

Nearburg Exploration Company, L.L.C.

cc to KC
10-26-98

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

October 21, 1998

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Merit Energy Company
12222 Merit Drive, Suite 1500
Dallas, Texas 75251-2217

ATTN: Fred Diem

Re: N/2 of Section 3
T-20-S, R-33-E
Lea County, New Mexico
Viper Prospect

Gentlemen:

Enclosed herewith, please find two (2) copies of the Farmout Agreement from Merit Energy Company to Nearburg Exploration Company, L.L.C. covering the captioned acreage. The agreement was prepared in line with discussions we had with Gordon Jenner of your office. Upon review, please execute both copies and return one copy to the attention of the undersigned.

If we can be of further assistance, please feel free to contact the undersigned.

Yours very truly,



Duke Roush
Senior Landman

DR/dw
encl.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12087 Exhibit No. — 7
Submitted By:
Nearburg Exploration Co.
Hearing Date: November 19, 1998

P 497 370 169

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Sent to	
Street & Number	
Merit Energy Company 12222 Merit Drive Dallas, Texas 75251-2217	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
Viper	

PS Form 3800, April 1995

FARMOUT AGREEMENT

THIS AGREEMENT dated as of this 15th day of October, 1998, between **MERIT ENERGY COMPANY**, whose address is 12222 Merit Drive, Dallas, Texas 75251-2217 (herein called "Farmor"), and **NEARBURG EXPLORATION COMPANY, L.L.C.**, whose address is 3300 North "A" Street, Building 2, Suite 120, Midland, Texas 79705 (herein called "Farmee").

FARMOR

WITNESSETH:

WHEREAS, Farmor is the owner of all or a partial interest in the particular oil and gas lease or leases (herein the "Subject Leases") described in Exhibit "A" attached hereto and made a part hereof, insofar and only insofar as the Subject Leases cover and affect the lands more particularly described on said Exhibit "A" (which lands so described are herein called the "Subject Lands"); and

WHEREAS, Farmee desires to earn an interest in the Subject Leases in the manner set forth herein.

NOW, THEREFORE, IN CONSIDERATION of the premises and of the mutual covenants, agreements, conditions and obligations between the parties herein contained, the parties hereby agree as follows:

Section 1. Test Well. Farmee covenants and agrees to commence on or before 180 days from the date of this Agreement the actual drilling of a well (the "Test Well") for oil and gas at a legal location of its choice in the N/2 of Section 3, T-20-S, R-33-E, Lea County, New Mexico, and thereafter to continue the drilling of said Test Well with due diligence and in accordance with those practices which would be followed by a prudent operator, to a depth (the "Contract Depth") sufficient to penetrate and thoroughly test to Farmor's satisfaction the Morrow Formation (the "Objective Formation"). The Test Well, if capable of commercial production, shall be promptly completed and equipped for the taking of production; otherwise, it shall be plugged and abandoned in accordance with the laws, rules and regulations of governmental authorities having jurisdiction. For the purposes of this Agreement, commencement of actual drilling shall begin upon the spudding of a well with a rig capable of drilling to the Contract Depth. In the event the Test Well is timely commenced, drilled to the required depth and completed as a well capable of producing oil and/or gas in commercial quantities; and Farmee has otherwise complied with all of the terms and provisions of this Agreement; and Farmor has been furnished satisfactory proof thereof, Farmor shall assign Farmee an interest in the Subject Lands as provided below.

Section 2. Substitute Well. If during the drilling of the Test Well, Farmee shall encounter granite or any other practically impenetrable substance or encounter mechanical difficulties or if the hole is lost for any reason not reasonably within the control of Farmee, Farmee shall have and is hereby granted the right to abandon said well at its sole cost, risk and expense and Farmee may within thirty (30) days after such abandonment commence the actual drilling of a Substitute Well at a location which would, under the terms of this Agreement, have been permissible for the location of the Well abandoned. If such Substitute Well is commenced, it shall thereafter be drilled to the Contract Depth and thereupon Farmee's duties and obligations herein and the provisions hereof respecting the Test

Well shall apply to such Substitute Well, and such Substitute Well shall be deemed to be the Test Well for all purposes of this Agreement.

Section 3. Costs and Indemnity. Farmee shall bear the sole cost, risk and expense (i) of drilling, completing and equipping or plugging and abandoning (as the case may be) the Test Well, (ii) of operating the Test Well prior to the time (if ever) when Farmor has a working interest therein, in the event it is completed as a successful well, and (iii) of any other development of or operation upon the Subject Lands except to the extent Farmor has a current working interest in the same. In that connection, Farmee agrees to indemnify, defend and hold Farmor harmless from any and all liens, encumbrances, suits, claims, judgments, obligations and liability of any kind caused or created by or arising out of Farmee's operations hereunder.

Section 4. Drilling Practices. In the drilling of the Test Well, Farmee shall test, as would a prudent operator, all zones or formations penetrated in the Test Well having a reasonable possibility of production, shall test any zones having oil and/or gas shows. Farmee shall conduct all operations hereunder with due diligence and in a good and workmanlike manner consistent with good industry standards and practices; shall abide by and comply with all laws and regulations applicable to operations hereunder, including the posting of all required bonds and assurances with the appropriate governmental authorities and compliance with the field spacing pattern; and shall take such additional measures as a prudent operator would under the same or similar conditions to protect the environment and prevent pollution. Farmee shall observe and require its subcontractors to observe all industry approved safety standards and shall maintain, or cause to be maintained, well control equipment in good operating condition at all times. Upon completion of drilling operations, Farmee shall restore the surface of the land to the condition required by any of the Subject Leases or by law, and in absence of such lease provisions or requirements of law, then as nearly as possible to its original condition.

Section 5. Continuous Drilling Option. If the Test Well is drilled to the Contract Depth and Farmee has otherwise complied with all of the terms and provisions of this Agreement, and Farmor has been furnished with satisfactory proof thereof, Farmee shall have the option to commence the actual drilling of Subsequent Wells for oil and/or gas at legal locations of Farmee's choice on the Subject Lands, and thereafter drill said wells to the Contract Depth or to the deepest commercially productive formation previously encountered on the Subject Lands by any well drilled under the terms hereof, which depth is the lesser. The actual drilling of the first such Subsequent Well shall be commenced on or before 180 days from the date total depth is reached in the Test Well, and the actual drilling of further such Subsequent Wells shall be commenced on or before 180 days from the date total depth is reached in the immediately preceding Subsequent Well. In each Subsequent Well, Farmor shall within 30 days of written notice, have the option to elect to participate for its proportionately reduced 25% working interest or farm out on the same terms and conditions as provided for the drilling of the Test Well. In the event any such Subsequent Well is timely commenced, drilled to required depth and completed as a well capable of producing oil and/or gas in commercial quantities, and Farmee has otherwise complied with all of the terms and provisions of this Agreement, and Farmor has been furnished satisfactory proof thereof, Farmor shall assign Farmee an interest in the Subject Lands as provided below.

NO WARRANTY

Section 6. Assignment. In regard to any commercially productive well drilled and completed hereunder in accordance with the terms and provisions set forth above, Farmor shall assign to Farmee,

upon the conditions and subject to the reservations hereafter made, all of Farmor's interest in the Subject Leases insofar as they are included in the Spacing Unit (as defined below) for such commercially productive well (hereinafter "Earning Well"). For the purposes of this section, a well shall not be considered capable of commercial production unless production casing has been set, the productive interval opened, all equipment necessary to flow or produce oil and/or gas to the surface has been installed and proof furnished, to Farmor's satisfaction, of the ability of the well to produce in commercial quantities based on actual sales prices and volumes or production tests. Such assignment will be made substantially on the form attached hereto as Exhibit B(1), and the execution and delivery of such assignment shall constitute full compliance with and discharge of any and all obligations of Farmor hereunder. In the event the terms of the Subject Leases preclude an assignment thereof to Farmee, the parties, in lieu of such assignment, shall enter into an appropriate transfer of operating rights with respect to such leases which will contain, insofar as possible, the same terms as set forth in Exhibit B(1). Further, Farmor shall reserve from said assignment the following:

- (a) All rights in the Subject Leases below the stratigraphic equivalent of the base of the deepest productive reservoir in which the Earning Well is completed, including the right of ingress and egress at all times to such reserved depths for the purpose of drilling, exploring for, operating and developing oil, gas and other minerals or otherwise enjoying the reserved depths; provided further, however, that in no event shall Farmee be entitled to an assignment of any rights below the stratigraphic equivalent of the base of the Objective Formation.
- (b) The Overriding Royalty provided for in Section 7 herein.
- (c) The deferred reversionary Working Interest provided for in Section 8 herein.

A Spacing Unit hereunder shall embrace all that portion of the Subject Leases covering lands within the proration, drilling or spacing unit for the Earning Well established by the governmental authority having jurisdiction thereof and under which production from said Earning Well is thereby allocated. In the absence of any such unit, the Spacing Unit shall embrace not more than 40 acres for an oil well or 320 acres for a gas well.

Section 7. Farmor Override. Farmor shall reserve from any assignment made to Farmee, as an Overriding Royalty, an interest equal to the difference between existing burdens and twenty-five percent (25%) of all oil, gas, and other minerals which may be produced and saved from that portion of the Subject Lands committed to the Spacing Unit for the Earning Well. If Farmor's interest in the Subject Leases, insofar as they cover the Subject Lands, is less than a full interest, or if the Subject Leases, insofar as they cover the Subject Lands, cover less than a full interest in the oil and gas mineral estate, said Overriding Royalty shall be proportionately reduced. Said Overriding Royalty shall be free and clear of all costs of development and operation; however, said Overriding Royalty shall bear a proportionate part of all production taxes levied against Farmor's share of production attributable to its reserved Overriding Royalty.

Section 8. Farmor's Conversion Option. Farmor shall further reserve from any assignment made to Farmee the right and option to convert the Overriding Royalty set forth under Section 7 above to a leasehold estate (hereinafter called "Working Interest") in that portion of the Subject Leases

committed to the Spacing Unit for the Earning Well equal to an undivided twenty-five percent (25%) of the leasehold interest owned by Farmor in said portion of the Subject Leases immediately prior to execution of the assignment provided for under Section 6 above, which right shall accrue when Farmee has obtained Payout (as hereinafter defined) of the Earning Well. Promptly after Payout of the Earning Well, Farmee shall give Farmor notice of the same. Farmor shall have ~~thirty (30)~~ ⁶⁰ days after receipt of such notice to elect whether or not to convert its reserved Overriding Royalty interest to a Working Interest and any failure to elect within said time period shall be deemed an election not to convert. In the event of such a conversion, the reversion of the Working Interest shall be automatic and shall be effective as of 7:00 a.m. on the first day of the month following the date of Payout. Within a reasonable period of time after Farmor's election to convert, Farmee shall execute an appropriate recordable instrument assigning to Farmor its converted Working Interest in said Subject Leases covering said Spacing Unit, and its proportionate share of the Earning Well and equipment on and in said Spacing Unit.

Payout shall have been obtained when the Value (as hereinafter defined) of the oil, gas and other hydrocarbons produced, saved and marketed or taken from the Earning Well, or allocated to the Spacing Unit for the Earning Well, and received by Farmee by virtue of the Subject Leases covering said Spacing Unit, equals the total cost, borne and paid by Farmee by virtue of the Subject Leases covering said Spacing Unit, of:

- (a) drilling, testing, completing and equipping the Earning Well into the tanks or gas gathering lines;
- (b) the cost of operating the Earning Well up to the date of Payout;
- (c) severance, production and/or mineral ad valorem taxes measured by production and assessed on the Spacing Unit or production from the Earning Well;
- (d) royalty to the lessors under the Subject Leases covering the Spacing Unit; and
- (e) the Overriding Royalty reserved to Farmor and all other overriding royalty or other burdens on the Subject Leases covering the Spacing Unit created by Farmor or its predecessors in title.

Value shall be determined by the net proceeds realized by Farmee from the sale of such production, or the fair market value thereof at the wellhead if not sold but taken by Farmee for its own use. Costs shall be determined in accordance with the form of Accounting Procedure attached as Exhibit "C" to the form of Operating Agreement attached hereto as Exhibit "D". If and when such reversionary Working Interest becomes effective, it shall bear its proportionate part of all royalties, overriding royalties and other lease burdens existing on the date of this Agreement.

Section 9. Cost Information. Upon completion of the Earning Well, Farmee shall furnish Farmor with an inventory of the equipment in and connected to the well and itemized statements of all costs incurred and expenditures made in connection with the drilling, testing and completion of same and disclosing all credits for salvage material, during the Payout period. On or before the last day of each calendar quarter, Farmee shall furnish Farmor with a statement of the production and income

from and the cost and expenditures incurred in connection with the operation of said well for the preceding quarter, itemized sufficiently to reasonably fulfill Farmor's accounting requirements. Farmor shall have access at all reasonable times during the Payout period to Farmee's books and accounts pertaining to the Earning Well.

Section 10. Well Information. With respect to any well drilled hereunder, Farmee shall comply with the Well Information Requirements set out on Exhibit "B" attached by furnishing the reports, documents, samples and other information and by giving the notices indicated thereon. Further, with respect to drilling and completion operations, Farmee shall (i) furnish Farmor daily drilling reports and portions of all samples, cores and fluids collected; (ii) conduct such tests, run such logs, make such surveys and take such cores as are indicated and would be made by a prudent operator; and (iii) furnish Farmor copies of all logs, surveys and tests. Farmor and its representatives and employees shall at all times have access, at their sole cost, risk and expense, to the well and well site. Farmee will furnish Farmor from time to time upon request such information as Farmee may have or to which it may have access concerning such wells, including reports, projections of production or performance, evaluations and other expressions of opinion as well as raw data and regulatory filings.

Section 11. Operating Agreement. Concurrently with the election by Farmor to convert its reserved Overriding Royalty to a Working Interest as provided under Section 8 above, the parties shall formally enter into the Operating Agreement attached hereto as Exhibit "D" to govern future operations on the Spacing Unit affected by said conversion. Said Operating Agreement shall be made effective from and after the effective date of the said conversion by Farmor to said Working Interest, shall name Farmee as Operator thereunder, and the cost and expense thereafter of all operations upon said Spacing Unit shall be borne by the parties in the proportions provided for herein.

Section 12. Additional Well. The provisions of this Section apply to any well (hereinafter "Additional Well") to be drilled on the Spacing Unit for an Earning Well at a time when Farmee has earned by performance hereunder an interest in the Subject Leases in such Spacing Unit and Farmor has no working interest therein because payout of the said Earning Well has not yet occurred or because payout has occurred and Farmor has elected to retain its Overriding Royalty therein. Farmee shall give Farmor prompt notice of a proposal to drill an Additional Well, which notice shall include an AFE. Thereupon, Farmor shall have the right to elect within a period of thirty (30) days following receipt of said notice to participate in the drilling of such Additional Well, and failure to respond within said thirty (30) day period shall be deemed an election not to participate. In the event Farmor timely elects to participate in the drilling of said Additional Well, Farmor shall pay that share of the costs and expenses for the drilling, testing, completing and equipping or plugging and abandoning (as the case may be) of such Additional Well which Farmor would have borne, and Farmor shall be entitled to receive that share of production from such Additional Well which it would have been entitled to receive, if the reversion of Farmor's deferred reversionary Working Interest in the Spacing Unit for the subject Earning Well had already occurred. In the event of an election to participate, the Operating Agreement shall apply to all drilling and producing operations for such Additional Well. Farmor's reserved Overriding Royalty shall not apply to production from any Additional Well in which Farmor participates. In the event Farmor elects not to participate in any Additional Well, Farmor shall be entitled to receive the Overriding Royalty provided for in Section 7 hereof on all production from such Additional Well, which Overriding Royalty shall continue for the life of such Additional Well.

Section 13. Surrender. Farmee shall not surrender all or any part of its interest in the Subject Leases without giving Farmor written notice of its intention to do so. Farmor shall have the right, for a period of thirty (30) days following receipt of such notice, to elect to reacquire the interest to be surrendered. If Farmor elects to acquire such interest, Farmee shall convey such interest to Farmor free and clear of all overriding royalties, other lease burdens, liens, encumbrances and other interests created by Farmee or its successors or assigns. If an Earning Well is located on the portion of the Leases to be surrendered, then the provisions of Section 14 hereof shall apply with respect thereto.

Section 14. Abandonment. No well drilled by Farmee upon the Subject Lands or a spacing unit including the Subject Leases shall be plugged or abandoned until Farmee shall have given Farmor notice of its intention to do so. Farmor shall have forty-eight (48) hours from the receipt of said abandonment notice and a copy of all electric logs, drillstem and other tests and all other information obtained in connection with such well in the case of a well on which a drilling rig is located, and thirty (30) days from receipt of said abandonment notice in all other cases, to notify Farmee whether or not Farmor consents to such plugging or abandonment or whether Farmor elects to take over the well. If Farmor elects to take over the well, Farmee shall immediately deliver to Farmor the well and all material and physical equipment therein in the same condition as when drilling operations were terminated. Further, Farmee shall forthwith execute and deliver all necessary instruments to convey to Farmor Farmee's entire interest in and to the well, all such physical equipment therein and, if said leases have already been assigned to Farmee, the leases comprising the spacing unit in which said well is located. Farmor shall not be liable for any expenses or liabilities incurred prior to delivery of the well to it, but Farmor will pay for all expenses and discharge all obligations incurred after it takes possession of the well and will assume any and all obligations under any farmout agreements Farmee may have with other persons owning an interest in the spacing unit for such well. Farmor shall pay Farmee the reasonable salvage value of all recoverable materials or equipment so taken over in the well or at the wellsite which are owned by Farmee, less the estimated cost of salvage and less the estimated cost of plugging and abandoning said well. In the event Farmee is obligated under an agreement with any person not a party hereto to turn over the well to such person, and Farmor elects hereunder to take over the well, then this Section shall apply only to that interest in the well allocable to the interest in the leases earned hereunder.

Section 15. Protection of Leases. Farmee agrees to use its best efforts to preserve and protect the Subject Leases by fully complying with the express and implied terms, conditions, and covenants thereof. Farmee further agrees to keep such Leases free from any and all liens, judgments and any other claims whatsoever. In the event Farmee fails to comply with any of the terms and provisions thereof, Farmor may demand and receive a reassignment, free and clear of all overrides and other lease burdens, liens, encumbrances and other interests created by Farmee or its successors or assigns, of any interest assigned pursuant hereto.

Section 16. Delay Rentals. If prior to delivery of an assignment by Farmor to Farmee hereunder any delay rental payments or other payments necessary to maintain the Subject Leases in force and effect should become due, Farmor shall make such payments and Farmee shall reimburse Farmor for one hundred percent (100%) of the total amount thereof within thirty (30) days after receiving Farmor's billing therefor; provided, however, that Farmor shall not be liable for any failure to pay or for making defective payment of such rentals, regardless of the cause or reason.

Section 17. Shut-in Gas Well Payments. Following delivery of an assignment to Farmee hereunder, Farmee agrees to pay for its own account any shut-in gas well payments necessary to maintain the Subject Leases in full force and effect. Farmee further agrees to give Farmor immediate notice when any gas well is shut in and the date thereof and furnish proof of proper payment of shut-in gas royalties at least one month in advance of the payment date.

Section 18. Insurance. In connection with all operations conducted hereunder, Farmee shall carry, and cause its subcontractors to carry, the insurance specified on Exhibit "C". Before commencing any operations, Farmee shall provide Farmor with certificates of insurance evidencing such coverage which shall provide that such insurance shall not be canceled or modified without thirty (30) days written notice to Farmor by the insurance carrier.

Section 19. Compliance with Law. During the course of all operations conducted pursuant to this Agreement, Farmee shall abide by all applicable laws and all lawful orders, rules and regulations of governmental authorities having jurisdiction.

Section 20. Relationship of the Parties. It is not the intent or purpose of the parties to this Agreement to create hereunder any partnership, mining or otherwise, joint venture or association relationship or the relationship of agency or employer and employee, and neither this Agreement nor any of the operations hereunder shall be construed as creating any such relationship. The parties expressly agree that no party hereto shall be responsible for the obligations of the other party hereto, each party being severally responsible only for its obligations arising hereunder and liable only for its proportionate share of the costs and expenses incurred hereunder.

Section 21. Taxation. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this Agreement and operations hereunder shall not constitute a partnership, if for federal income tax purposes this Agreement or the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as permitted and authorized and by Section 761 of the Code and regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Treasury of the United States or the federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements and data required by Federal Regulation 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Subject Lands are located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

Section 22. Notices. All notices, statements and communications required or permitted to be given or made hereunder shall be deemed to be so given or made when deposited in the United States Mail, postage prepaid, directed to the parties at the following addresses or such other addresses as they may from time to time designate in writing.

FARMOR: Merit Energy Company
12222 Merit Drive
Dallas, Texas 75251-2217
FRED. N. DIEM

FARMEE: Nearburg Exploration Company, L.L.C.
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705

Section 23. Further Assurance. Each of the parties shall, from time to time and at all times, do all such other and further acts and deliver and execute such other and further instruments and documents as may be reasonably required in order to fully perform and carry out the terms and provisions of this Agreement.

Section 24. Exhibits. All Exhibits referred to herein as being attached hereto are hereby incorporated by reference and made a part hereof as if fully set out herein. In the event any of the provisions of any Exhibit conflict with this Agreement, then the provisions the Agreement itself shall control. However, the inclusion herein of provisions relating to any particular subject matter shall not be deemed an attempt to deal with such subject matter to the exclusion of provisions in the Operating Agreement or other Exhibits relating to such matter unless the context clearly otherwise requires.

Section 25. Miscellaneous.

(a) Whenever the plural, masculine or neuter is used in this Agreement, the same shall include the singular or feminine or body politic or corporate and vice-versa as the context so requires.

(b) The parties agree that with respect to the subject matter hereof this Agreement, together with all Exhibits, shall constitute the full and complete understanding and agreement of the parties, and there are no other understandings, obligations, relationships or agreements, written or oral.

(c) The terms and definitions used herein shall have the same meaning in the Exhibits hereto unless the context otherwise requires.

Section 26. Inurement. The terms, covenants, conditions and provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties, and said terms, covenants, conditions and provisions shall be deemed to be real covenants burdening and running with the Subject Lands and the Subject Leases.

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective for all purposes as of the day and year first above written. However, this Agreement shall be NULL AND VOID at the option of Farmor unless one fully executed copy is returned to Farmor at the address above given within thirty (30) days from the signature date of Farmor appearing below.

MERIT ENERGY COMPANY

By _____

Signature Date: _____

NEARBURG EXPLORATION COMPANY, L.L.C.

By: Robert G. Shelton *MS 77*

Robert G. Shelton, Attorney-in-Fact

Signature Date: October 23, 1998

EXHIBIT "A"

Attached to and made a part of that certain Farmout Agreement dated
October 15, 1998 between Merit Energy Company, as Farmor,
and Nearburg Exploration Company, L.L.C., as Farnnee

Lease No.: NM-17238
Lease Date: 12/01/72
Lessor: United States of America
Lessee: Eva G. Manning
Description: Insofar and only insofar as lease covers the N/2 of Section 3,
T-20-S, R-33-E, Lea County, New Mexico, covering depths
from the surface to the stratigraphic equivalent to the base of
the Morrow formation.

TRANSFER OF OPERATING RIGHTS (SUBLEASE) IN A
LEASE FOR OIL AND GAS OR GEOTHERMAL RESOURCES

Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.)
Act for Acquired Lands of 1947 (30 U.S.C. 351-359)
Geothermal Steam Act of 1970 (30 U.S.C. 1001-1025)
Department of the Interior Appropriations Act, Fiscal Year 1981 (42 U.S.C. 6508)

Lease Serial No. _____

Type or print plainly in ink and sign in ink.

PART A: TRANSFER

Transferee (Sublessee)*

Street

City, State, ZIP Code

If more than one transferee, check here and list the name(s) and address(es) of all additional transferees on the reverse of this form or on a separate attached sheet of paper.

This transfer is for: (Check one) Oil and Gas Lease, or Geothermal Lease

Interest conveyed: (Check one or both, as appropriate) Operating Rights (sublease) Overriding Royalty, payment out of production or other similar interests or payments

This transfer (sublease) conveys the following interest:

Land Description <small>Additional space on reverse, if needed. Do not submit documents or agreements other than form; such documents or agreements shall only be referenced herein.</small>	Percent of Interest			Percent of Overriding Royalty or Similar Interests	
	Owned	Conveyed	Retained	Reserved	Previously reserved or conveyed
	a	b	c	d	e
EXHIBIT "B-1"					
Attached to and made a part of that certain Farmout Agreement dated October 15, 1998 between Merit Energy Company, as Farmor, and Nearburg Exploration Company, L.L.C., as Farmee					

FOR BLM USE ONLY - DO NOT WRITE BELOW THIS LINE

THE UNITED STATES OF AMERICA

This transfer is approved solely for administrative purposes. Approval does not warrant that either party to this transfer holds legal or equitable title to the land.

This transfer approved effective _____

(Authorized Officer)

(Title)

(Date)