

214 West Texas  
Suite 400, (Zip 79701)  
P.O. Box 2071  
Midland, Texas 79702

DAVID H. ARRINGTON OIL & GAS, INC.

Phone: (915) 682-6685  
Fax: (915) 682-4139

September 10, 2001

Mr. Derold Maney  
Ocean Energy, Inc.  
1001 Fannin, Suite 1600  
Houston, TX 77992

Re: Assignment Of Rights In And To Certain Farmout Agreements Concerning The  
SW/4 Of Section 25, T16S, R35E, Lea County, New Mexico  
South Payday "25" Prospect

Gentlemen:

When executed by the parties hereto, this letter agreement (this "Agreement") shall set forth the agreement between Ocean Energy, Inc. a Louisiana corporation ("Ocean") and David H. Arrington Oil & Gas, Inc. ("Arrington") concerning the assignment of thirty percent (30%) of Ocean's right in and to those certain farmout agreements covering the SW/4 of Section 25, T16S, R35E, Lea County, New Mexico, more particularly described on Schedule 1 hereto (such agreement, as may be amended, supplemented, restated or otherwise modified from time to time, a "Farmout Agreement", and collectively, the "Farmout Agreements"). For good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties do hereby agree as follows:

1. On or before July 1, 2002, but not earlier than January 10, 2002, time being of the essence, Arrington shall commence actual drilling of a test well (the "Test Well") to be located in the NW/4 of Section 25, T16S, R35E, Lea County, New Mexico, referred to as the Triple Hackle Dragon 25 #1 Well, and shall thereafter prosecute drilling of the Test Well to penetrate and test the lower Mississippian Lime formation (as hereinafter defined) or to a depth of approximately thirteen thousand two hundred feet (13,200'), whichever is the lesser depth (the "Contract Depth") and shall complete the Test Well as capable of producing oil and/or gas in paying quantities or plug and abandon the same. Ocean shall participate in the drilling of this Test Well for its proportionate share. The Lower Mississippian Lime formation is defined as that certain gas and condensate bearing zone encountered at the stratigraphic equivalent depth of twelve thousand four hundred and four feet (12,404'), as shown on that certain compensated neutron three detector density log measurement in the Mayfly "14" State Com # 1 Well, located in Section 14, Township 16 South, Range 35 East, Lea County, New Mexico.

BEFORE THE  
OIL CONSERVATION COMMISSION  
Case No. 12816 Exhibit No. **19**  
Submitted By:  
TMBR/Sharp Drilling  
Hearing Date: May 16, 2002

ARRINGTON OIL & GAS, INC.  
BEFORE THE COMMISSION  
NMOCD CASE NO. 12731 & 12744  
DATE: 03/26/02  
EXHIBIT NO. 1

Mr. Derold Maney  
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In the event that the drilling title opinion rendered by a law firm licensed to do business in the State of New Mexico shall contain title requirements such that Arrington or Ocean as a reasonable and prudent operator is unable to commence drilling operations on the Test Well prior to July 1, 2002, Arrington or Ocean shall no later than January 5, 2002, initiate force pooling proceeding for a 320 acre unit comprised of the W/2 of Section 25, T16S, R35E, Lea County, New Mexico. Arrington or Ocean shall diligently and expeditiously pool such lands in order to cure such title requirements so that the Test Well may be drilled prior to July 1, 2002.

Should Arrington or Ocean fail to successfully cure such title defects through force pooling proceeding or otherwise and fail to timely commence drilling operations on the Test Well by July 1, 2002, then Ocean shall have the right, but not the obligation, to become the designated Operator under the Operating Agreement for the drilling of the Test Well through the point of first production; subsequently, Ocean shall relinquish operations under said Test Well to Arrington, and Arrington shall be the designated Operator under the Operating Agreement. Notwithstanding anything contained in this Agreement to the contrary Ocean shall not be obligated to participate in the drilling of the Test Well for a share of costs greater than thirty-five percent (35%) and Ocean is satisfied in its sole discretion that the remainder of the costs for the Test Well will be paid, either by Arrington or another third party with title to the leasehold interest in the lands contained within the pooling order issued by the New Mexico Oil Conservation Division.

2. In the event any well is lost for any reason prior to being drilled to Contract Depth or Arrington has encountered, during the drilling of any well, mechanical difficulty or a formation or condition which would render further drilling impracticable or impossible, Arrington may plug and abandon that well and may continue its rights under this agreement by commencing a substitute well (or wells) ("Substitute Well(s)") for any such well which has been lost or abandoned within sixty (60) days from the date the drilling rig is removed from the location of the prior well. Any Substitute Well drilled shall be drilled subject to the same terms and conditions and to the same depth as provided for the well so lost or abandoned. Any reference in this agreement to the Test Well shall be deemed to be a reference to any well or wells, which may be drilled as a Substitute Well. In the event that either party elects to drill a Substitute Well as provided herein, the other party must participate in same, or forfeit to the participating party any interest which it would have otherwise earned by virtue of its participation in such Substitute Well.
3. Contemporaneously herewith, Arrington and Ocean shall have entered into that certain Operating Agreement attached hereto as Exhibit A (the "Operating Agreement"), covering the W/2 of Section 25, T16S, R35E, Lea County, New Mexico (the "Contract Area"). Exhibit "A" to the Operating Agreement shall be completed based upon the results of the drillsite title opinion being prepared covering the W/2 of said Section 25.
4. Subject to the terms and conditions (i) of this agreement, (ii) each Farmout Agreement and (iii) the Joint Operating Agreement, Ocean hereby assigns unto Arrington, an undivided



Mr. Deird Mancy  
Ocean Energy, Inc.  
September 10, 2001  
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portion of the Arrington Evaluation Material which Ocean's counsel advises that it is compelled to disclose and will exercise reasonable efforts to obtain assurance that confidential treatment will be accorded to that portion of the Arrington Evaluation Material which is being disclosed. Arrington agrees that Ocean shall have no liability hereunder for any disclosure of the Arrington Evaluation Material made in compliance with this Paragraph 6.

7. Ocean has acquired proprietary 3D seismic data across certain lands, including, without limitation, T15S, R35E, Lea County, New Mexico (i) Section 7: W/2, W/2NE/4, W/2SE/4, SE/4SE/4; (ii) Section 17: W/2NW/4, NW/4SW/4; and (iii) Section 18: N/2, N/2S/2 (such 3D seismic data, collectively, the "Ocean 3D Data"). Ocean agrees (and represents to Arrington that Ocean has the right to so agree) that Arrington shall (i) have access to the Ocean 3D Data in Ocean's offices during normal business hours, in order to work and interpret the Ocean 3D Data and (ii) have access to and copies of, Ocean's interpretations of the Ocean 3D Data (the Ocean 3D Data together with such interpretations thereof, the "Ocean Evaluation Material"). Ocean shall retain full ownership rights to the Ocean 3D Data, and no ownership or license to the Ocean 3D Data shall be conveyed to Arrington. Except as provided for in this Paragraph 7, Ocean makes no representations or warranties to Arrington (i) as to the Ocean 3D Data (ii) or in respect of Arrington's reliance upon the Ocean Evaluation Material. Arrington shall keep the Ocean Evaluation Material confidential; provided however, that such obligation of confidentiality shall not apply to shall not apply to information which (i) was or becomes available to the public other than as a result of a disclosure by Arrington, (ii) was or becomes available to Arrington on a non-confidential basis from a source other than Ocean, provided that such source is not known by Arrington to be bound by a confidentiality agreement with Ocean or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation, (iii) was within Arrington's possession prior to its being furnished by Ocean, (iv) is developed or derived without the aid, application or use of the Ocean Evaluation Material (v) is disclosed following receipt of the written consent of Ocean to such disclosure being made, or (vi) is disclosed pursuant to Paragraph 8 hereof.
8. In the event that Arrington is requested or required (by oral questions, interrogatories, requests for information or documents, subpoena civil investigative demand or other process) to disclose any of the Ocean Evaluation Material, Arrington agrees that it will provide Ocean with prompt notice of any such request or requirement (written if practical) so that Ocean may seek an appropriate protective order or waive compliance with the provisions of this Agreement. If, failing the entry of a protective order or the receipt of a waiver hereunder prior to the time such disclosure is required to be made, Arrington may disclose that portion of the Ocean Evaluation Material which Arrington's counsel advises that it is compelled to disclose and will exercise reasonable efforts to obtain assurance that confidential treatment will be accorded to that portion of the Ocean Evaluation Material which is being disclosed. Ocean agrees that Arrington shall have no liability hereunder for any disclosure of the Ocean Evaluation Material made in compliance with this Paragraph 8.

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Ocean Energy, Inc.  
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9. It is not the intention of the parties to create a partnership, nor shall this agreement be construed as creating a mining or other partnership, joint venture, agency relationship or other association, or to render the parties liable as partners, co-venturers or principals. Unless provided for to the contrary in the Operating Agreement, (i) the liability of the parties shall be several, not joint or collective and (ii) each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs, if any, to be incurred hereunder. No party shall have any liability hereunder to third parties to satisfy the default of any other party in the payment of any expense or obligation.
10. This Agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the State of Texas. **THE PARTIES HEREBY CONSENT TO THE EXCLUSIVE VENUE OF THE PROPER STATE OR FEDERAL COURT LOCATED IN MIDLAND COUNTY, TEXAS, AND HEREBY WAIVE ALL OTHER VENUES.**
11. This Agreement, the Exhibits and Schedules hereto and the Operating Agreement set forth all understandings between the parties respecting the subject matter of this transaction, and all prior agreements, understandings and representations, whether oral or written, respecting this transaction are merged into and superseded by this written agreement.
12. This agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and permitted assigns and the terms hereof shall be deemed to run with the lands described herein. If any transfer is effected by a party pursuant to the terms of this agreement, or by any of its successors or assigns, the transfer will be made expressly subject to this agreement, and the transferor shall remain responsible for the obligations of the transferee until the transferee expressly assumes in writing all of the existing duties and obligations of the transferor.
13. This agreement may not be altered or amended, nor any rights hereunder waived, except by an instrument, in writing, executed by the party to be charged with such amendment or waiver. No waiver of any other term, provision or condition of this agreement, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, other provision or condition or as a waiver of any other term, provision or condition of this agreement.
14. **EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY SUIT, ACTION OR PROCEEDING RELATING TO THIS AGREEMENT.**
15. If any provision of this agreement is invalid, illegal or incapable of being enforced, all other provisions of this agreement shall nevertheless remain in full force and effect, so long as the economic or legal substance of the transactions contemplated hereby is not affected in a materially adverse manner with respect to either party.

Mr. Derold Maney  
Ocean Energy, Inc.  
September 10, 2001  
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If this properly sets forth your understanding of our agreement, please so indicate by signing in the space provided below, and returning to my attention.

Mr. Derold Maney  
Ocean Energy, Inc.  
September 10, 2001  
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Yours truly,

DAVID H. ARRINGTON OIL & GAS, INC.

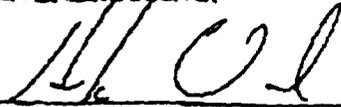


David H. Arrington  
President

DD/trd

ACCEPTED AND AGREED THIS 14<sup>th</sup> DAY OF NOVEMBER, 2001

OCEAN ENERGY, INC.

By: 

Hank Wood  
Attorney-in-Fact



Schedule I to that certain Letter Agreement,  
by and between Ocean Energy, Inc., a Louisiana corporation  
and David H. Arrington Oil & Gas, Inc.,  
dated as of September 10, 2001

1. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farnec, and Branex Resources, Inc., as Farnor, as amended by that certain Letter Agreement, dated as of August 14, 2001, attached hereto as Exhibits B-1 and B-2;
2. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farnec, and States, Inc. and B.B.L., Ltd., as Farnor, as amended by that certain Letter Agreement, dated as of August 22, 2001, attached hereto as Exhibits C-1 and C-2;
3. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farnec, and Judith White, Trustee<sup>1</sup>, as Farnor, as amended by that certain Letter Agreement, dated as of August 15, 2001, attached hereto as Exhibit D-1 and D-2;
4. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farnec, and Slash Four Enterprises, Inc., as Farnor, as amended by that certain Letter Agreement, dated as of August 15, 2001, attached hereto as Exhibit D-1 and D-2;
5. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farnec, and Pabo Oil & Gas, as Farnor, as amended by that certain Letter Agreement, dated as of August 15, 2001, attached hereto as Exhibit D-1 and D-2;
6. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farnec, and Phelps White, III, as Farnor, attached hereto as Exhibit E;
7. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc., a Louisiana corporation, as Farnec, and David R. Gannaway, as Farnor, attached hereto as Exhibit F; and
8. Farmout Agreement, dated as July 23, 2001, by and between Ocean Energy, Inc. a Louisiana corporation, as Farnec, and ICA Energy, Inc., as Farnor, as amended by that certain Letter Agreement, dated as of August 15, 2001, attached hereto as Exhibit G-1 and G-2.

November 30, 2001

Branex Resources, Inc.  
403 N. Pennsylvania  
Roswell, NM 88202  
Attn: Andy Grooms



BEFORE THE  
OIL CONSERVATION COMMISSION  
Case No. 12816 Exhibit No. 20  
Submitted By:  
*TMBR/Sharp Drilling*  
Hearing Date: May 16, 2002

Re: Farmout Letter Agreement, dated as of July 23, 2001 (as such may have been amended, supplemented or otherwise modified from time to time, the "Agreement"), by and between Ocean Energy, Inc. ("Ocean"), as Farmee, and Branex Resources, Inc. ("Branex"), as Farmor, Lea County, New Mexico

Dear Mr. Grooms:

Paragraph 1. of the Agreement provided that the Initial Test Well shall be drilled "at the location in Lea County, New Mexico . . .". Ocean desires to amend the Agreement such that the Initial Test Well shall be drilled "at a location on the Farmout Lands, or on lands pooled therewith" and to a depth of 13,200 feet to test the top of the Mississippian formation. In that respect, the Parties hereto agree that the Agreement is hereby amended by deleting the Paragraph 1 therein in its entirety and replacing such with the following:

"1. Initial Test Well. On or before July 1, 2002, Farmee shall commence actual drilling of an initial test well at the location, on the Farmout Lands or on lands pooled therewith, in each case, in Lea County, New Mexico (the "Initial Test Well"), and shall thereafter prosecute drilling of the Initial Test Well to penetrate and test the Mississippian formation or to a depth of 13,200 feet, whichever is the lesser depth (the "Contract Depth") and shall complete the Initial Test Well as capable of producing oil and/or gas in paying quantities or plug and abandon the same."

Each party hereto by their signatures below agree that (i) any reference to the Agreement in any document shall be deemed to be references to the Agreement as amended hereby and (ii) the Agreement is in full force and effect and each party hereby ratifies and affirms each and every obligation that such party has thereunder.

Should you have any questions regarding the above, please call me at (713) 265-6897.

Yours very truly,

OCEAN ENERGY, INC.

Derold Maney  
Senior Land Advisor

Agreed to and Accepted this 17<sup>th</sup> day of  
December 2001.

BRANEX RESOURCES, INC

By:

Name Printed: F. Andrew Grooms

Title: President



August 14, 2001

Branex Resources, Inc.  
403 N. Pennsylvania  
Roswell, NM 88202  
Attn: Andy Grooms

Re: Farmout Letter Agreement  
Lea County, New Mexico

Dear Mr. Grooms:

Returned herewith is an original Farmout Agreement wherein Hank Wood, Attorney-in-Fact for Ocean Energy Inc. has initialed the changes to the Agreement as requested by Branex.

Additionally, the Farmout Agreement required that Branex sign and return the executed Farmout Agreement to Ocean on or before July 27, 2001, which date was intended by Ocean to have been August 27, 2001. By your signature below to you agree that the Farmout Agreement shall be amended such that all references to July 27, 2001, in the Farmout Agreement shall be changed to August 27, 2001, and any reference to the Farmout Agreement in any document shall be deemed to be references to the Farmout Agreement as so amended. Each party hereto by their signatures below further agrees that the Farmout Agreement is in full force and effect and each party hereby ratifies and affirms each and every obligation that such party has thereunder.

Please sign below evidencing your agreement to the above amendment to the Farmout Agreement.

Should you have any questions, please call me at (713) 265-6897.

Yours very truly,

OCEAN ENERGY, INC.

Derold Maney  
Senior Land Advisor

Agreed to and Accepted this 16<sup>th</sup> day of August 2001.

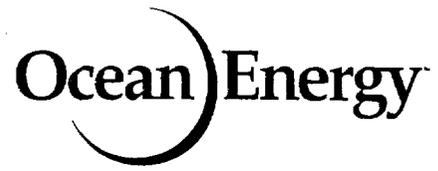
Branex Resources, Inc.

Name Printed: BRANEX RESOURCES, INC.  
By F. Andrew Grooms, President

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

Enclosure

July 23, 2001



Branex Resources, Inc.  
403 N. Pennsylvania  
Roswell, NM 88202

Re: Farmout Letter Agreement, Lea County, New Mexico

Gentlemen:

When executed by Branex Resources, Inc. ("Farmor") at the space provided below, this letter shall constitute the agreement between Farmor and Ocean Energy, Inc., a Louisiana corporation ("Farmee") pursuant to which Farmor agrees to farmout to Farmee, without warranty of title, express or implied, all of Farmor's right, title and interest in the oil, gas and mineral leases (the "Leases") described in the attached Exhibit A, and then only to the Contract Depth (as defined below) (the "Farmout Lands") upon the following terms and conditions:

1. Initial Test Well. On or before July 1, 2002, time being of the essence, Farmee shall commence actual drilling of an initial test well at the location <sup>on the farmout</sup> in Lea County, New Mexico, (the "Initial Test Well"), and shall thereafter prosecute drilling of the Initial Test Well to penetrate and test the Morrow formation or to a depth of 12,500', whichever is the lesser depth (the "Contract Depth") and shall complete the Initial Test Well as capable of producing oil and/or gas in paying quantities or plug and abandon the same.

*J.A.D.*  
lands or on  
lands pooled  
therewith,

2. Manner of Drilling and Termination of Rights. Each well drilled hereunder shall be at the sole, risk and expense of Farmee and shall be diligently and continuously drilled to the Contract Depth in a good and workmanlike manner in accordance with good oilfield practice. It is understood that Farmee may not drill any well below the Contract Depth. Once a well drilled hereunder has reached the Contract Depth, it shall, within thirty (30) days thereafter, be completed (i) into the tanks if capable of producing oil or (ii) through the christmas tree if capable of producing gas in paying quantities or (iii) plugged and abandoned. Farmee shall plug and abandon any well in accordance with the rules and regulations of the State of New Mexico. Should Farmee fail to timely commence actual drilling of the Initial Test Well, or any other well provided for hereunder, time being of the essence, or should Farmee otherwise fail to comply with the provisions hereof for the Initial Test Well, or any other well provided for hereunder, then Farmee's rights hereunder with respect to the further drilling of additional wells to earn additional rights shall immediately terminate.

3. Option to Drill Additional Wells. If Farmee has fully complied with the terms of this agreement relating to the Initial Test Well and the Option Test Well, then Farmee shall have the option to continue drilling wells on the Farmout Lands, with not more than one hundred eighty (180) days to elapse between the rig release date of any well and the date of the commencement of actual drilling of the next succeeding well, until the Farmout Lands are fully developed, with not less than one (1) well per Drilling Unit (as

defined below). Any well drilled under this subsection shall be hereinafter referred to as an "Option Well" and shall be drilled in the same manner and to the Contract Depth provided for the Initial Test Well, and shall be completed as capable of producing oil and/or gas in paying quantities or plugged and abandoned. Each Option Well shall be drilled at a legal location on the Farmout Lands.

4. Substitute Well. In the event any well is lost for any reason prior to being drilled to Contract Depth or Farmee has encountered, during the drilling of any well, mechanical difficulty or a formation or condition which would render further drilling impracticable or impossible, Farmee may plug and abandon that well and may continue its rights under this agreement by commencing a substitute well (or wells) ("Substitute Well(s)") for any such well which has been lost or abandoned within thirty (30) days from the date the prior well was lost. Any Substitute Well drilled shall be drilled subject to the same terms and conditions and to the same depth as provided for the well so lost or abandoned. Any reference in this agreement to the Test Well, the Option Test Well, or any Option Well shall be deemed to be a reference to any well or wells, which may be drilled as a Substitute Well.

5. Rights Earned. Upon receipt of Farmee's written request and as soon as practicable after Farmor is satisfied that Farmee has complied with the terms of this agreement with regard to the completion of a well capable of producing oil and gas in paying quantities, on a well by well basis, Farmor shall execute, acknowledge and deliver to Farmee a recordable assignment, in Farmor's customary form, without warranty of title express, implied or statutory, of all of Farmor's right, title and interest in the Leases, insofar as the Farmout Lands included within the Drilling Unit for such producing well, from the surface to a depth 100 feet below the deepest depth drilled in said well, but RESERVING to Farmor an overriding royalty in all oil, gas and other minerals produced from said well equal to the positive difference, if any, between twenty-five percent (25%) and current royalty and overriding royalty burdens shown of record on the date hereof, proportionately reduced to the extent that Farmor owns less than the entire oil, gas and/or mineral leasehold estate in the Leases or the Leases cover less than the entire oil, gas and/or mineral fee in the Farmout Lands in said Drilling Unit. The reserved overriding royalty shall not bear any of the costs of developing or operating the leasehold premises, but shall bear its proportionate part of severance taxes and other taxes measured by production.

6. Reversionary Interest. Upon Payout, Farmor shall have the option, on a well by well basis:

- (i) to back-in for either a proportionate twenty-five percent (25%) working interest and receive an assignment of a proportionate twenty-five percent (25%) of the Lands along with the applicable percentage interest in and to the Earning Well, all equipment and other property appurtenant to such well based upon the aforesaid percentage interest and the applicable unit tract participation; or

(ii) increase its retained overriding royalty by three percent (3%) however, in no event shall Farmee's net revenue interest be less than seventy-two percent (72%). Promptly, but in any case on or before thirty (30) days following Payout, Farmee shall provide Farmor written notice thereof ("Payout Notice") and such additional information in form and substance as Farmor shall reasonably request in connection therewith; provided, however, that Farmee's failure to provide the Payout Notice shall have no affect upon Farmor's Back-in Option. Farmor shall have thirty (30) days after receipt of such notice within which to exercise Farmor's Back-in Option. The failure of Farmor to exercise such option within the thirty (30) day period allowed therefore shall constitute an election not to back-in. at such time as Payout occurs with respect to the Earning Well and an election is made by Farmor as set forth hereinabove, Farmor and Farmee agree to execute and deliver each to the other such instrument(s) in recordable form as are necessary or appropriate to set forth the exact interests then owned by the parties hereto. The election to back-in shall be effective as of 7:00 a.m. on the first day following the date on which Payout has occurred. \*\*\* See below

H  
F.A.D.

7. Payout. As used in this agreement the term "Payout" shall mean that point in time when Farmee has recovered the following costs: (i) the actual costs and expenses incurred by Farmee in drilling, testing, completing and equipping the Earning Well plus the costs of surface facilities, if such facilities are constructed and used by Farmee to process production from the Earning Well, and (ii) all costs and expenses incurred by Farmee in operating such well during the time of recovery of such costs and expenses. The costs and expenses referred to above shall be recovered from the proceeds from the sale of production from the Earning Well remaining after all royalties, present lease burdens, including Farmor's ORRI herein created, have been paid, and after all ad valorem, severance, gross production and any other taxes levied on production have been paid. In the event surface facilities are constructed by Farmee, and such facilities will facilitate processing from more than one well, then for purposes of Payout, the costs of such facilities shall be allocated equally between each well.

8. Operating Agreement. In the event Farmor exercises Farmor's Back-in Option, Farmee and Farmor shall enter into a mutually acceptable joint operating agreement covering the subject lands.

9. Well Information and Requirements. Farmee shall furnish Farmor with daily drilling reports and daily mud logs from a manned mud logging unit on any well drilled hereunder, together with the other reports, information and data as specified on the attached Exhibit D. Farmor, and its employees, agents and representatives, at their sole risk, cost and expense, shall have free and convenient access to the derrick floor at all times to observe all operations hereunder or to gather any information which Farmor may desire.

H  
F.A.D.

\*\*\* Farmee clearly understands that Farmor is only committing Farmor's "Working Interest" as shown on the Exhibit "A" attached hereto and that the interests designated as "overriding royalty" are not affected in any way by any "After Payout" election made by Farmor hereunder.

10. Compliance with Contracts and Laws: Farmee's Indemnity. In connection with Farmee's operations hereunder, Farmee shall:

(a) Conduct its operations in strict compliance with the terms of the Leases covering the Farmout Lands on which any well is located;

(b) Obtain and maintain all easements and rights of way necessary to perform its obligations hereunder;

(c) Observe and comply with applicable laws, ordinances, regulations, rules and orders of all federal, state and local government agencies and authorities, and make all reports to such agencies and authorities and furnish Farmor with copies of the same;

(d) Keep the Leases, Farmout Lands, wells and producing equipment used in connection therewith free from all liens and encumbrances;

(e) Pay all federal and state taxes and contributions, including those assessed against employees for which the employer has responsibility to collect and remit, with respect to wages and salaries earned by persons in connection with the drilling of any well hereunder and make all reports required in connection therewith;

(f) **TO THE EXTENT ALLOWED BY LAW, RELEASE, DEFEND, INDEMNIFY AND HOLD HARMLESS FARMOR, ITS EMPLOYEES, DIRECTORS AND OFFICERS, FROM AND AGAINST ALL LIABILITIES, CLAIMS, DEMANDS, CAUSES OF ACTION, DAMAGES, LOSSES, LIENS, SUITS, JUDGMENTS, FINES, PENALTIES AND EXPENSES (INCLUDING WITHOUT LIMITATION REASONABLE ATTORNEY FEES, COURT COSTS, COSTS OF INVESTIGATION, AMOUNTS PAID IN SETTLEMENT, AMOUNTS AWARDED BY ARBITRATORS, ADJUSTMENT EXPENSES, EXPERT WITNESS FEES AND EXPENSES, AND ALL OTHER COSTS ASSOCIATED WITH OR RELATED TO LITIGATION, MEDIATION OF ANY DISPUTE) OF ANY KIND OR NATURE ARISING OUT OF OR RELATING TO OR IN CONNECTION WITH THIS AGREEMENT AND FARMEE'S OPERATIONS HEREUNDER.**

11. Farmor's Indemnity. FARMOR SHALL TO THE EXTENT ALLOWED BY LAW, RELEASE, DEFEND, INDEMNIFY AND HOLD HARMLESS FARMEE AND ITS SUBSIDIARIES AND AFFILIATES AND EACH OF THEIR RESPECTIVE EMPLOYEES, DIRECTORS, SHAREHOLDERS AND OFFICERS, FROM AND AGAINST ALL LIABILITIES, CLAIMS, DEMANDS, CAUSES OF ACTION, DAMAGES, LOSSES, LIENS, SUITS, JUDGMENTS, FINES, PENALTIES AND EXPENSES INCLUDING WITHOUT LIMITATION REASONABLE ATTORNEY FEES, COURT COSTS, COSTS OF INVESTIGATION, AMOUNTS PAID IN SETTLEMENT, AMOUNTS AWARDED BY ARBITRATORS, ADJUSTMENT EXPENSES, EXPERT WITNESS FEES AND EXPENSES, AND ALL OTHER COSTS FOLLOWING (THE "INDEMNIFIED AMOUNTS") ASSOCIATED WITH OR RELATED TO LITIGATION OR MEDIATION OF ANY DISPUTE OF ANY KIND OR NATURE ARISING OUT OF OR RELATING TO OR IN CONNECTION WITH THE:

(i) **PERSONAL INJURIES, INCLUDING DEATH, OR PROPERTY DAMAGE ARISING OUT OF OR RELATING TO THE ACCESS TO OR ACTIVITIES OF FARMOR, ITS EMPLOYEES, AGENTS AND REPRESENTATIVES, TO THE FARMOUT LANDS AS PERMITTED UNDER THIS AGREEMENT;**

(ii) **INDEMNIFIED AMOUNTS FOR THE PERIOD PRIOR TO THE EFFECTIVE DATE HEREOF; OR**

(iii) **INDEMNIFIED AMOUNTS RELATED TO OR IN CONNECTION WITH THE OWNERSHIP OR OPERATION OF FARMOR'S INTEREST IN LANDS, WELLS AND RELATED FACILITIES AND PRODUCTION THEREFROM THAT ARE CONTAINED WITHIN THE LANDS COVERED BY THE "LEASES" BUT WHICH ARE NOT SUBJECT TO FARMEE'S RIGHTS HEREIN.**

12. Option to Takeover Well. Upon reaching the Contract Depth in any well provided for herein, Farmee shall run an electrical log therein to total depth. If Farmee then determines that it does not desire to attempt a completion, Farmee shall, within twenty-four (24) hours, so notify Farmor and furnish Farmor with such log. Farmor shall have twenty-four (24) hours (exclusive of Saturdays, Sundays and legal holidays) following receipt of such notice and log to elect to take over said well if said well is located on the Farmout Lands. Should Farmor elect not to take over the well, Farmee shall plug and abandon said well at Farmee's sole cost, risk and expense. Should Farmor elect to take over the well, it may do so assuming the cost, risk and expense of all future operations thereon, including eventual plugging and abandonment thereof, and compensating Farmee for the reasonable salvage value of the material and equipment in the well. Upon takeover by Farmor, Farmee shall have no further claim or rights in or to the well, its equipment or materials, any production therefrom, or in the Farmout Lands within the Drilling Unit in which the well is located, but Farmee shall remain liable for and release, defend, indemnify and hold harmless Farmor against all burdens, liens, encumbrances or outstanding interests other than those existing on the date of this agreement. Plugging and abandoning any well provided herein by Farmee without first obtaining Farmor's written permission shall terminate this agreement.

13. Reassignment before Relinquishment. Should Farmee, its successors or permitted assigns elect to release, relinquish or abandon all or part of the interest in the Leases and Farmout Lands that it acquired pursuant to this agreement, then Farmee shall provide Farmor with written notice of such election sixty (60) days prior to any such release, relinquishment or abandonment; whereupon, at Farmor's option, in its sole discretion, and written request, the interest being so released, relinquished or abandoned shall be reassigned to Farmor. The reassignment made under the terms of this section shall be free and clear of all burdens, liens, encumbrances or outstanding interests other than those existing on the date of this agreement and Farmee shall remain liable for and release, defend, indemnify and hold harmless Farmor against the same.

14. Rentals. Farmor shall pay all rentals provided for in the Leases; provided, however, Farmor shall not be liable to Farmee for any loss resulting from its failure to make the timely and proper payment for all or any part of such rentals.

15. Titles. Farmor makes no representation and disclaims all warranties, whether expressed, implied or statutory, as to its title to the Leases and Farmout Lands. At any time after Farmee's acceptance hereof and upon Farmee's written request, Farmor shall make available to Farmee, at Farmee's cost, copies of all non-privileged instruments pertaining to Farmor's title that it may have in its possession, but Farmor shall not be obligated to purchase or otherwise acquire or provide any new, additional or supplemental documents. Farmee agrees to provide Farmor, at no cost or expense to Farmor, with copies of any title opinions, including without limitation drilling and division order title opinions, and division orders obtained by Farmee covering any of the Leases.

16. Force Majeure. In the event any party hereto is prevented from complying with any of the obligations imposed upon it hereunder, or from exercising any of the rights granted to it hereunder, as a result of an act of God, or any other cause, whether similar or dissimilar, reasonably proved beyond the control of such party, the time within which said party may perform such obligations or exercise such rights shall be extended for a period equal to the time during which said party was prevented from the performance of such obligations, or the exercise of such rights. The party claiming force majeure shall take all reasonable steps to remedy the condition as soon as possible.

17. Notices. All notices required under this agreement shall be given in writing and delivered in person, by United States certified mail return receipt requested, courier service, or telecopier, addressed to each of the parties at the addresses listed below:

*J. G. P.*  
*J.*  
*H.*

Branex Resources, Inc.  
Attn: Andy Grooms  
~~403\*\*DENVER\*\*~~ P.O. Box 2328  
Roswell, NM 88202-2328  
Telephone: (505) ~~627-2518~~ 627-0612  
Facsimile: 505-625-0227-2328

Ocean Energy, Inc.  
Attn: Derold Maney  
1001 Fannin, Suite 1600  
Houston, Texas 77002  
Telephone: (713) 265-6897  
Facsimile: (713) 265-8865

A copy of any notice delivered in person, by courier service or telecopier, shall be sent on the date of such delivery to the party to whom the notice is addressed by certified mail return receipt requested. Each party has the right to change its address by giving written notice thereof to the other party.

18. Miscellaneous Provisions.

(a) Relationship of the Parties. It is not the intention of the parties to create a partnership, nor shall this agreement be construed as creating a mining or other partnership, joint venture, agency relationship or other association, or to render the parties liable as partners, co-venturers or principals. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs, if any, to

be incurred hereunder. No party shall have any liability hereunder to third parties to satisfy the default of any other party in the payment of any expense or obligation.

(b) Construction of Agreement. In construing this agreement, the following rules shall apply:

(i) Captions. No consideration shall be given to the captions, which are inserted only for convenience in locating provisions of this agreement and not as an aid in its construction.

(ii) Control of Drafting. No consideration shall be given to the fact or presumption that one party has had a greater or lesser hand in drafting this agreement than any other party.

(iii) Defined Terms. A defined term has its defined meaning everywhere in this agreement, regardless of whether the term appears before or after the place in this agreement where the term is defined.

(c) Governing Law. This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the State of Texas. **THE PARTIES HEREBY CONSENT TO THE EXCLUSIVE VENUE OF THE PROPER STATE OR FEDERAL COURT LOCATED IN ~~HARRIS COUNTY, TEXAS~~, AND HEREBY WAIVE ALL OTHER VENUES.**  
LEA COUNTY, NEW MEXICO

g.p.  
A.  
H

(d) Entire Agreement. This agreement and the Exhibits hereto set forth all understandings between the parties respecting the subject matter of this transaction, and all prior agreements, understandings and representations, whether oral or written, respecting this transaction are merged into and superseded by this written agreement.

(e) Successors and Assigns. This agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and permitted assigns and the terms hereof shall be deemed to run with the Leases and the Farmout Lands. If any transfer is effected by a party pursuant to the terms of this agreement, or by any of its successors or assigns, the transfer will be made expressly subject to this agreement, and the transferor shall remain responsible for the obligations of the transferee until the transferee expressly assumes in writing all of the existing duties and obligations of the transferor.

(f) Waiver. This agreement may not be altered or amended, nor any rights hereunder waived, except by an instrument, in writing, executed by the party to be charged with such amendment or waiver. No waiver of any other term, provision or condition of this agreement, in any one or more instances, shall be deemed to be, or

construed as, a further or continuing waiver of any such term, other provision or condition or as a waiver of any other term, provision or condition of this agreement.

~~(g) Waiver of Jury Trial. EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY SUIT, ACTION OR PROCEEDING RELATING TO THIS AGREEMENT.~~

*F.A.P.*  
*H*

(h) Severability. If any provision of this agreement is invalid, illegal or incapable of being enforced, all other provisions of this agreement shall nevertheless remain in full force and effect, so long as the economic or legal substance of the transactions contemplated hereby is not affected in a materially adverse manner with respect to either party.

(i) Consequential Damages. The parties waive any rights to incidental, consequential or punitive damages resulting from a breach of this agreement, including, without limitation, loss of profits.

(j) Environmental, Safety and Equal Opportunity Compliance. Notwithstanding any other provision of this agreement, Farmee shall comply with the Safety and Environmental Guidelines attached as Exhibit F and the Equal Employment Opportunity Compliance Certificate attached as Exhibit G.

If the foregoing terms and provisions are agreeable, then please sign a copy of this letter at the place provided below and return the signed copy to my attention at the letterhead address on or before July 27, 2001. If a copy of this letter signed by you is not received on or before said date, time being of the essence, then this agreement shall be null and void and of no further force and effect.

Ocean Energy, Inc., a Louisiana corporation

By: *Hank Wood*  
Hank Wood, Attorney-in-Fact *HW*

Agreed to and Accepted this 30<sup>th</sup> day of July 2001.

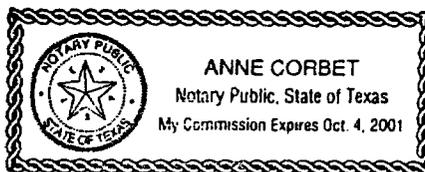
Branex Resources, Inc.

By: *F. Andrew Grooms*  
F. Andrew Grooms, ~~CEO~~ President

STATE OF TEXAS                   §  
  §  
COUNTY OF HARRIS           §

This instrument was acknowledged before me on this 23<sup>rd</sup> day of July 2001, by Hank Wood, Attorney-in-Fact for Ocean Energy, Inc., a Louisiana corporation, on behalf of said corporation.

Anne Corbet  
NOTARY PUBLIC IN AND FOR  
THE STATE OF TEXAS



STATE OF New Mexico           §  
  §  
COUNTY OF Chaves           §

This instrument was acknowledged before me on this 31<sup>st</sup> day of July 2001, by J. Andrew Shroyer as President of Branex Resources, Inc., a New Mexico Corporation on behalf of said Corporation.



LeAnn Lawlis  
NOTARY PUBLIC IN AND FOR  
THE STATE OF New Mexico

## EXHIBIT "A"

Attached to and made a part of the certain Farmout Letter Agreement effective July 19, 2001, by and between Ocean Energy, Inc. a Louisiana corporation, as Farmee, and Branex Resources, Inc., as Farmor.

Farmout of lands located in Lea County, New Mexico and described as follows:

Township 16 South of Range 35 East, NMPM

Section 25: SW/4, (as to all rights from surface to 12,500')

Section 26: S/2, (as to right from surface to 10,667' only)

S/2, (as to rights between 10,667' to 12,658')

Section 35: NE/4, (as to rights from surface to 12,500')

Save and except the NE/4SW/4, from surface to the base of the Abo formation, in the Eidson WN#4 Well; the SE/4SW/4, as to the Devonian formation, in the Tilley #1 Well; the NW/4SE/4, from the surface to the base of the Wolfcamp formation, in Eidson #1; and the SW/4SE/4 from the surface to the base of the Wolfcamp formation in the Eidson #3 Well, all located in Section 26.

EXHIBIT "A" O FARMOUT AGREEMENT DATED July 23, 2001 BY AND  
 BETWEEN OCEAN ENERGY, INC. AS FARMEE AND BRANEX RESOURCES, INC.  
 AS FARMOR

RUN DATE: Monday June 11, 2001 4:21 PM

PAGE 1

PRIMERO OPERATING INC.

LEASE DDI OWNERS REPORT

CURRENT LEASE: 10597 EIDSON #1

LEASE	OWNER INFORMATION	COST DDI	OIL DDI	GAS DDI	INTEREST TYPE
10597 EIDSON #1 <i>All depths SW 1/4, Sec 25 1/2 Surface to 10,667 SE 1/4 Sec 26 T16S-R35E, NMPM OGL # dated 8-2-63 recorded in Book 240 at Page 499 and OGL dated 5-7-65 recorded in Book 239 at Page 126</i>	10125 75-6057075 B.B.L., LTD. P. O. BOX 911 BRECKENRIDGE, TX 76424	.16971828	.12956073	.12956073	WORKING INTEREST
	10125 75-6057075 B.B.L., LTD. P. O. BOX 911 BRECKENRIDGE, TX 76424	.00000000	.01890185	.01890185	OVERRIDING ROYALTY
	11068 85-0346122 BRANEX RESOURCES INC. PO BOX 2328 403 N. PENNSYLVANIA ROSWELL, NM 88202 505 623-2840	.18945325	.14462677	.14462677	WORKING INTEREST
	11068 85-0346122 BRANEX RESOURCES INC. PO BOX 2328 403 N. PENNSYLVANIA ROSWELL, NM 88202 505 623-2840	.00000000	.02109977	.02109977	OVERRIDING ROYALTY
	17900 458-20-9312 ROBERT BOYCE EIDSON, LIFE ESTATE WEST STAR ROUTE, BOX 490 LOVINGTON, NM 88260	.00000000	.06250000	.06250000	ROYALTY
	22180 465-47-3354 TREVOR FARR 7231 CENTENARY AVENUE DALLAS, TX 75225	.00000000	.01562500	.01562500	ROYALTY
<del>22580 525-78-7697</del>	<del>WALTER L. FARRINGTON, III 5990 LINDENSHIRE LANE, #123 ROSWELL, NM 88202</del>	<del>.00000000</del>	<del>.00000000</del>	<del>.00000000</del>	<del>ROYALTY</del>
	22580 525-78-7697 FLOYD J. FERGUSON P. O. BOX 1114 ROSWELL, NM 88202-1114	.00000000	.02000000	.02000000	OVERRIDING ROYALTY

PRIMERO OPERATING INC.

LEASE DDI OWNERS REPORT

CURRENT LEASE: 10600 EIDSON "A" #4

-----LEASE----- OWNER INFORMATION COST DDI OIL DDI GAS DDI INTEREST TYPE

10600 EIDSON "A" #4

*Surface to 10,667  
SW/4 Sec 26  
T16S-R35 E, NMPM  
O&G dated 11-6-1944  
Recorded in Book 55  
at Page 177.*

*W&A See last page  
for comments on  
WI ownership of  
4% of 100% WI  
op. Rights in NE/4,  
Sec 35, T16S-R35E,*

11068	85-0346122	.25000000	.21375000	.21375000	WORKING INTEREST
BRANEX RESOURCES INC. PO BOX 2328 403 N. PENNSYLVANIA ROSWELL, NM 88202 505 623-2840					

~~12051 354-12-7537 .00000000 .00000000 .00000000 WORKING INTEREST~~

~~JOHN N. EDDY  
PO BOX 2104  
SANTA FE, NM 87501~~

17900 458-20-9312 .00000000 .06250000 .06250000 OVERRIDING ROYALTY

ROBERT BOYCE EIDSON,  
LIFE ESTATE  
WEST STAR ROUTE, BOX 490  
LOVINGTON, NM 88260

22180 465-47-3354 .00000000 .01562500 .01562500 OVERRIDING ROYALTY

TREVOR FARR  
7231 CENTENARY AVENUE  
DALLAS, TX 75225

~~22200 462-20-9155 .00000000 .00000000 .00000000 OVERRIDING ROYALTY~~

~~WALTER L. FARRINGTON, III  
5990 LINDENSHIRE LANE, #123  
DALLAS, TX 75230~~

22580 525-78-7697 .00000000 .01000000 .01000000 OVERRIDING ROYALTY

FLOYD J. FERGUSON  
P. O. BOX 1114  
ROSWELL, NM 88202-1114

27100 452-80-7921 .02000000 .01710000 .01710000 WORKING INTEREST

DAVID R. GANNAWAY  
PO BOX 2791  
ROSWELL, NM 88202

PRIMERO OPERATING INC.

LEASE DDI OWNERS REPORT

CURRENT LEASE: 20025 TILLEY #1

LEASE	OWNER INFORMATION	COST DDI	OIL DDI	GAS DDI	INTEREST TYPE
20025 TILLEY #1					
	10125 75-6057075 B.B.L., LTD. P. O. BOX 911 BRECKENRIDGE, TX 76424	.16991138	.12859821	.12859821	WORKING INTEREST
	10125 75-6057075 B.B.L., LTD. P. O. BOX 911 BRECKENRIDGE, TX 76424	.00000000	.03416785	.03416785	OVERRIDING ROYALTY
	10680 84-0862797 B.P.S.R.R. ENTERPRISES, LTD. P. O. BOX 27296 DENVER, CO	.00224405	.00166432	.00166432	WORKING INTEREST
	11068 85-0346122 BRANEX RESOURCES INC. PO BOX 2328 403 N. PENNSYLVANIA ROSWELL, NM 88202 505 623-2840	.19201485	.14560450	.14560450	WORKING INTEREST
	11068 85-0346122 BRANEX RESOURCES INC. PO BOX 2328 403 N. PENNSYLVANIA ROSWELL, NM 88202 505 623-2840	.00000000	.00689087	.00689087	OVERRIDING ROYALTY
	<del>1153 85-01-0279 IAN P. BROWNLOW 905 N. LEA ROSWELL, NM 88202</del>	<del>.00000000</del>	<del>.00000000</del>	<del>.00000000</del>	<del>WORKING INTEREST</del>
	<del>1153 85-01-0279 IAN P. BROWNLOW 905 N. LEA ROSWELL, NM 88202</del>	<del>.00000000</del>	<del>.00000000</del>	<del>.00000000</del>	<del>OVERRIDING ROYALTY</del>
	13728 JOY E. CECIL	.00000000	.00100000	.00100000	OVERRIDING ROYALTY
	13730 ROBERT L. CECIL	.00000000	.00100000	.00100000	OVERRIDING ROYALTY

10,667 fo  
12,658' 5/2  
Sec 26 T16S-R35E,  
aforementioned  
oil & gas leases  
This ownership  
is accomplished by  
JOA dated 4-1-98  
and embracing these  
depths.