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Of Counsel:
MICHAEL A. SHORT

November 30, 2006

Ms. Cheryl O'Connor
Staff Attorney
New Mexico Energy, Minerals and
Natural Resources Department
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: *Outline of Agreement to Defer Plugging of Harton State No. 1 Well (the "Well") located in Lea County, New Mexico*

Dear Ms. O'Connor:

This letter is written to set forth our understanding of the key points of our telephone conversation with you of Tuesday, November 21, 2006. Hopefully these points can serve as an outline of an agreement concerning the Well.

After conferring with Mr. Harton, our client has agreed to:

1. Apply with the NMOCD to be named as the operator of the Well;
2. Post a single well plugging bond in the amount of \$5,000.00 plus \$1.00 per foot of the Well to total depth.

It is our understanding if Mr. Harton undertakes and performs items (1) and (2) above, the NMOCD would be amenable to undertaking the following actions:

- (a) The NMOCD is to refrain from moving any surface equipment that is located within the vicinity of the Well's well site;
- (b) The NMOCD will grant a stay of not less than 180 days, with respect to the existing order to plug the Well, to allow time for the New Mexico Court of Appeals to rule on the appeal filed by Saba Energy of Texas, Inc. and Americas Oil and Gas, Inc. f/k/a Greka AM, Inc., and allow time for the Harton Plaintiffs to

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Ms. Cheryl O'Connor

November 30, 2006

obtain a final non-appealable judgment to the existing litigation which was initiated in 2001;

- (c) The NMOCD will assist Mr. Harton to the extent permissible in his application to be named Operator of the Well.

We understand that in the event a final resolution of the litigation/appeal involving the purported termination of the oil and gas lease pursuant to which Saba and Greka produced oil and gas from the Well is not forthcoming within the period of the stay set forth in item (b), the NMOCD will require the operator to conduct a mechanical integrity test of the Well pursuant to NMOCD Rule 201. Additionally, there was a discussion with the Director previously that the NMOCD's contractor retained to plug Greka's other wells in Lea County, especially those in the vicinity of the Well, would be restricted in its removal of leasehold equipment to a quantity of equipment the fair market value of which does not exceed its just and lawful charges.

If the foregoing discussion reflects an accurate depiction of the salient points of our November 21, 2006 telephone conversation, please let us know. If you have any questions or concerns regarding the foregoing, please feel free to contact us.

Very truly yours,



Jeffrey M. Johnston

JMJ:ll

cc: Michael A. Harton

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MICHAEL A. SHORT

November 14, 2006

Via Facsimile (505) 476-3462

Mr. David Brooks
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

**Re: *Harton State No. 1 Well situated in the N/2 of Section 7, T-13-S, R-36-E,
N.M.P.M., Lea County, New Mexico***

Dear Mr. Brooks:

This letter is sent pursuant to our recent telephone conversations concerning the Oil Conservation Division's ("NMOCD") plans to plug the captioned well and allow your contractor to seize and sell for its own benefit all of the leasehold equipment situated on the captioned tract of land, including the pumping unit, tank battery, heater-treater and tubulars recovered from the wellbore. As we discussed over the telephone, the NMOCD's own personnel have acknowledged that the captioned well is capable of commercial production and therefore it is in no party's interest that this well be plugged. Additionally, as was discussed with you, this firm's clients have an undivided ownership interest in the surface equipment situated on the captioned land and the tubulars and other in-hole equipment which reportedly have already been stripped out of the well and removed from the premises. As was explained to you, in our telephone conversation the captioned property has been the subject of ongoing litigation initiated on behalf of this firm's clients in 2001, including a district court judgment entered in late 2004 or early 2005 in favor of this firm's clients and two (2) separate appeals from such judgment which are still pending as of this date in the New Mexico Court of Appeals.

In our first conversation, you suggested the possibility that if my clients were prepared to commit themselves to bearing the incremental cost of mobilizing and demobilizing a pulling unit if it turned out we were unable to get the well back on production within twelve (12) months after a final adjudication is rendered in the pending litigation that this might serve as a basis for the NMOCD agreeing to defer plugging the captioned well. As I indicated to you I thought that this firm's clients may well be amenable to such an approach. After having an opportunity to

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consult with our clients late yesterday, Mr. Michael Harton (owner of 100% of the executive rights in the tract in question) is prepared to undertake the following:

In exchange for the NMOCD refraining from plugging the Harton State No. 1 well and having its contractor refrain from removing equipment from the tract of land on which such well is situated:

Mr. Harton would undertake to reimburse the State of New Mexico for the incremental cost of mobilizing and demobilizing a pulling/plugging unit (such total obligation not to exceed \$5,000.00) at such time as each of the following circumstances exist:

- (a) A final, non-appealable adjudication is entered in the referenced litigation presently in the New Mexico Court of Appeals confirming the trial court's ruling that the Saba/Greka oil and gas lease expired in 2001;
- (b) Twelve (12) months have passed after the occurrence of item (a) during which time the Harton State No. 1 well has not been returned to commercial production;
- (c) No entity or party holding a New Mexico statewide plugging bond has assumed plugging liability for the Harton State No. 1 well; and
- (d) No other responsible party has submitted to the NMOCD a suitable plugging bond specific to the Harton State No. 1 well.

If the foregoing proposal is acceptable to the NMOCD, please let us know as soon as possible. Please contact me to further discuss the best means of avoiding the wasteful and unnecessary plugging of the Harton State No. 1 well.

Very truly yours,



Jeffrey M. Johnston

JMJ:mgm

cc: Michael A. Harton

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MICHAEL A. SHORT

FAX COVER SHEET

TO: Mr. David Brooks
New Mexico Oil Conservation Division

Fax No: (505) 476-3462

From: Jeffrey M. Johnston

Date: November 14, 2006

No. of pages: 3
with cover sheet:

Sender: Gail Morrow
Fax: (432) 683-8855

Re: Harton State No. 1 Well situated in the N/2 of Section 7, T-13-S, R-36-E,
N.M.P.M., Lea County, New Mexico

Message: Please see attached correspondence.

PLEASE DELIVER IMMEDIATELY

If you have difficulty receiving transmission, call (432) 683-8844.

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