



P.O. Box 421
Blanco, New Mexico 87412
(505) 325-5599 • Fax (505) 325-5512

September 2, 1992

Mr. F. G. Armenta
Sullivan Road
Bloomfield, NM 87413

Hand delivery

RE: Federal 29-10-27 #1
SWNE sec. 27, T29N, R10W
San Juan County, New Mexico

Dear Mr. Armenta:

As promised to you in our telephone conversation of August 24, 1992, this letter sets forth the intentions of SG Interests I, Ltd., as represented by its agent, Maralex Resources, Inc. with regard to the subject well location, and associated production pipeline facilities.

SG recognizes that well locations and their attendant equipment can cause a significant inconvenience for surface owners, especially if they are located within a cultivated field. In recognition of the fact that we are serious about obtaining and sustaining a good working relationship with all members of the communities that we are a part of, SG formally commits to install all of its production facilities off of the land that you are currently farming. In addition, we agree to direct our gas gathering system away from the land that you own in the northeast quarter of section 27 and will not, if at all possible, cross that land. The pipeline carrying the well fluids from the wellhead to the production facilities will be buried a minimum of 40" below ground level. The well will be completed, the reserve pit reclaimed and the location, with the exception of a 12' by 12' barricaded tract around the wellhead, returned to you by May 1, 1993, so that it can be replanted in time for the next growing season. In the future, if it is necessary to damage any crops to rework the proposed well, SG will compensate for the crop loss determined by the estimated volume lost multiplied by the price you actually receive for the remaining crops as documented by a cash receipt, check copy, or other suitable written form of documentation.

In return for these commitments SG asks only that you recognize the fact that under current law SG has no obligations to you of any kind. In fact, the tenant on a federal surface tract has only to be notified of the mineral lease owners intentions with regard to placement of the project to access his minerals under the lease. The tenant under the particular tract in question,

Mr. Leonard Trujillo, has been notified and has informed us that he has absolutely no objections to our plans. In spite of this fact and the fact that under U.S. law we have the right to place the well at any legal location within the lease and/or drillsite spacing unit, we are very interested in making friends with those who our operations will impact. Therefore, we will stand by these commitments and hope that you will assure us of your cooperation and reciprocal efforts to build an amiable relationship with SG.

Please feel free to call me at any time if you have any questions or comments regarding our operations.

Sincerely,



A. M. O'Hare, P.E.
President
Maralex Resources, Inc.
Agent for SG Interests I, Ltd.

cc: Russell Gordy
President
Gordy Gas Corporation
General Partner SG Interests I, Ltd.

Don Ellsworth
BLM

Frank Chavez
NMOCD

Leonard Trujillo