon request, reassign to Farmoutor Farmoutee's interest in such lease or leases. For the purposes of this agreement unit production from or operations on lands not covered by this agreement will not maintain the drillsites hereunder. In the event of reassignment to Farmoutor by Farmoutee or by Farmoutee's assignee or sublessee, the said oil and gas leases shall vest in Farmoutor free from any overriding royalty or other burden placed thereon by Farmoutee or by Farmoutee's assignees or sublessees. Furthermore, Farmoutee agrees that it will incorporate into any sublease or assignment that Farmoutee may execute, a provision making such assignment subject to the terms and conditions of this agreement and obligating Farmoutee's assignee or sublessee to protect the rights and interest retained by Farmoutor in Farmoutor's assignment to Farmoutee.

VII. Well Take Over. Should Farmoutee determine that any well drilled hereunder by Farmoutee on the Farmout Area is incapable of producing oil or gas in paying quantities and Farmoutee intends to plug and abandon same, Farmoutee will first notify Farmoutor and furnish Farmoutor with all available information concerning the drilling, testing, coring, surveying, and logging of such well. Farmoutor will have twenty-four (24) hours following receipt of such notice and all such information in which to elect to take over said well. Failure to notify Farmoutee within the aforesaid twenty-four (24) hour period will constitute an election by Farmoutor not to take over the well. Should Farmoutor elect not to take over the well, Farmoutee will plug and abandon said well at Farmoutee's sole cost, risk, and expense.

Should Farmoutor elect to take over a well, it does so subject to any prior rights of others with respect to the Drillsite for such well, and upon the conditions of this paragraph. Farmoutor will assume the cost, risk, and expense of all future operations in such well, but Farmoutee will bear all expenses in connection with the well, including rig standby

time, up to the time of actual take over by Farmoutor, or the end of the twenty-four (24) hour notice period, whichever first occurs; and, Farmoutee will also bear all costs for restoration of the surface upon which the well is located, except for any additional costs for surface restoration which are a direct result of Farmoutor's operations after taking over the well, which will be borne by Farmoutor. Farmoutor will pay Farmoutee the reasonable salvage value of the well less the cost of the removing and recovering same. Farmoutor may drill deeper, or test any formation or formations encountered in the well.

Upon take over by Farmoutor, Farmoutee will have no further claim to or rights in or to the well, its equipment or material, and production therefrom, and shall reconvey to Farmoutor any interest in the Drillsite for such well previously acquired pursuant hereto; and further, Farmoutee will "Farmout" to Farmoutor any leasehold or fee interest in oil and gas Farmoutee already owns in the Drillsite for such well, on the same terms contained herein; and, Farmoutor may assume Farmoutee's rights in any other farmout agreement or other support contracts or rights Farmoutee acquired in support of the well which is taken over, but only to the extent that any such agreement or contract affects the Drillsite of the well taken over.

If Farmoutee should plug and abandon any well drilled hereunder without first notifying Farmoutor, as required herein, Farmoutee will forfeit and reconvey to Farmoutor, all rights and interests which would have been earned by the drilling of such well, and any right to earn additional interests hereunder.

VIII. Information and Notices to be Furnished to Farmoutor. With respect to any well drilled hereunder, Farmoutee agrees:

- A. That it will promptly furnish Farmoutor with the information and notices required by Exhibit "B" attached hereto and made a part hereof. Time is of the essence in complying with such terms and conditions.
- B. Adequate tests of all formations encountered which, on the basis of geological data, would be tested by a prudent operator.
- C. That, if the Test Well is completed as a producer, it will furnish to Farmoutor on a monthly basis, the monthly production, name of purchaser and the sale price.
- D. All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, will be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Farmoutor

Bass Enterprises Production Co.  
3100 First City Bank Tower  
201 Main Street  
Fort Worth, Texas 761021  
Attention: Glenna DeBerry  
817/390-8400

Hondo Oil and Gas, Inc.  
P.O. Box 2208  
Roswell, New Mexico 88202  
Attention: Mr. Gene Wentworth  
(505) 625-8725

Farmoutee

Bettis Brothers, Inc.  
500 W. Wall  
Suite 312  
Midland, Texas 79701  
(Attention: Bill Crow  
(915) 685-4128

- IX. Shut-in Royalties and Rentals Payments. Prior to the date any assignment is actually made hereunder, Farmoutor agrees to timely and properly pay any delay rentals, shut-in gas royalty payments or any other payments which may be due after the date hereof under the terms of the leases constituting the Farmout Area or relevant regulations and statutes in order to maintain said leases. Farmoutor will exert its best efforts in making said payments as provided above but will not be liable in the event of untimely or improper payment thereof or failure to pay the same, good faith and reasonably prudent operations being Farmoutor's sole responsibility in this regard. Within thirty (30) days following receipt of a bill covering such payments, Farmoutee agrees to reimburse Farmoutor therefore. After Farmoutee earns an interest in the Farmout Area and an assignment is actually made hereunder, then the Farmoutor will pay any delay rentals, shut-in royalty payments or any other payments which may be due under the terms of the leases so assigned and such delay rentals and other payments shall be borne by all working interest owners in proportion to their respective interests in the affected leases.
- X. Relationship of the Parties. This agreement is not intended to create, and nothing herein shall be construed to create, an association, a trust or joint venture, a mining partnership, or other partnership or entity of any kind. Nevertheless, should this agreement be construed to create an association or partnership within the meaning of Subchapter K or Chapter I of Subtitle A of the Internal Revenue Code 1954, as amended, or within the meaning of any similar statute of the state wherein the properties covered hereby are located, the parties hereto affirm that they have elected to be excluded from the application of said statutes. It is further agreed that Farmoutee is not an agent of Farmoutor, but to the contrary, Farmoutee will be acting as an independent contractor.
- XI. Compliance with Laws and Agreements. Farmoutee agrees to perform all work hereunder in compliance with applicable Federal and State laws, orders, rules and regulations. Farmoutee further agrees to keep

the Farmout Area free and clear of all claims of lien for labor and materials furnished or used in connection with the drilling of any well.

XII. Indemnity by Farmoutee. Farmoutee agrees to assume all liability and to indemnify and save harmless Farmoutor and its affiliated companies and their agents, servants, directors, officers and employees (collectively "indemnitees") from and against any and all liabilities, damages, claims (including claims under any bond), suits, costs (including court costs, attorneys' fees and costs of investigations) and actions of any kind arising out of or alleged to arise by reason of injury to or death of any person or damage to or loss of property, including consequential damages arising therefrom, or by reason of any other claim whatsoever of any person or party arising out of, incident to, or in connection with any operation hereunder of Farmoutee or of any invitee, licensee, employee, director, officer, servant, contractor or subcontractor of Farmoutee, or by reason of any breach, violation or non-performance by Farmoutee or any invitee, licensee, employee, director, officer, servant, contractor or subcontractor of Farmoutee of any covenant, duty, obligation, provisions or condition, express or implied, contained in any oil and gas lease, or intermediate assignment thereof, assigned pursuant to the provisions hereof, excluding only any damage or injury that is caused solely by the negligence of an Indemnatee.

XIII. Insurance. Prior to commencement of any work pursuant hereto and in compliance with Paragraph XIII above, Farmoutee shall secure and maintain in force and effect at all times during the term of this agreement, the insurance as provided below with coverage limits not less than the amount specified, with insurers licensed to do business in all states where work is conducted under this agreement and with insurers satisfactory to Farmoutor. Farmoutee shall supply Farmoutor with a valid certificate of insurance evidencing such coverages in their entirety along with a 30-day notice of cancellation. If it is judicially determined that the insurance required hereunder or the indemnities voluntarily or mutually assumed in this agreement exceed the maximum limits permissible under applicable law, it is agreed that said insurance requirements or indemnities shall automatically be amended to conform to the maximum limits permitted under such law.

<u>Coverage</u>	<u>Minimum Liability</u>
1) Worker's Compensation Employers Liability	Statutory \$500,000
2) Comprehensive General Liability Including Broad Form Contractual Coverage Covering Indemnity Section of This Contract	\$500,000 CSL

- |    |  |   |
|----|--|---|
| 3) | Automobile Liability Insurance all owned, non-owned and hired vehicles   | \$100,000/\$300,000/\$100,000                     |
| 4) | Umbrella Liability   | \$1,000,000                                       |
| 5) | Equipment Insurance<br>(Should Farmoutee choose to self-insure this risk, all equipment is on-site at Farmoutee's sole risk) | Actual Cash Value of<br>Equipment owned or rented |

All policies mentioned above shall be endorsed to provide that the underwriters and insurance companies shall not have a right of subrogation against the Farmoutor or its affiliates, subsidiaries and employees and such waiver shall be shown on the certificate of insurance. Farmoutee shall require all its contractors and their subcontractors to obtain, maintain and keep in force throughout their performance of any work, insurance similar to that required of the Farmoutee and waiving all rights of subrogation in favor of the Farmoutor or its affiliates, subsidiaries and employees. It is further agreed that any coverage provided Farmoutor by Farmoutee or their contractors or subcontractors is primary insurance and shall not be considered contributory insurance with any insurance policies of Farmoutor.

XIV. Federal Provisions. Farmoutee will comply with the non-discrimination provisions of Executive Order 11246 dated September 25, 1965, and the regulations promulgated pursuant thereto. Section 202 thereof is hereby incorporated by reference. During the term of this agreement, Farmoutee will file all reports required by the aforementioned regulation duly and promptly and, upon request, will furnish Farmoutor with evidence that such reports have been filed. Any assignment of interest to Farmoutee made pursuant to this agreement and covering or affecting lands subject to a Federal Oil and Gas Lease will incorporate therein such provisions as are required by the applicable statutes and regulations.

XV. Successors and Assigns. This agreement shall constitute a covenant running with the lands covered thereby and shall be binding upon the respective heirs, successors and assigns of the parties hereto. It is further agreed that Farmoutee will not assign all or any part of its rights hereunder to a third party without the prior written consent of Farmoutor.

XV. Force Majeure. In the event Farmoutee is rendered unable, wholly or in part, by a Force Majeure (as hereinafter defined) to carry out its obligations under this agreement other than the obligation to make money payments, Farmoutee will give Farmoutor prompt written notice of the Force Majeure with reasonably full particulars concerning

it; thereupon the obligations of Farmoutee, insofar as they are affected by the Force Majeure, will be suspended during, but no longer than the continuance of the Force Majeure. Farmoutee will use all possible diligence to remove the Force Majeure as quickly as possible. Notwithstanding anything to the contrary, a delay in obtaining an Application for Permit to Drill under Article II herein shall not be considered Force Majeure.

The term "Force Majeure" as here employed, will mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

XVII. Extensions and Renewals. All interests, reservations and rights of Farmoutor in and to the herein described Farmout Area and the production therefrom provided for in this agreement will extend not only to the oil and gas leases now owned or controlled by Farmoutor covering said lands, but also to any and all extensions by virtue of which said leases are continued in force or renewals of said oil and gas leases which may be acquired by Farmoutee within twelve (12) months from the expiration of said leases or any extensions and renewals thereof.

Farmoutee agrees to execute such further grants and assurances as may be requisite to vest in Farmoutor under any such extensions or renewals the same rights and interests in and to the lands described hereinabove and the production therefrom as are reserved by or granted to Farmoutor under the provisions of this agreement.

XVIII. Liens; Security Interests; Record Notice.

A. Should a lien be filed on all or any portion of the Farmout Area due to Farmoutee's non-payment of bills for labor and materials in connection with Farmoutee's operations hereunder, and if such lien is not released within ten (10) days of Farmoutee's notice thereof, or if Farmoutee fails to respond to such a lien within ten (10) days of such notice by filing an appropriate legal response in a court of law having jurisdiction, and if Farmoutee subsequently fails to comply with the courts ruling in a fashion adequate to remove the lien, then at Farmoutor's option, (1) Farmoutor shall become operator of any or all wells in the Farmout Area by giving notice to Farmoutee of its election to takeover as operator, (2) this agreement shall immediately terminate and (3) Farmoutee shall

immediately forfeit to Farmoutor all of its rights hereunder, except for any interest previously earned in the Drillsite of any producing well or wells previously drilled by Farmoutee on the Farmout Area, to which no lien has been filed.

B. In the event Farmoutee drills any Additional Wells pursuant to the terms hereof, Farmoutee grants to Farmoutor a lien and security interest upon all of Farmoutee's oil and gas interests owned or previously earned from Farmoutor in the Farmout Area, its interest in all materials, equipment and other property located thereon, and its interest in all oil and gas produced therefrom; Such liens are granted to secure Farmoutee's obligations to pay all bills for labor and materials in connection with Farmoutee's subsequent operations hereunder. Should a lien for unpaid labor and materials be filed on or affecting all or any portion of the Farmout Area and not be released after ten (10) days from Farmoutee's notice thereof; or if Farmoutee fails to respond to such a lien within ten (10) days of such notice by filing an appropriate legal response in a court of law having jurisdiction, and if Farmoutee subsequently fails to comply with the courts ruling in a fashion adequate to remove the lien, then Farmoutor shall have the right, in addition to the remedies set forth in of Paragraph A. above, (1) to collect and receive from the purchaser or purchasers of production from the Farmout Area the proceeds of Farmoutee's share of production from all wells previously drilled by Farmoutee on the Farmout Area, up to the amount owing by Farmoutee, plus interest and expenses, and (2) to pay such proceeds to Farmoutee's unpaid claimants (without prejudice to the rights of Farmoutee to deny such claims).

C. Farmoutee agrees that within two (2) days of Farmoutor's written request Farmoutee shall execute and deliver to Farmoutor a Memorandum of this agreement, in recordable form.

XIX. Right to Drill Additional Wells

If the Test Well has been drilled to Contract Depth and Farmoutee has otherwise complied with the terms and conditions of this agreement, Farmoutee shall have the continuing right to drill one or more additional wells ("Additional Wells") in the Farmout Area under the same terms and conditions and to the same Contract Depth as provided for herein for the Test Well, provided that actual drilling operations with a rig capable of reaching the objective depth for drilling each Additional Well must be commenced within one hundred twenty (120) days following the completion either as a commercial producer or the plugging and abandoning of the previously drilled Test Well or Additional Well. Failure to timely commence the drilling of any

Additional Well will result in the termination and forfeiture of all of Farmoutee's rights hereunder except for any interests previously earned by Farmoutee. Notwithstanding anything to the contrary contained herein, for the purpose of this provision, completion of a well is defined as the date the drilling rig is released.

XX. Poker Lake Unit and Unit Operating Agreements

This agreement is made subject to all the terms and provisions of the Poker Lake Unit and Unit Operating Agreement dated March 18, 1952, Operating Agreement dated June 30, 1980, Operating Agreement dated July 1, 1982 and other contracts and agreements currently in force and covering the Farmout Area and all the policies and regulations of the Department of Interior, State of New Mexico and any other state or federal agency or body having jurisdiction.

XXI. Failure to Perform

Notwithstanding any of the remedies contained herein, should Farmoutee violate or fail to comply with any of the terms and provisions of this agreement, Farmoutor shall give Farmoutee written notice by certified mail of any violation of the agreement that has occurred and Farmoutee shall have thirty (30) days from receipt of such notice in which to come into compliance with said agreement. Failure of Farmoutee to come into compliance with said agreement will result in the termination of said agreement in its entirety with all rights and interests in the Contract Area reverting to Farmoutor. In such event Farmoutee agrees to assign to Farmoutor, within thirty (30) days from the date of termination of the agreement, all interest theretofore earned in the Contract Area.

XXII. Enlargement of Farmout Area

In the event Farmoutor drills, tests, and completes eight (8) wells pursuant to the term of the Agreement, the Farmout Area will be enlarged to include the N/2 NE/4 of Section 28 and the NW/4 NW/4 of Section 27, Township 24 South, Range 31 East, Eddy County, New Mexico. The enlarged Farmout Area will be subject to all the terms and conditions of this Farmout Agreement.

Please signify your acceptance of the terms and provisions of this Agreement by signing in the space provided below and returning two (2) executed Agreements. In the event you do not sign and return this Farmout Agreement within thirty (30) days from the date of this Agreement, the offer incorporated herein will, at the option of Farmoutor, terminate and be at an end. This Agreement may be signed in

counterpart and shall inure to and be binding upon the parties and upon their heirs, successors, representatives and assigns.

FARMOUTOR:

BY: *Perry R. Bass*  
PERRY R. BASS, TRUSTEE

PERRY R. BASS, INC.  
SID R. BASS, INC.  
THRU LINE INC.  
LEE M. BASS, INC.  
ROBERT M. BASS GROUP, INC.  
SAN JOSE EXPLORATION, INC.

By: *Stuart Henry*  
Vice President of above named corporations

HONDO OIL AND GAS, INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

FARMOUTEE:

CHARLES B. GILLESPIE, JR.

BY: \_\_\_\_\_

\*\*\*\*\*

ACKNOWLEDGEMENTS

STATE OF TEXAS        )  
                                  )  
COUNTY OF TARRANT    )

BEFORE ME, the undersigned authority, a Notary Public in and for the County and State aforesaid, on this day personally appeared PERRY R. BASS, TRUSTEE known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day of November, 1988.

*Cornell Addington*  
Notary Public in and for Tarrant County, Texas

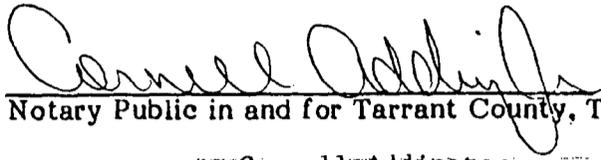
Print Name: Cornell Addington

My Commission Expires: May 20, 1989

STATE OF TEXAS )  
 )  
COUNTY OF TARRANT )

BEFORE ME, the undersigned authority, a Notary Public in and for the County and State aforesaid, on this day personally appeared STEWART HENRY, known to me to be the person whose name is subscribed to the foregoing instrument for and as Vice President of Sid R. Bass, Inc., Lee M. Bass, Inc., Robert M. Bass Group, Inc., and Thru Line Inc., corporations; and San Jose Exploration, Inc.; and acknowledged to me that he executed same for the purposes and consideration therein expressed, as the acts and deeds of said corporations and in the capacities therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day of November, 1988.

  
Notary Public in and for Tarrant County, Texas

Print Name: Cornell Addington

My Commission Expires: May 20, 1989

STATE OF TEXAS )  
 )  
COUNTY OF TARRANT )

BEFORE ME, the undersigned authority, a Notary Public in and for the County and State aforesaid, on this day personally appeared \_\_\_\_\_, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said HONDO OIL AND GAS, INC., a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, 1988.

\_\_\_\_\_  
Notary Public in and for Tarrant County, Texas

Print Name: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

STATE OF TEXAS )  
 )  
COUNTY OF \_\_\_\_\_ )

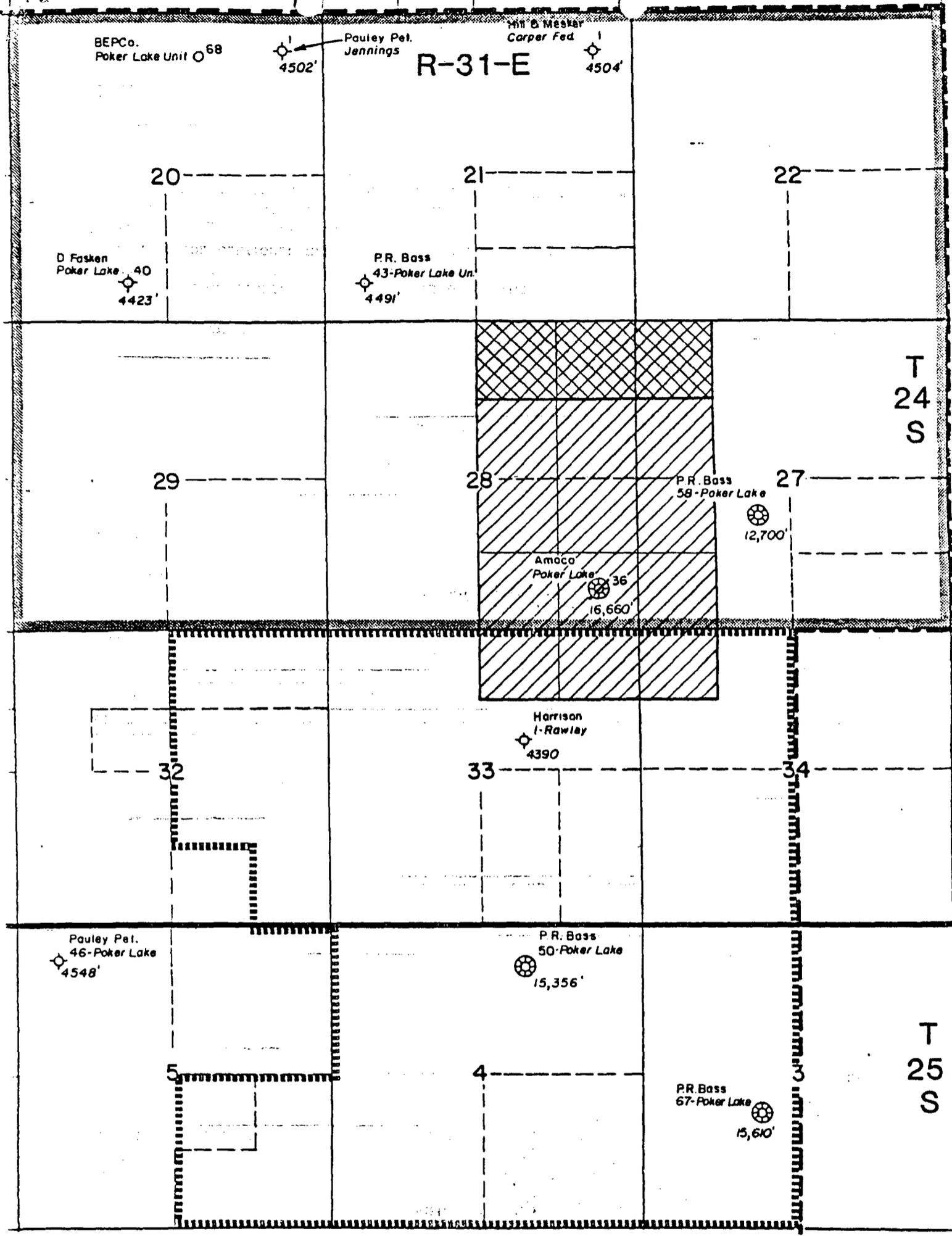
BEFORE ME, the undersigned authority, a Notary Public in and for the County and State aforesaid, on this day personally appeared \_\_\_\_\_, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act oration, and that he executed the same as the act of for the purposes and consideration therein expressed and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, 1988.

\_\_\_\_\_  
Notary Public in and for the State of Texas

Print Name: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_



OPTION AREA



FARMOUT AREA



OPERATING AGREEMENT DATED 6-30-80,  
AREA "A" (Bass O/A No. 39-0-NM)



OPERATING AGREEMENT DATED 7-1-82  
(Bass O/A No. 50-0-NM)

--- POKER LAKE UNIT OUTLINE

<b>BASS ENTERPRISES PRODUCTION COMPANY</b>			
<b>WEST TEXAS DIVISION</b>			
<b>POKER LAKE UNIT</b>			
<b>Eddy Co., New Mexico</b>			
Date	11-14-88	Inter. By	L.W.W.
Revised		Drafted By	D.A.C.
Scale	1" = 2000'	Dept.	Land

EXHIBIT "A"

Attached to that certain Farmout Agreement dated November , 1988,  
between Sid R. Bass, Inc., et al, as Farmoutor, and Charles Gillespie, as Farmoutor.

Lands and Oil and Gas Leases covered by Farmout Agreement:

1. Bass Lease No. 9172 - SF - 030454 - dated April 1, 1957, insofar as this lease covers the following lands.

N/2 NE/4 Section 33, NW/4 NW/4 Section 34, T24S, R31E, Eddy County, New Mexico.

2. Bass Lease No. 4322 - NM - 0522-A, dated December 1, 1950, insofar as this lease covers the following lands:

NE/4 Section 28, W/2 W/2 Section 27, T24S, R31E, Eddy County, New Mexico.

3. Hondo Lease \_\_\_\_\_ - NM 0522, dated December 1, 1960, insofar as the lease covers the following lands:

SE/4 Section 28, T24S, R31E, Eddy County, New Mexico.

## EXHIBIT "B"

Attached to that certain Farmout Agreement dated November 14, 1988, between Sid R. Bass, Inc., et al, as Farmoutor, and Charles Gillespie, as Farmoutee.

### WELL INFORMATION AND NOTIFICATION

Farmoutee shall, with respect to drilling any well drilled pursuant to the provisions of the instrument to which this Exhibit is attached, furnish without cost to Farmoutor:

- I. Prior to commencement of drilling:
  - A. A true copy of all notices filed with State, Federal or Indian Agencies.
  - B. A copy of the Drilling Contract when it is available and in no event not later than five (5) days prior to commencement of the well.
  - C. Manned mudlogging unit from Top Lamar to TD. During drilling, field prints of the mudlog are to be mailed to George Hillis (one copy) and Keith Bucy (one copy). After drilling, three (3) final copies (each) are to be mailed to George Hillis and Keith Bucy, and one set of dry samples (10' intervals) is to be sent to Midland Sample Library, P. O. Box 1914, 707 South Connell, Midland, Texas 79702.
  - D. Copy of Operator's geological and drilling prognosis.
  - E. Two (2) copies of survey plat showing location.
- II. During the drilling, testing and completing operations:
  - A. Date drilling operations are commenced.
  - B. Daily reports by phone and in writing of the previous day's operations as to the thickness, character and kind of formation or formations penetrated, core descriptions, DST Data, bit type and size, jets used, pump pressure and volume, rotary RPM, weight on bit, sample or log formation tops and depth at which the report is made, report predicted depth for specific formation tops to be encountered during the next twenty-four (24) hours.
  - C. Notification, as early as possible, when coring, testing or logging is anticipated so that a representative may be present to witness the coring, testing or logging.
  - D. Provide a detailed description of the core, test or log by phone as early as practical.
  - E. A complete set of samples to be available at the well site at all times.
  - F. Adequate tests of all formations encountered which, on the basis of geological data, would be tested by a prudent operator.
  - G. Deviation survey.
  - H. With the following mechanical logging program:

#### TYPE OF LOG

#### INTERVALS TO BE LOGGED

Cased hole: GR-CNL (limestone matrix) through cased part of hole (i.e. from around T/Lamar to surface).

Openhole: From TD to Lamar (intermediate casing)

- a) GR-DLL-MSFL with caliper and tension displayed on both 2" & 5" scales. MSFL may be closed if sticking problems are severe.

b) GR-Neutron-Density (limestone matrix) with caliper, delta rho, tension displayed on both 2" and 5" scales. Lithodensity tool preferred.

c) BHC Sonic with GR with caliper and tension displayed on 60th 2" and 5" scales.

Logging Co.: In order of preference - Schlumberger, Gearhart, Welex. (Dresser is not preferred)

- I. With three (3) copies of any analysis by a competent core analysis laboratory of any core having a showing of oil and/or gas or a specific core upon request.
- J. Three (3) copies of each DST report as supplied by service company to Keith Bucy and Truitt Mathews. Also three (3) copies of any fluid analysis reports as supplied by a laboratory.
- K. Three (3) copies each of all field prints as soon as possible after logging should be sent to Keith Bucy and Truitt Mathews. Three (3) copies of velocity surveys if survey is run. Three (3) copies of all final prints and the address of the film so that additional copies may be made if necessary.
- L. A copy of operator's planned completion procedures prior to completion operations.

III. Upon completion of the well:

- A. Two (2) copies of the final geological well report and history which shall include all geological, engineering and mechanical data pertaining to the well.
- B. One set of ditch samples including one foot core chips of any cores taken shall be sent to a central collecting agency where they will be processed and stored for public use. The cost of such processing and storage shall be borne by the operator. The samples are to be delivered to Midland Sample Library, P. O. Box 1914, 707 South Connell, Midland, Texas 79702.
- C. A copy of all well completion notices on said well.

IV. Allow Farmoutor's representative free access to the well site, derrick floor and well records at all times.

V. Daily reports by phone and in writing are to be directed to:

Bass Enterprises Production Co.  
201 Main Street  
First City Bank Tower  
Fort Worth, Texas 76102  
Attention: Debbie Curran  
(817) 390-8400

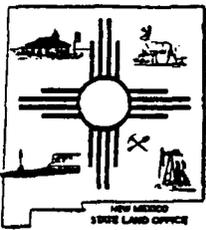
Prior to testing, logging:

Truitt Mathews (O) 817/390-8400; (H) 817/923-1380

VI. Except as otherwise provided, all information and notifications are to be furnished as set forth above are to be directed to:

Mr. Truitt F. Mathews  
Bass Enterprises Production Co.  
201 Main Street  
First City Bank Tower  
Fort Worth, Texas 76102

Mr. Keith Bucy  
Bass Enterprises Production Co.  
P. O. Box 2760  
Midland, Texas 79702



State of New Mexico  
Commissioner of Public Lands

April 2, 1990

W. R. Humphries  
COMMISSIONER

Advisory Board

George Clark  
Chairman

Kristin Conniff  
Vice Chairman

Melvin Cordova  
Joe Kelly

Robert Portillos

Nancy Lynch Vigil

Rex Wilson

Bass Enterprises Production Co.  
First City Bank Tower  
201 Main Street  
Fort Worth, Texas 76102

ATTN: Mr. Jens Hansen

RE: Poker Lake Unit  
Eddy County, New Mexico  
1990 Plan of Development

Gentlemen:

The Commissioner of Public Lands has this date approved the 1990 Plan of Development for the Poker Lake Unit. Our approval is subject to like approval by all other appropriate agencies.

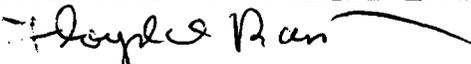
In our letter to you, dated January 3, 1990, we requested information about the Unit that we did not receive in the Plan of Development that you submitted. Attached is a checklist that identifies the information that was omitted. Please submit this information at your earliest convenience.

The possibility of drainage by wells outside of the Unit Area and the need for further development of the Unit may exist. You will be contacted at a later date regarding these possibilities.

Enclosed is an approved copy of the 1990 Plan of Development for your files. If we may be of further help, please do not hesitate to contact Susan Howarth at (505) 827-5791.

Very truly yours,

W.R. HUMPHRIES,  
COMMISSIONER OF PUBLIC LANDS

BY: 

FLOYD O. PRANDO, Director  
Oil and Gas Division  
(505) 827-5749

cc: OCD - Santa Fe, New Mexico  
BLM  
Unit Correspondence File  
Unit P.O.D. File

WRH/FOP/SMH

BASS ENTERPRISES PRODUCTION CO.

FIRST CITY BANK TOWER  
201 MAIN ST.  
FORT WORTH, TEXAS 76102  
817/390-8400

LAND DIVISION  
200

1990 DEC 31 AM 9 44

#366

December 26, 1990

Bureau of Land Management  
P. O. Box 1397  
Roswell, New Mexico 88201

Attention: Mr. Joe Lara

Commissioner of Public Lands  
State of New Mexico  
P. O. Box 1148  
Santa Fe, New Mexico 87504-1148

Attention: Mr. Floyd Prando

New Mexico Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico

Attention: Mr. Bill LeMay

Re: 1991 Plan of Development  
Poker Lake Unit  
Eddy County, New Mexico

Gentlemen:

In accordance with Section 10 of the Poker Lake Unit Agreement dated March 18, 1952, Bass Enterprises Production Co., Operator of the referenced unit, hereby submits a Plan of Development for the Poker Lake Unit for the year 1991.

HISTORY OF PAST DEVELOPMENT

We refer to our previous Plans of Development for a detailed description of the operations conducted in this Unit in prior years.

### 1990 ACTIVITY

Poker Lake Unit Well No. 73 - This well was drilled at a location 660' FNL and 660' FEL in Section 33, T24S-R31E, to a total depth of 6,965' and completed in the intervals 5,973' - 6,008' as an oil well in the Delaware formation. This well was drilled by Charles B. Gillespie, Jr. as designated agent for Bass.

### PARTICIPATING AREAS

According to our records, Bass Enterprises Production Co. has submitted all wells drilled to date where adequate production information is available for commercial determination and participating areas. In the event you have not received commercial determinations for all of our wells drilled to date, as well as proposed participating areas when appropriate, please advise us at your convenience and we will submit same to you.

### FUTURE DEVELOPMENT

We plan to drill the following test wells during the year 1991, at the following locations:

Poker Lake Unit No. 58 - In 1982, this well was drilled at a location 1,980' FSL and 1,980' FWL in Section 27, T24S-R31E, to a total depth of 12,700', and completed in the Wolfcamp formation in the producing intervals of 12,108' - 12,111'. As a unit operation for 1991, Bass plans to reenter this well and deepen same to a depth necessary to test the Atoka and Morrow formations which will cost in excess of \$1,000,000.00.

Poker Lake Unit Well No. 74 - This well will be located 660' FSL and 1,980' FEL, Section 24, T24S-R29E for a S/2 proration unit and will be drilled to a projected total depth of 14,100' to test all unitized intervals down to, and including, the Morrow formation. Under our letter dated November 30, 1990, to the Bureau of Land Management, Attention: Joe Lara, we provided several reasons why it will be necessary to drill this well on unit lands that will be communitized with non-unit lands. Please refer to said November 30, 1990, letter for a full explanation of same.

### OFFSET OBLIGATIONS

Appropriate and adequate measures will be taken to prevent drainage of unitized substances from lands subject to Poker Lake Unit Agreement or pursuant to applicable regulations.

December 26, 1990  
Page 3

MODIFICATIONS

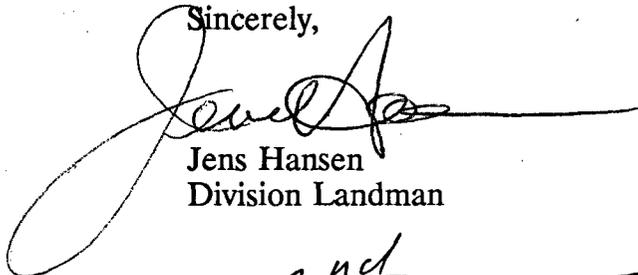
In accordance with the terms and provisions of the Poker Lake Unit Agreement, this Plan of Development may be modified from time to time as a result of changing conditions.

EFFECTIVE DATE

This Plan of Development shall be effective from January 1, 1991 to December 31, 1991.

If this Plan of Development meets with your approval, please so indicate by signing in the appropriate space provided below and return one (1) signed original to us for our records.

Sincerely,



Jens Hansen  
Division Landman

JH:ca

ACCEPTED AND AGREED this 2<sup>nd</sup> day of Jan, 1991.

BUREAU OF LAND MANAGEMENT

By: \_\_\_\_\_

COMMISSIONER OF PUBLIC LANDS

By: \_\_\_\_\_

NEW MEXICO OIL CONSERVATION DIVISION

By:  \_\_\_\_\_