

November 30, 2001



B.B.L., Ltd.  
P.O. Box 911  
Breckenridge, TX 76424

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 B.B.L., Ltd. ("B.B.L."), as Farmor, Lea County, New Mexico

Gentlemen:

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.

A handwritten signature in cursive script, reading "Derold Maney".

Derold Maney  
Senior Land Advisor

Agreed to and Accepted this 13<sup>th</sup> day of  
December 2001.

B.B.L., LTD.

By: A handwritten signature in cursive script, reading "John H. Connally".

Name Printed: John H. Connally

Title: President

APPROVED  
AS TO FORM

AS TO CONTENT

AS TO INTEREST

ADMINISTRATION

July 23, 2001



B.B.L., Ltd.  
P.O. Box 911  
Breckenridge, TX 76424

Re: Farmout Letter Agreement, Lea County, New Mexico

Gentlemen:

When executed by B.B.L., Ltd. ("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 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.
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

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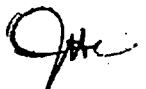
defined below). Any well drilled under this subsection shall be hereinafter referred to as an "Option Well" and shall be drilled in the same manner and to the Contract Depth provided for the Initial Test Well, and shall be completed as capable of producing oil and/or gas in paying quantities or plugged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

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.

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:

B.B.L., Ltd.  
Attn:  
P.O. Box 911  
Breckenridge, Texas 76424  
Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

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.**

(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.

(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, Attorney-in-Fact

Agreed to and Accepted this 22<sup>nd</sup> day of August 2001.

**B.B.L., Ltd.**

By: Breck Operating Corp.  
General Partner

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

President

BOC  
APPROVED  
AS TO FORM

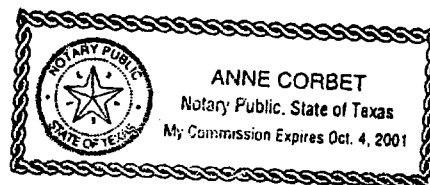
AS TO CONTENT  
AS TO INTEREST

ADMINISTRATION

STATE OF TEXAS                   §  
   §  
COUNTY OF HARRIS           §

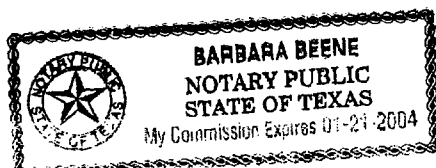
This instrument was acknowledged before me on this 23<sup>rd</sup> day of July 2001, by Hank Wood, Attorney-in-Fact for Ocean Energy, Inc., a Louisiana corporation, on behalf of said corporation.

Anne Corbet  
NOTARY PUBLIC IN AND FOR  
THE STATE OF TEXAS



THE STATE OF TEXAS           §  
COUNTY OF STEPHENS       §

The foregoing instrument was acknowledged before me, a Notary Public, on the 23<sup>rd</sup> day of August, 2001, by JOHN H. CONNALLY, President of Breck Operating Corp., a Texas corporation acting in its capacity as General Partner of B.B.L., LTD., a Texas limited partnership, on behalf of said partnership.



Barbara Beene  
Notary Public, State of Texas

## 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 B.B.L., Ltd. 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')

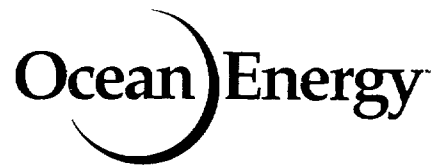
Section 26: S/2, (as to right from surface to 10,667' only)

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.

*John*  
cur



November 30, 2001

States, Inc.  
P.O. Box 911  
Breckenridge, TX 76424

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 States, Inc. ("States"), as Farmor, Lea County, New Mexico

Gentlemen:

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:

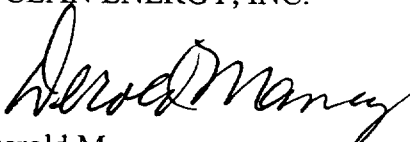
"1. Initial Test Well. On or before July 1, 2002, Farmee shall commence actual drilling of an initial test well at the location, on the Farmout Lands or on lands pooled therewith, in each case, in Lea County, New Mexico (the "Initial Test Well"), and shall thereafter prosecute drilling of the Initial 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 13<sup>th</sup> day of  
December 2001.



STATES, INC.

By: 

Name Printed: John H. Connally

Title: President

STATES,  
INC  
APPROVED  
AS TO FORM

  
AS TO CONTENT  
AS TO INTEREST  
ADMINISTRATION  


July 23, 2001



States, Inc.  
P.O. Box 911  
Breckenridge, TX 76424-0911

Re: Farmout Letter Agreement, Lea County, New Mexico

Gentlemen:

When executed by States, 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 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.

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

A handwritten signature in dark ink, appearing to be "JMC", is located in the bottom right corner of the page.

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.

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.



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:

States, Inc.  
Attn:  
P.O. Box 911  
Breckenridge, TX 76424-0911  
Telephone: (817) 559-3355  
Facsimile: \_\_\_\_\_

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.

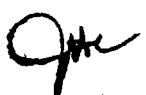
(iii) Defined Terms. A defined term has its defined meaning everywhere in this agreement, regardless of whether the term appears before or after the place in this agreement where the term is defined.

(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.**

(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.



(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, Attorney-in-Fact 

Agreed to and Accepted this 22<sup>nd</sup> day of August 2001.

**States, Inc.**

By:   
President

STATES,  
INC  
APPROVED  
AS TO FORM  
  
AS TO CONTENT  
AS TO INTEREST  
ADMINISTRATION  


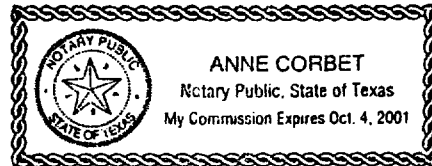
STATE OF TEXAS §

§

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.

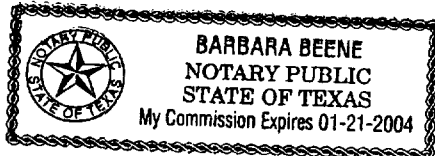
Anne Corbet  
NOTARY PUBLIC IN AND FOR  
THE STATE OF TEXAS



THE STATE OF TEXAS §

COUNTY OF STEPHENS §

The foregoing instrument was acknowledged before me, a Notary Public, on the 23<sup>rd</sup> day of August, 2001, by JOHN H. CONNALLY, President of STATES, INC., a Texas corporation, on behalf of said corporation.



Barbara Beene  
Notary Public, State of Texas

## 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 States, 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')

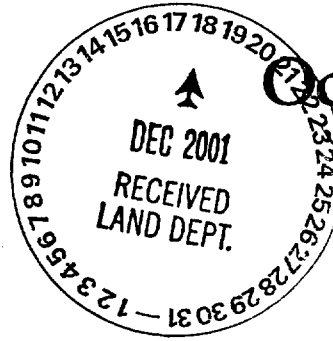
Save and except the NE/4SW/4, from surface to the base of the Abo formation, in the Eidson WN#4 Well; the SE/4SW/4, as to the Devonian formation, in the Tilley #1 Well; the NW/4SE/4, from the surface to the base of the Wolfcamp formation, in Eidson #1; and the SW/4SE/4 from the surface to the base of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



2/11

November 30, 2001

Slash Four Enterprises, Inc.  
P.O. Box 1433  
Roswell, NM 88202  
Attn: J. Phelps White, IV



**Ocean Energy**

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 Slash Four Enterprises, Inc. ("Slash"), as Farmor, Lea County, New Mexico

Dear Mr. White:

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 14 day of  
December 2001.

SLASH FOUR ENTERPRISES, INC.

By:

Name Printed: J Phelps White IV

Title: President



August 15, 2001

Slash Four Enterprises, Inc.  
P.O. Box 1433  
Roswell, NM 88202  
Attn: Mr. J. Phelps White IV



Re: Farmout Letter Agreement  
Dated July 23, 2001  
Lea County, New Mexico

Dear Mr. White:

The referenced Farmout Agreement required that Slash Four Enterprises, Inc. 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 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.

Agreed to and Accepted this 19 day of  
August 2001.

Derold Maney  
Senior Land Advisor

Slash Four Enterprises, Inc.

By:

Printed Name: Phelps White

Its: President

Enclosure



July 23, 2001

Ocean Energy

Slash Four Enterprises, Inc.  
P.O. Box 1433  
Roswell, NM 88202

Re: Farmout Letter Agreement, Lea County, New Mexico

Gentlemen:



When executed by Slash Four Enterprises, 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 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.
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.

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.

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:

Slash Four Enterprises, Inc.  
Attn: Phelps White IV  
P.O. Box 1433  
Roswell, NM 88202  
Telephone: 505-622-1001  
Facsimile: 625-0227

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.**

(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.

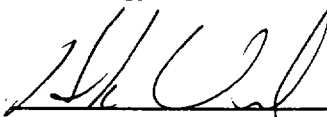

(h) Severability. If any provision of this agreement is invalid, illegal or incapable of being enforced, all other provisions of this agreement shall nevertheless remain in full force and effect, so long as the economic or legal substance of the transactions contemplated hereby is not affected in a materially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

Agreed to and Accepted this 26 day of July 2001.

**Slash Four Enterprises, Inc.**

By: 

Printed Name: Phelps White IV

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



Slash Four Enterprises, LLC.

July 23, 2001

Page 9 of 10

STATE OF TEXAS

§

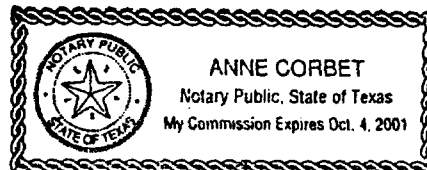
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COUNTY OF HARRIS

§

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

§

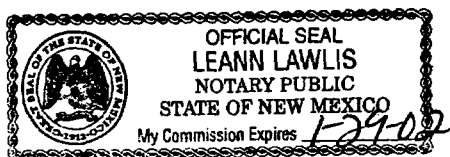
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COUNTY OF Chaves

§

This instrument was acknowledged before me on this 31<sup>st</sup> day of July 2001, by J. Phelps White IV as President of Slash Four Enterprises, 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 Slash Four Enterprises, 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)

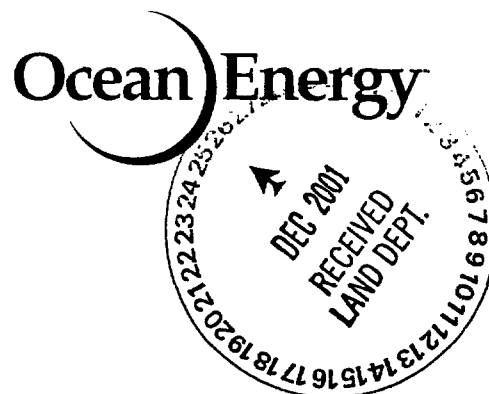
S/2, (as to rights between 10,667' to 12,658')

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.

November 30, 2001

Judith White, Trustee  
2709 Chrysler  
Roswell, NM 88201



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 Judith White, Trustee, as Farmor, Lea County, New Mexico

Dear Judith White:

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:

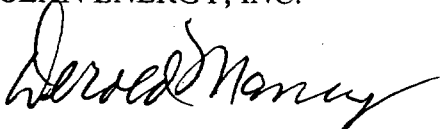
"1. Initial Test Well. On or before July 1, 2002, Farmee shall commence actual drilling of an initial test well at the location, on the Farmout Lands or on lands pooled therewith, in each case, in Lea County, New Mexico (the "Initial Test Well"), and shall thereafter prosecute drilling of the Initial 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.

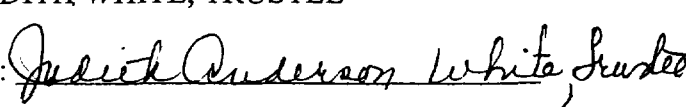
Yours very truly,

OCEAN ENERGY, INC.

  
Derold Maney  
Senior Land Advisor

Agreed to and Accepted this 18 day of  
December 2001.

JUDITH WHITE, TRUSTEE

By:   
Judith Anderson White, Trustee

*Does this form / correction  
... that was sent in on the 9th, 2001*



August 15, 2001



Judith White, Trustee  
2709 Chrysler  
Roswell, NM 88201

Re: Farmout Letter Agreement  
Dated July 23, 2001  
Lea County, New Mexico

Dear Ms. White:

The referenced Farmout Agreement required that Judith White, Trustee, 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.

Agreed to and Accepted this 27 day of  
August 2001.

Derold Maney  
Senior Land Advisor

By:   
Judith White, Trustee

Enclosure

July 23, 2001



Judith White, Trustee  
2709 Chrysler  
Roswell, NM 88201

Re: Farmout Letter Agreement, Lea County, New Mexico



Gentlemen:

When executed by Judith White, Trustee ("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 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.
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.

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.

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:

Judith White, Trustee  
2709 Chrysler  
Roswell, NM 88201

Telephone: (505) 622-5064  
Facsimile: \_\_\_\_\_

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.**

(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.

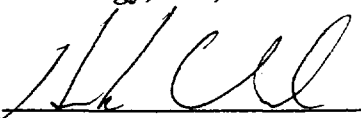

(h) Severability. If any provision of this agreement is invalid, illegal or incapable of being enforced, all other provisions of this agreement shall nevertheless remain in full force and effect, so long as the economic or legal substance of the transactions contemplated hereby is not affected in a materially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

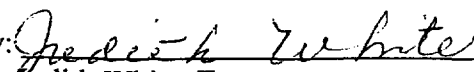
If the foregoing terms and provisions are agreeable, then please sign a copy of this letter at the place provided below and return the signed copy to my attention at the letterhead address on or before July 27, 2001. If a copy of this letter signed by you is not received on or before said date, time 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, Attorney-in-Fact 

Agreed to and Accepted this 2<sup>nd</sup> day of <sup>Aug.</sup> ~~July~~ 2001.

Judith White, Trustee

By:   
Judith White, Trustee

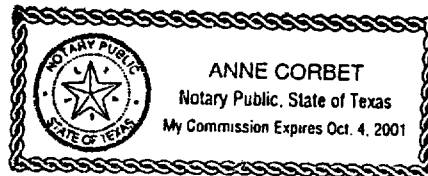
STATE OF TEXAS

§  
§  
§

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 §

On the 2<sup>nd</sup> day of Aug. 2001, personally appeared before me Judith White, Trustee, the signer(s) of the above instrument, who duly acknowledge to me that he executed the same.

Carol Gunn  
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 Judith White, Trustee, 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.

November 30, 2001

Pabo Oil & Gas  
P.O. Box 1675  
Roswell, NM 88202



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 Pabo Oil & Gas ("Pabo"), as Farmor, Lea County, New Mexico

Gentlemen:

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:

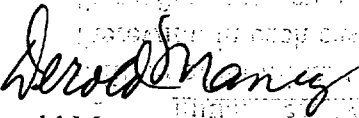
"1. Initial Test Well. On or before July 1, 2002, Farmee shall commence actual drilling of an initial test well at the location, on the Farmout Lands or on lands pooled therewith, in each case, in Lea County, New Mexico (the "Initial Test Well"), and shall thereafter prosecute drilling of the Initial 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 15<sup>th</sup> day of  
December 2001.

PABO OIL & GAS

By: 

Name Printed: B.O. Greenwade

Title: General Partner



August 15, 2001

Pabo Oil & Gas  
P.O. Box 1675  
Roswell, NM 88202

Re: Farmout Letter Agreement  
Dated July 23, 2001  
Lea County, New Mexico



Gentlemen:

The referenced Farmout Agreement required that Pabo Oil & Gas 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 26<sup>th</sup> day of  
August 2001.

Pabo Oil & Gas

By:

Name Printed: B. O. GREENWOOD

Enclosure

Its: General Partner

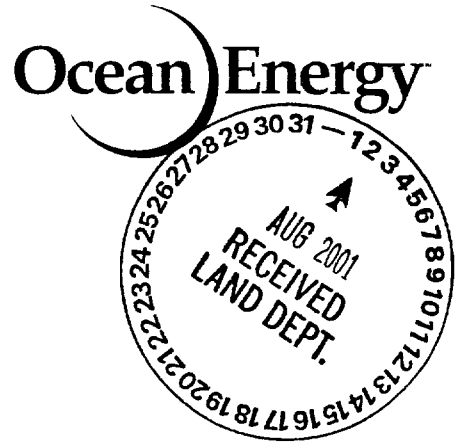


July 23, 2001

Pabo Oil & Gas  
P.O. Box 1675  
Roswell, NM 88202

Re: Farmout Letter Agreement, Lea County, New Mexico

Gentlemen:



When executed by Pabo Oil & Gas ("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 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.
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.

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.

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:

Pabo Oil & Gas  
Attn: *Bernie on Pat Greenwood*  
P.O. Box 1675  
Roswell, NM 88202  
Telephone: *505-623-7161*  
Facsimile: *505-627-5346*

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.**

(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.



(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, Attorney-in-Fact 

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

**Pabo Oil & Gas**  
By:   
Printed Name: Bernie Greenwald  
Its: General Partner



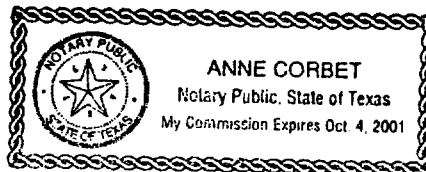
STATE OF TEXAS

§  
§  
§

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 30<sup>th</sup> day of July 2001, by Bernie Greenwade as General Partner of Pabo Oil & Gas, a Partnership, on behalf of said partnership.

Cindy Stevens  
NOTARY PUBLIC IN AND FOR  
THE STATE OF New Mexico  
Expires: July 17, 2002

## 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 Pabo Oil & Gas, 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)

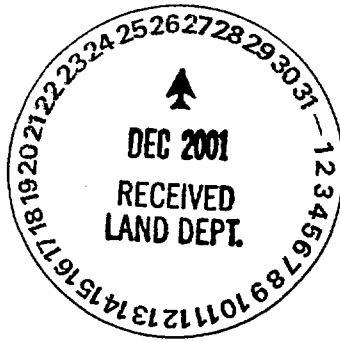
S/2, (as to rights between 10,667' to 12,658')

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.

November 30, 2001

David R. Gannaway  
P.O. Box 2791  
Roswell, NM 88202



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 David R. Gannaway, as Farmor, Lea County, New Mexico

Dear David Gannaway:

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."

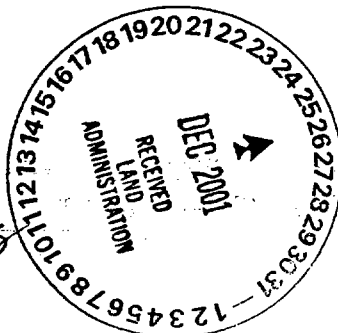
Each party hereto by their signatures below agree that (i) any reference to the Agreement in any document shall be deemed to be references to the Agreement as amended hereby and (ii) the Agreement is in full force and effect and each party hereby ratifies and affirms each and every obligation that such 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 20<sup>th</sup> day of December 2001.

DAVID R. GANNAWAY

By: 

July 23, 2001



David R. Gannaway  
P.O. Box 2791  
Roswell, NM 88202

Re: Farmout Letter Agreement, Lea County, New Mexico

Gentlemen:

When executed by David R. Gannaway ("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 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.
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.

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.

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:

David R. Gannaway  
P.O. Box 2791  
Roswell, NM 88202

Telephone: 505-622-5206  
Facsimile: 505-622-5206

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.**

(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.

(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, Attorney-in-Fact 

Agreed to and Accepted this 27 day of July 2001.

**David R. Gannaway**

By: 

David R. Gannaway

STATE OF TEXAS

§

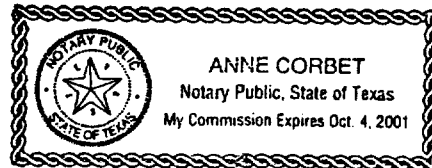
§

COUNTY OF HARRIS

§

This instrument was acknowledged before me on this 23rd 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

§

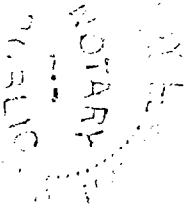
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COUNTY OF Chaves

§

On the 27 day of July 2001, personally appeared before me David R. Gannaway, the signer(s) of the above instrument, who duly acknowledge to me that he executed the same.

Charley L. Green  
NOTARY PUBLIC IN AND FOR  
THE STATE OF New Mexico  
my Commission Expires!  
4/3/03



## 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 David R. Gannaway, 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.

November 30, 2001

Phelps White, III  
P.O. Box 874  
Roswell, NM 88202



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 Phelps White, III, as Farmor, Lea County, New Mexico

Dear Mr. White:

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:

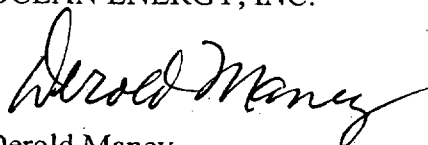
"1. Initial Test Well. On or before July 1, 2002, Farmee shall commence actual drilling of an initial test well at the location, on the Farmout Lands or on lands pooled therewith, in each case, in Lea County, New Mexico (the "Initial Test Well"), and shall thereafter prosecute drilling of the Initial 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 14<sup>th</sup> day of  
December 2001.

PHELPS WHITE, III

By: 

July 23, 2001



Phelps White, III  
P.O. Box 874  
Roswell, NM 88202

Re: Farmout Letter Agreement, Lea County, New Mexico

Gentlemen:

When executed by Phelps White, III ("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 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.
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.

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.

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:

Phelps White, III  
P.O. Box 874  
Roswell, NM 88202

Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

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.**

(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.

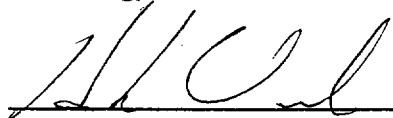

(h) Severability. If any provision of this agreement is invalid, illegal or incapable of being enforced, all other provisions of this agreement shall nevertheless remain in full force and effect, so long as the economic or legal substance of the transactions contemplated hereby is not affected in a materially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

Agreed to and Accepted this 27<sup>th</sup> day of July 2001.

**Phelps White, III**

By:   
Phelps White, III

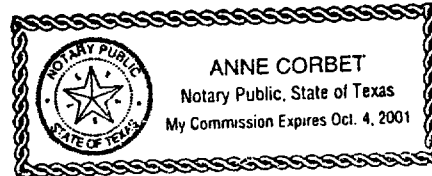
STATE OF TEXAS §

§

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 §

On the 27<sup>th</sup> day of July 2001, personally appeared before me Phelps White, III, the signer(s) of the above instrument, who duly acknowledge to me that he executed the same.

December 18, 2003

[Signature]  
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 Phelps White, III, 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')

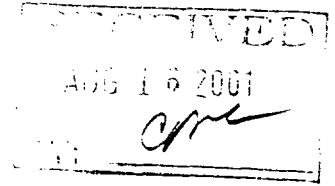
Save and except the NE/4SW/4, from surface to the base of the Abo formation, in the Eidson WN#4 Well; the SE/4SW/4, as to the Devonian formation, in the Tilley #1 Well; the NW/4SE/4, from the surface to the base of the Wolfcamp formation, in Eidson #1; and the SW/4SE/4 from the surface to the base of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



Ocean Energy

August 15, 2001

ICA Energy, Inc.  
P.O. Box 233  
Odessa, TX 79760-0233  
Attn: Mr. Curtis Leonard



Re: Farmout Letter Agreement  
Dated July 23, 2001  
Lea County, New Mexico

Dear Ms. White:

Returned herewith are two (2) original Farmout Agreements wherein Hank Wood, Attorney-in-Fact for Ocean Energy, Inc. has initialed Exhibit "B" as revised by Ocean Energy, Inc. Please initial both and return on original to the undersigned in the Federal Express envelope provided.

Additionally, the referenced Farmout Agreement required that ICA Energy, Inc. 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.

A handwritten signature in cursive script, appearing to read "Derold Maney".

Derold Maney  
Senior Land Advisor

Agreed to and Accepted this 16 day of  
August 2001.

ICA Energy, Inc.

By: A handwritten signature in cursive script, appearing to read "Curtis N. Leonard".

Name Printed: CURTIS N. LEONARD

Its: GENERAL COUNSEL / LAND MGR

Enclosure

July 23, 2001



ICA Energy, Inc.  
P.O. Box 233  
Odessa, TX 79760-0233

Re: Farmout Letter Agreement, Lea County, New Mexico

Gentlemen:

When executed by ICA Energy, 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 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.
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.

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.

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:

ICA Energy, Inc.  
Attn: Curtis N. Leonard  
700 N. Grant, Suite 650  
Odessa, Texas 79760-0233  
Telephone: (915) 580-5722  
Facsimile: (915) 333-8881

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.**

(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.

(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, Attorney-in-Fact

\*SUBJECT TO THE CONDITIONS OF EXHIBIT 'B' ATTACHED HERETO,  
Agreed to and Accepted this 04 day of ~~July~~ <sup>AUGUST</sup> 2001.

**ICA Energy, Inc.**

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

Printed Name: MIKE IRONS

Its: PRESIDENT

STATE OF TEXAS

§

§

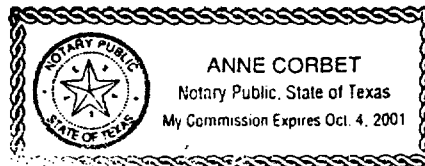
COUNTY OF HARRIS

§

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 TEXAS

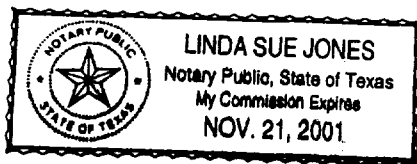
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COUNTY OF ECTOR

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This instrument was acknowledged before me on this 8<sup>th</sup> day of <sup>August</sup>~~July~~ 2001, by MIKE IRONS as PRESIDENT of ICA Energy, Inc., a TEXAS Corp., on behalf of said corporation.



Linda Sue Jones

NOTARY PUBLIC IN AND FOR  
THE STATE OF TEXAS

## **EXHIBIT "A"**

Attached to and made a part of the certain Farmout Letter Agreement effective July 23, 2001, by and between Ocean Energy, Inc. a Louisiana corporation, as Farmee, and ICA Energy, 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')

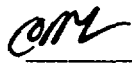
Section 26: S/2, (as to rights from surface to 12,658' only)

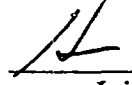
## EXHIBIT "B"

Attached to and made a part of the certain Farmout Letter Agreement effective July 23, 2001, by and between Ocean Energy, Inc. a Louisiana corporation, as Farmee, and ICA Energy, Inc. as Farmor.

Notwithstanding any provisions contained herein to the contrary, it is expressly understood and agreed that Farmee will use all reasonable efforts to join and participate in any planned drill well proposal by any lessee or owner of lands and leases within the W/2 of Section 25, T16S, R35E, Lea County, New Mexico. Farmee further agrees to notify Farmor within ten (10) days of receipt of any proposed operation or drill well on the subject lands, and to notify Farmor in accordance with the terms and conditions of the subject Farmout Agreement of Farmee's intention to participate in any such drill well.

Should Farmee elect not to join and participate in any such drill proposal covering the lands subject to this Agreement, Farmee will release all leases and lands subject to the Farmout Agreement located within the proposed unit for such drill proposal to Farmor ten (10) business days prior to the date any election is due under a force pooling order issued by the State of New Mexico.

AUG 16 2001 ICA Energy, Inc.  
  
Initials

Ocean Energy, Inc.  
  
Initials