

BEFORE EXAMINER STOGNER

Oil Conservation Division

Bahlburg Exhibit No. 5

Case No. 9706

FARMOUT AGREEMENT

Application for Approval
of
Unorthodox Well Location
Lea County, New Mexico

by

Bahlburg Exploration



MIDLAND PARTNERS
CARLTON BEAL
CARLTON BEAL, JR.
BARRY BEAL
SPENCER BEAL
KELLY BEAL

DENVER PARTNER
BARRY BEAL, JR.

BTA OIL PRODUCERS
104 SOUTH PECOS
MIDLAND, TEXAS 79701
AC 915-682-3753

ROCKY MOUNTAIN DIVISION
555-17TH STREET
SUITE 835
DENVER, CO 80202
AC 303-292-9299

FARMOUT AGREEMENT

March 15, 1989

In re: BTA 8609 JV-P HARTLEY II
Lea County, New Mexico

Bahlburg Exploration
14875 Landmark Boulevard
Suite 216
Dallas, TX 75240

COPY

Attention: Mr. William C. Bahlburg

Gentlemen:

In consideration of the benefits to accrue to the parties hereto and the covenants and obligations to be kept by you, BTA OIL PRODUCERS, as Farmor, agrees to farmout to BAHLBURG EXPLORATION, as Farmee, its interest in and to that certain Oil and Gas Lease dated October 15, 1986, from Odell L. Lowe, et al, Domiciliary Foreign Co-Personal Representatives, et al, as Lessee, to W. Wayne Gill, as Lessor, recorded in Book 404 at Page 907 of the O&G Records of Lea County, New Mexico, covering the S/2 NW/4 and SW/4 of Section 25, T-13-S, R-37-E, Lea County, New Mexico, containing 240 acres, more or less, on the following terms and conditions:

1. On or before September 1, 1989, or forty-five (45) days after issuance of the NMOCC Order approving the proposed Test Well, whichever date is sooner, Farmee agrees to commence or cause to be commenced operations for the drilling of a Test well at a location of its choice on the subject lands and to drill same to a depth of 12,500' or to a depth sufficiently to test the Devonian formation, whichever is the lesser depth.
2. Farmee agrees to drill said Test Well with due diligence in a workmanlike manner and to complete said well within ninety (90) days as a producer of oil and/or gas if production is indicated or to plug and abandon same if the test results indicate a dry hole.
3. Should Farmee encounter conditions which make further drilling of the Test Well impracticable prior to reaching the required depth, Farmee shall have the option to commence the drilling of a Substitute Well on the subject lands on the same terms and conditions within thirty (30) days following the loss or abandonment of the Test Well.

4. In the performance of your operations on the Test Well and/or Substitute Well provided for herein, Farmee agrees to conduct same at its sole cost, risk and expense. Farmee agrees to indemnify, save and keep Farmor harmless from any and all risks, claims, actions, liabilities, expenses and damages of any kind which may arise from Farmee's operations hereunder on behalf of its self, its agents, contractors or assigns. It is understood that none of such operations shall be considered or construed as nor constitute or provide for any type of partnership, joint venture or legal entity of any kind between the parties hereto.

5. In the event the Test Well or the Substitute Well is completed as a commercial producer of oil and/or gas and you have complied with all of the covenants herein, Farmor agrees to assign to you upon written request all of its rights, titles and interests in and to the proration unit for said well down to a depth of 100' below the deepest producing perforation subject to a reserved overriding royalty interest which will be equal to the difference to 26% less the present lease burdens. In this connection, Farmee will earn a 74% net revenue interest in the proration unit with 25% attributable to the existing lease burdens and 1% attributable to Farmor's reserved overriding royalty.

6. Farmee shall have the option to earn a like interest in and to the balance of the farmout acreage, regardless of the outcome of the Test Well or Substitute Well hereunder, on the same terms and conditions by a 150-day continuous development program from the completion or plugging of one well to the commencement of drilling operations for another. Time between wells shall not be cumulative. Producers will earn the proration units therefor as provided above.

7. At such time as any well drilled hereunder has reached payout, payout being on a by-well basis, Farmor shall have the option to convert its retained overriding royalty interest to a 15% working interest or to accept an additional 4% overriding royalty interest in said well. Payout shall occur the day following that date when Farmee has recovered 100% of its costs and expenses of drilling, completing, recompleting, equipping, testing and operating said well from its 74% net revenue interest earned hereunder. Operating expenses shall include all taxes applicable to Farmee's interest and costs and expenses shall be determined in accordance with COPAS - 1984 - ONSHORE provisions listed in Exhibit "B" attached hereto. Further, Farmee shall furnish Farmor the cost basis of all wells as soon as practicable upon completion of the well and quarterly reports of the status of payout thereafter. Upon receipt of notice that any well has paid out, Farmor shall have thirty (30) days in which to exercise its option to elect to convert its overriding

royalty interest to a working interest or to increase its overriding royalty interest.

8. The overriding royalty interest reserved hereby and to be owned by Farmor shall be free of all costs, expenses, taxes (including ad valorem taxes and excepting gross production taxes) and marketing charges.

9. In connection with your operations on any and all wells drilled on the acreage subject hereto, you agree to furnish the information as set out in our Geological Requirement Letter attached hereto as Exhibit "A". Further, Farmor's representatives shall have full access to the well(s) and all records thereof during all operations.

10. Farmor agrees that it will not oppose any location exception along the western boundary of the lands subject hereto.

11. In the event Farmor elects to convert its overriding royalty interest to a working interest in any earning well, the parties hereto will enter into a mutually acceptable Operating Agreement incorporating the provisions as shown in Exhibit "B" attached hereto. Further, said Operating Agreement will incorporate the provisions of Exhibit "C" concerning Insurance as attached hereto.

12. Before Farmee plugs and abandons any well drilled hereunder, Farmee shall give immediate notice to Farmor of Farmee's intention to do so. Farmor shall have forty-eight (48) hours (exclusive of Saturdays, Sundays and holidays) after receipt of said notice if a drilling well or thirty (30) days if a producing well to decide whether Farmor wishes to take over said well in its then present condition for whatever reasons without any prior cost to Farmor except that Farmor agrees to pay Farmee the reasonable salvage value of any and all leases and well equipment except surface casing and less the reasonable cost of salvaging same. If Farmor elects to take over any well, Farmee shall immediately reassign all rights thereunder, including any burdens imposed upon the leasehold interest by Farmee. If Farmor does not elect to take over any well under this Agreement, Farmee shall plug and abandon same at its sole cost, risk and expense, subject to any joint ownership thereof.

13. The only consequence of your failure to drill the proposed Test Well provided for herein shall be the ipso facto cancellation of this Agreement in its entirety. Further, should you not comply with the continuous development provisions of this Agreement, all rights to any unearned acreage shall likewise terminate.

14. Farmor represents that it is the owner of the above described lease; however, if Farmor owns less than the full and

undivided leasehold interest thereunder, then the overriding royalty reserved hereunder and the subsequent working interest and/or additional overriding royalty interest shall be reduced proportionately.

15. Farmee shall be responsible for any shut-in gas royalty payments that may be required to maintain the lease.

16. This agreement may not be assigned in whole or in part without Farmor's prior and express written consent. Any assignment of this Agreement, if approved, must be expressly subject to all of the terms and provisions contained herein and shall extend to and be binding upon the heirs, successors and assigns of Farmor and Farmee.

17. Farmor shall retain a call on any and all production which may be produced and saved from the acreage covered hereby.

18. Any assignment(s) earned hereunder shall be without warranty, either expressed or implied.

If the terms and provisions of this farmout in its entirety correctly sets out your understanding of our mutual agreement, please signify Farmee's acceptance hereof by signing below in the space provided and returning to us one (1) copy of this Agreement within twenty (20) days.

Your assistance in this matter is appreciated.

Very truly yours,


BARRY BEAL
For BTA Oil Producers
EBE

AGREED TO AND ACCEPTED this
21st day of MARCH, 1989.

BAHLBURG EXPLORATION

By: 
WILLIAM C. BAHLBURG

DEPT. OF MINING & GEOLOGY
Oil Conservation Division
Bahlburg Exhibit No. 6
Case No. 9706

LIST OF OFFSET OPERATORS

Application for Approval
of
Unorthodox Well Location
Lea County, New Mexico

by

Bahlburg Exploration

OFFSET LEASEHOLD OWNERS

Cabot Petroleum Corp.
216 16th Street
Suite 1200
Denver, CO 80202

Attn: Mr. Scott Arnold

BTA Oil Producers
104 South Pecos
Midland, TX 79701

Attn: Mr. Robert Crawford