

NADEL AND GUSSMAN PERMIAN, L.L.C.
601 N. Marienfeld, Suite 508
Midland, TX 79701
Office: (915)682-4429
Fax: (915)682-4325

November 23, 1999

**TO WORKING INTEREST OWNERS
(ADDRESS LIST ATTACHED)**

Re: Kyle 34 Federal #1
N/2 Section 34, T-24-S, R-28-E, NMPM
Eddy County, New Mexico

Nadel and Gussman Permian, LLC ("NGP") as majority leasehold and Working Interest Owner under the captioned acreage, hereby proposes the drilling of the Kyle 34 Federal #1 well to be operated by NGP. The Kyle 34 Federal will be drilled at a legal location in the NE/4 Section 34, T-24-S, R-28-E, to a depth sufficient to test the Atoka Formation.

We have enclosed an AFE and Joint Operating Agreement for the proposed well. If you elect to participate in this proposed operation, please return executed copies of the AFE and JOA to the undersigned within thirty (30) days of receipt of this package.

Please contact this office if you have any questions or need further information.

Sincerely,



Sam H. Jolliffe IV CPL/ESA
Land Manager

3

Working Interest Owner Address List
Kyle 34 Federal #1
Eddy County, New Mexico

Nadel and Gussman Permian, LLC
601 N. Marienfeld, Suite 508
Midland, Texas 79701
Attn: Sam H. Jolliffe IV

Matador Petroleum Corporation
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231-3751
Attn: Mona D. Ables

Hallwood Petroleum, Inc.
4582 South Ulster Street Parkway,
Suite 1700
P.O. Box 37811
Denver, Colorado 80237
Attn: Terry McInturff

Central Resources, Inc.
2600 Mellon Center
1775 Sherman Street
Denver, Colorado 80203-4313

Toreador Exploration & Production, Inc.
4809 Cole Avenue, Suite 108
Dallas, Texas 75205
Attn: Ed Marhanka

RKC, Inc.
7029 E. Briarwood Circle
Englewood, Colorado 80112

Roden Participants, Ltd.
1000 Louisiana, Suite 3600
Houston, Texas 77002
Attn: Ben Kinney

Roden Associates, Ltd.
1000 Louisiana, Suite 3600
Houston, Texas 77002
Attn: Ben Kinney

Hallwood Petroleum, Inc.

*4610 South Ulster Street · Suite 200 · Post Office Box 378111
Denver, Colorado 80237 · (303) 850-7373 · (800) 882-9225*

December 17, 1999

Nadel and Gussman Permian, L.L.C.
601 N. Marienfeld, Suite 508
Midland, TX 79701
Attn: Sam H. Jolliffe IV, Land Manager

Re: Kyle 34 Federal #1
N/2 Section 34, T24S-R28E
Eddy County, New Mexico

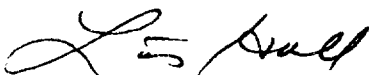
Dear Mr. Jolliffe:

As we discussed this afternoon, I believe Hallwood's contractual working interest in your proposed Kyle 34 Federal #1 well should be 11.48285%. Hallwood is successor in interest to HNG under the enclosed Operating Agreement dated June 7, 1979. The Operating Agreement governs operations of the Federal A1 Com #1 Well in the S/2 Section 34 and also pools the interests of leases USA NM 13412 and 13074 in the N/2 Section 34.

Hallwood does not wish to participate in the proposed Kyle 34 Federal #1 well and would entertain a farmout of its interest in well delivering a 75% NRI convertible at payout to a 25% back-in, or in the alternative would be willing to discuss selling its contractual interest as to the N/2 Section 34. While the referenced Operating Agreement does contain a Maintenance of Uniform Interest provision, over the years there have been many deviations from the provision apparently with no objection from the parties to the agreement thus by the history of performance I believe the parties have waived compliance with the provision.

If you or your title attorney has questions after reviewing the June 7, 1979 Operating Agreement, please let me know.

Sincerely,



Lois A. Hall, CPL
Landman

Enc.
1217a

Christine Hinton

By Facsimile to (915) 682-4325

DATE: December 21, 1999

TO: Sam Jolliffe/Nadel and Gussman

FROM: Christine Hinton/Central Resources

RE: Well Proposal- Kyle 34 Fed #1
N/2 Sec. 34-24S-28E
Eddy County, NM

Central has received your proposal to drill the captioned well, and this memo is a follow up to our conversation yesterday. We discussed the JOA dated June 7, 1979 of which you were unaware when you made the well proposal and prepared ownership Exhibit "A" to the proposed JOA. You informed me that Nadel and Gussman have taken a recent federal lease covering 80 acres of the proposed spacing unit, and therefore, are not subject to our 1979 JOA.

Central's understanding and position is as follows:

1. You will be reviewing the 1979 JOA for revision to the ownership for owners remaining under said JOA and revise your title opinion and Exhibit "A" accordingly. Note, from a quick check of internal records, I show CRI should have a GWI of 40.180233%- if you disagree after review, a copy of your title opinion will be appreciated. CRI acquired the Amoco JOA interest through MW Petroleum.
2. Since you have no governing JOA, we do not consider CRI under any 30 day deadline to respond to your well proposal, but our operations department is currently reviewing your proposal in order to respond to your plans. Any final discussion on participating in a well, farming out, etc. will be delayed until you have revised your title opinion and proposed JOA.
3. We request that you indicate your anticipated timing on spudding the well and when you plan to circulate the required communitization agreement required for the spacing unit covering the N/2.

I will be in our offices over the holidays and available to discuss any issues further.

NADEL AND GUSSMAN PERMIAN, L.L.C.

601 N. Marienfeld, Suite 508

Midland, TX 79701

Office: (915)682-4429

Fax: (915)682-4325

February 14, 2000

**TO WORKING INTEREST OWNERS
(ADDRESS LIST ATTACHED)**

Re: Kyle 34 Federal #1
N/2 Section 34, T-24-S, R-28-E, NMPM
Eddy County, New Mexico

Reference is hereby made to that certain letter dated November 23, 1999, whereby Nadel and Gussman Permian, LLC ("NGP") submitted an AFE and Joint Operating Agreement for the drilling of the Kyle 34 Federal #1 under the captioned acreage. We were subsequently advised by some of the other Working Interest Owners of a 1979 Operating Agreement still in effect covering this acreage and three offsetting Sections. We were furnished a copy of the Joint Operating Agreement, and forwarded to our Attorney for review. We have received a revised Opinion from our Attorney, which reflects additional Working Interest Owners via the JOA contractual interest from these additional Sections. For those new owners whom did not appear in the title under the original proposal, NGP proposed an Atoka Test in the NE/4 Section 34. NGP owns fifty percent of the N/2 Section 34 per a new Federal Lease issued June 1, 1999, covering the W/2NE/4 and E/2NW/4 Section 34.

NGP hereby re-proposes the drilling of the Kyle 34 Federal #1 well to be operated by NGP. The Kyle 34 Federal will be drilled at a legal location in the NE/4 Section 34, T-24-S, R-28-E, to a depth sufficient to test the Atoka Formation.

We are re-submitting an AFE and Joint Operating Agreement to all Owners. If you elect to participate in this proposed operation, please return executed copies of the AFE and JOA signature page to the undersigned. This JOA will supercede the June 7, 1979 Joint Operating Agreement only as it pertains to the N/2 Section 34. In lieu of participating, NGP will consider purchasing your interest in the N/2 Section 34 for Sixty Five Dollars (\$65) per acre and delivering your actual net revenue interest; or farming-in your working interest for an eighty percent (80%) net revenue interest.

Please contact this office if you have any questions or need further information.

Sincerely,

Sam H. Jolliffe IV CPL/ESA
Land Manager

Working Interest Owner Address List
Kyle 34 Federal #1
Eddy County, New Mexico

Nadel and Gussman Permian, LLC
601 N. Marienfeld, Suite 508
Midland, Texas 79701
Attn: Sam H. Jolliffe IV

Matador Petroleum Corporation
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231-3751
Attn: Mona D. Ables

Hallwood Petroleum, Inc.
4582 South Ulster Street Parkway,
Suite 1700
P.O. Box 37811
Denver, Colorado 80237
Attn: Lois A. Hall

Central Resources, Inc.
2600 Mellon Center
1775 Sherman Street
Denver, Colorado 80203-4313
Attn: Christine Hinton

Toreador Exploration & Production, Inc.
4809 Cole Avenue, Suite 108
Dallas, Texas 75205
Attn: Ed Marhanka

RKC, Inc.
7029 E. Briarwood Circle
Englewood, Colorado 80112

Roden Participants, Ltd.
1000 Louisiana, Suite 3600
Houston, Texas 77002
Attn: Ben Kinney

Roden Associates, Ltd.
1000 Louisiana, Suite 3600
Houston, Texas 77002
Attn: Ben Kinney

Exxon Mobil Production Company
P.O. Box 4697
Houston, Texas 77210-4697
Attn: Paul L. Keffer

A. L. Peters
P.O. Box 1517
Roswell, New Mexico 88202

Childress Royalty Company
P.O. Box 66
Joplin, Missouri 64301

Robert N. Enfield
P.O. Box 2431
Santa Fe, New Mexico 87504

Mona Enfield Coffield
10 Camino Costa Dino
Santa Fe, New Mexico 87505

AUTHORITY FOR EXPENDITURE
NADEL AND GUSSMAN PERMIAN, LLC MIDLAND, TX

PROSPECT NAME: KYLE'S CROSSING FIELD: SALT DRAW DATE: 02/14/00
 LEASE/WELL NUMBER: KYLE 34 FEDERAL 1 PREPARED BY: JF MARTIN
 LOCATION: 660' FNL AND FEL, SEC. 34-24S-28E
 COUNTY, STATE: EDDY, NM FOOTAGE CONTRACT
 PRIMARY OBJECTIVES: ATOKA SAND/ATOKA LIME/STRAWN; DST IN ATOKA SAND AND STRAWN ASSUMED
 PROJECTED TOTAL DEPTH: 12200' SINGLE ATOKA SAND COMPL ASSUMED

ASSUMES OCD APPROVES CSG PROGRAM AND PROTECTION LINER NOT NEEDED					CASING POINT	COMPLETION COSTS
INTANGIBLE COSTS						
LEGAL WORK/PERMITTING/SURVEY/STAKING					2000	500
ROW						500
SITE PREPARATION/CLEAN-UP					8000	10000
RIG MOVES						
DRILLING TURN-KEY						
DRILLING DAYWORK					22400	11200
DRILLING FOOTAGE					268400	
DRILL PIPE/TOOL RENTAL - INCL IN DAYWORK BID					0	
BITS						500
WATER					25000	3500
DIRECTIONAL EQUIP (MONEL COLLAR/ SINGLE SHOT)					0	
MUD/CHEMICALS/PKR FLUID					45000	2000
MUD LOGGING					10000	
OPEN HOLE LOGGING					25000	
STABILIZERS/SHOCK SUBS/ROTATING HEAD						
DIESEL - INCL IN BID					0	
DST'S 2 @ \$4000/TEST					8000	
WELDING						
CASING CREW/TOOLS						5000
CASING CEMENTING					25000	20000
SQUEEZE CMTG/PLUGGING					15000	-15000
TRANSPORTATION					2500	2500
RENTAL TOOLS/EQUIP						5000
COMPLETION RIG					8 DAYS @ 1850 /DAY	14800
PERFORATING/CASED HOLE LOGGING/CIBP/CMT						7500
BREAKDOWN						10000
FRACTURING/STIMULATION						
FRAC TANKS/WATER TRANSPORTS						5000
PIT LINER					4000	
LABOR/ROUSTABOUT CREWS					1500	5000
INSURANCE					11000	
BOP TESTING - 3RD PARTY					1200	
COLLAR INSPECTION/DAMAGES						
TREATING PACKER						
FIELD SUPERVISION					22000	5500
ADMINISTRATIVE SERVICES/OVERHEAD					1000	1000
CONTINGENCY					49700	9250
TOTAL INTANGIBLE COSTS					546700	103750
TANGIBLE COSTS						
20"	"	CONDUCTOR	40 FT @	40.13 /FT	1605	
13-3/8"	"	SURFACE	500 FT @	17.23 /FT	8614	
9-5/8"	"	INTERMEDIATE	4000 FT @	15.00 /FT	60000	
5-1/2"	"	PRODUCTION	12200 FT @	8.00 /FT		97600
"	"	LINER	FT @	/FT		0
2-3/8"	"	TUBING	12000 FT @	3.00 /FT		36000
		RODS	0 FT @	0 /FT		0
FLOAT EQUIP, DV TOOL, ETC						
CATTLEGUARDS/GATES						
WELLHEAD					5000	7500
PACKER						7000
DOWNHOLE PUMP/TAC						
FORKLIFT/PIPE RACKS					1500	1500
STOCK TANKS/WATER TANKS						10000
SEPARATORS						
GPU/TREATER						10000
VALVES/FITTINGS						5000
FLOWLINE						2500
METER RUN, ETC.						2500
MISCELLANEOUS (ROCK, FIREWALL, ETC)						3000
CONTINGENCY					650	18260
TOTAL TANGIBLE					77369	200860
TOTAL TANGIBLE/INTANGIBLE					624069	304610

TOTAL WELL COST 928679

JOINT INTEREST APPROVAL _____

COMPANY: _____

BY: _____ DATE: / /

NADEL AND GUSSMAN

BY: *JF Martin*

DATE: 2, 14, 2000

INTEROFFICE MEMORANDUM

TO: KYLE 34 FED FILE

FROM: SAM *A.J.P.*

SUBJECT:

DATE: 3/3/2000

CC:

I talked with Bob Enfield yesterday, March 2. He had talked with Mona Coffield, and they decided to farm-out their interest (cumulative interest = .783%) to us for a 75% NRI. I advised Bob all I had authority for was an 80% NRI, and he said all they will do is 75%.

I also talked with Hershel Sanders at Toreador. Hershel had earlier asked if they could see some basic geology. I advised Hershel we would show them our geology if we have an agreement as for agreed upon terms, i.e., they agree to participate, sell, or farm-out; all of the terms with the aforementioned options would be agreed to in advance. He mentioned a possible carry, and I told him we would not that. He said they will consider this proposal.

INTEROFFICE MEMORANDUM

TO: KYLE 34 FED NO. 1 FILE
FROM: SAM JOLLIFFE *Sam Jolliffe*
SUBJECT: KYLE 34 FED NO. 1 WELL PROPOSAL
DATE: 4/11/2000
CC:

I tried to call Mona Ables with Matador Petroleum today. Matador owns 5.47374% under the proposed N/2 spacing unit for the captioned well. I missed Mona's first return call. She has not yet returned my second call.

4/12/2000:

I spoke with Mona today; she advised they are circulating an in-house approval sheet to participate.

CENTRAL

RESOURCES, INC.

FAX COVER SHEET

DATE: 3-28-00

TO: Sam Tolliffe PHONE: _____

COMPANY: Nadel & G — FAX #: (915) 682-4335

RE: As discussed, Central has acquired
interests in other wells in the
H Section T8H by virtue of
BFO & Baruch Foster & Hudson & Apache
Central does claim title to the Eng. Res.
interest you set out for Childress.

FROM: Christine Hinton PHONE: 303-830-0100

COMPANY: CENTRAL RESOURCES INC. FAX #: 303-830-9297

PAGE 1 OF 16
(Including Cover Page)

PRIVILEGE NOTICE:

I would like to discuss
with you and your
examining attorney at
your convenience.

Unless otherwise indicated, the information contained in this facsimile message is privileged communication and is confidential information intended only for use of the individual or entity named above. If the reader of this message is not the intended recipient, you are hereby notified that any use, dissemination, distribution or copying of this communication is strictly prohibited.

INTEROFFICE MEMORANDUM

TO: KYLE FED 34 FILE
FROM: SAM JOLLIFFE *Sam Jolliffe*
SUBJECT: KYLE FED 34 NO. 1 WELL PROPOSAL
DATE: 4/11/2000
CC:

Today I spoke with Robert Enfield; he and his wife Mona together own a .783% working interest under the proposed N/2 spacing unit for the captioned well. Bob advised they will only farm-out for a 75% NRI. I asked Bob if they would farm-out for a higher NRI, and he replied they would not since their interest is so small.

NADEL AND GUSSMAN PERMIAN, L.L.C.

601 N. Marienfeld, Suite 508

Midland, TX 79701

Office: (915)682-4429

Fax: (915)682-4325

April 12, 2000

Toreador Royalty Corporation

4809 Cole Avenue, Suite 108

Dallas, Texas 75205

Attn: Mr. Herschel R. Sanders

Vice President - Land

Re: N/2 Section 34; N/2N/2 Section 35

T-24-S, R-28-E, NMPM

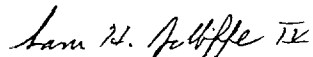
Eddy County, New Mexico

Dear Herschel:

Pursuant to our Letter Agreement of April 5, 2000, please find enclosed two (2) original copies of a Term Assignment of Oil and Gas Leases pertaining to the captioned acreage. Please review and if acceptable, please have both copies signed and notarized, and return to us. I will record one of the originals in the County Records. I will forward you a fully executed copy when available.

Please call me if you have any questions or wish to further discuss the provisions of the Assignment. Thanks again for your assistance in this matter.

Sincerely,



Sam H. Jolliffe IV CPL/ESA
Land Manager

TERM ASSIGNMENT OF OIL AND GAS LEASES

THE STATE OF NEW MEXICO §
COUNTY OF EDDY §

Toreador Royalty Corporation, 4809 Cole Avenue, Suite 108, Dallas, Texas 75205 (hereinafter called "Assignor"), for Ten Dollars (\$10.00) and other valuable consideration paid by Nadel and Gussman Permian, LLC, 601 N. Marienfeld, Suite 508, Midland, Texas 79701 (hereinafter called "Assignee"), does hereby assign, transfer and convey unto Assignee all of Assignor's right, title and interest in and to the oil and gas leases described in the attached Exhibit "A" insofar as said oil and gas leases cover the lands specifically described in Exhibit "A", all of which are referred to in this Assignment collectively as the "Conveyed Premises".

TO HAVE AND TO HOLD the Conveyed Premises unto the said Assignee forever, subject to the following terms and conditions herein set forth:

1. TERM:

- A. **PRIMARY TERM:** This Assignment shall be for a term of eighteen (18) months from the effective date hereof (hereinafter called "primary term") and as long thereafter as oil and gas, or either of them is produced from the Conveyed Premises or from lands pooled therewith, or for so long as this Assignment is otherwise maintained in effect pursuant to the provisions hereof.
- B. **CONTINUOUS OPERATIONS:** At the expiration of the primary term or at the conclusion of the continuous development program as hereinafter defined, whichever occurs later, this Assignment shall terminate as to: 1) all of the Conveyed Premises covered hereby except as to those lands which are included within the geographical boundaries of a pooled unit and/or proration unit established in conformity with field rules or spacing laws of the applicable governmental body on which there is located a well producing or capable of producing oil and/or gas in paying quantities; and 2) all depths lying 100' below the base of the deepest depth drilled in each pooled unit and/or proration unit. If a well on any pooled or proration unit ceases to produce, this Assignment shall not terminate as to such pooled or proration unit if Assignee commences operations for drilling or reworking a well within sixty (60) days thereafter and continues drilling or reworking operations on said well or any additional well with no cessation of more than sixty (60) consecutive days until a well is completed which produces, or is capable of producing, oil and/or gas in paying quantities. If, prior to the end of the primary term, Assignee has drilled and completed a well on the Conveyed Premises or lands pooled therewith either as a dry hole or as a well capable of producing oil and/or gas or has commenced operations for drilling on the Conveyed Premises or lands pooled therewith prior to end of the primary term, then the commencement date of the continuous development program shall be one hundred eighty (180) days after the expiration date after the completion of any well drilled across the the primary term of this Assignment, and completed same as a dry hole or a productive well, whichever the later. Once the continuous development program has been commenced, this Assignment shall remain in full force and effect as to the Conveyed Premises as long as Assignee, at its option, drills, or causes to be drilled, wells on the Conveyed Premises or lands pooled therewith with a lapse of not more than one hundred eighty (180) days between the completion or abandonment of one well (such date of completion or abandonment to be fixed by the official New Mexico Oil Conservation Division completion date) and the commencement of operations for the drilling of the next well.
- C. **SAVINGS CLAUSE:** If at the expiration of the primary term, oil or gas is not being produced on the Conveyed Premises, but Assignee is then engaged in drilling or reworking operations thereon or shall have completed a dry hole thereon within sixty (60) days prior to the end of the primary term, this Assignment shall remain in force so long as operations on said well, or for the drilling or reworking of any additional well, are prosecuted with no cessation of more than sixty (60) consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from the Conveyed Premises.

2. OVERRIDING ROYALTIES:

Assignor reserves, excepts and retains from this Assignment an overriding royalty equal to the difference between existing leasehold royalty and overriding royalty burdens of record and twenty five percent of eight-eighths (25% of 8/8ths) of all oil, gas and other hydrocarbon substances which may be produced from the Conveyed Premises or on acreage pooled therewith. It is the intent of this Assignment to deliver Assignee a seventy five percent (75%) net revenue interest in the Conveyed Premises. In the event the leasehold interest of Assignor is less than the full leasehold interest in the Conveyed Premises, the overriding royalty interest retained by Assignor shall be reduced to the proportion thereof which Assignor's leasehold interest bears to the full leasehold interest. In the event the Conveyed Premises is included in a pooled spacing or proration unit, the overriding royalty interest of Assignor in the production from said unit shall be determined by multiplying said reserved overriding royalty by a fraction, the numerator of which is the net acreage in the Conveyed Premises in said unit and the denominator of which is the entire acreage of such unit. Such overriding royalty shall be delivered into the pipeline to which a well may be connected or to the purchaser of the products free and clear of the expense of drilling, testing, developing, operating and maintaining the Conveyed

Premises and free and clear of all gathering, transporting and processing costs. The overriding royalty shall bear its proportionate share of marketing costs, including without limitation, costs of compression, if any.

3. **AUTHORITY TO POOL ENTIRETY OF LEASE ACREAGE:** Assignee is hereby granted the right and power to pool or combine Assignor's interest in the Conveyed Premises, including any overriding royalty being retained by Assignor, for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Division or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Drilling operations on or production from any part of such unit shall be considered for all purposes as operations conducted upon or production from the Conveyed Premises. There shall be allocated to the Conveyed Premises included in any such unit that portion of the total production of pooled minerals, which the number of surface acres in the Conveyed Premises included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this Assignment.
4. **COMPLIANCE WITH LAWS AND REGULATIONS:** Assignee covenants and agrees that in the development and operation of the Conveyed Premises, Assignee will comply with all valid laws, rules and regulations of the state regulatory body and all other governmental agencies having jurisdiction or supervision of the field in which the Conveyed Premises are located, including, without limitation, the spacing regulations fixed by such body or agency.
5. **SUCCESSORS AND ASSIGNS:** The terms, covenants and conditions hereof shall be deemed to be covenants running with the leasehold estate(s) referred to in the attached Exhibit "A", and as such shall extend to, bind and inure to the benefit of the the parties hereto, their successors and assigns.
6. **NO WARRANTY:** This Assignment is made without warranty of any kind, either express or implied, except Assignor specially warrants and agrees to defend Assignor's real property title to the Leases against the lawful claims of all persons claiming by, through or under Assignor, but not otherwise.
7. **DISCLAIMER OF JOINT LIABILITY:** It is understood and agreed that Assignment shall not create the relationship of a partnership or joint venture between the parties hereto.

EXECUTED on the dates set out in the acknowledgments hereto, but effective as of April 1, 2000.

ASSIGNOR

TOREADOR ROYALTY CORPORATION

By:

ASSIGNEE

NADEL AND GUSSMAN PERMIAN, LLC

By: Scott H. Germann, Partner

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

The foregoing instrument was acknowledged before me on this _____ day of _____,
2000, by _____ on behalf of said
corporation.

My Commission Expires: _____

Notary Public

THE STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me on this _____ day of _____,
2000, by Scott H. Germann, Partner, Nadel and Gussman Permian, LLC, on behalf of said company.

My Commission Expires: _____

Notary Public

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN
TERM ASSIGNMENT OF OIL AND GAS LEASES BY AND BETWEEN
TOREADOR ROYALTY CORPORATION ("ASSIGNOR") AND
NADEL AND GUSSMAN PERMIAN, LLC ("ASSIGNEE")
EFFECTIVE APRIL 1, 2000

DATE: February 1, 1971
LESSOR: USA NM 13074
LESSEE: John A. Kochergen and Bob G. Howell
DESCRIPTION: T-24-S, R-28-E, NMPM
Section 34: W/2NW/4
Eddy County, New Mexico
from the surface to the base of the Morrow Series of the Pennsylvanian System

DATE: April 1, 1971
LESSOR: USA NM 25953 (segregated from Lease Serial No. NM 13412)
LESSEE: Shirley Starman
DESCRIPTION: T-24-S, R-28-E, NMPM
Section 34: E/2NE/4
Section 35: N/2N/2
from the surface to the base of the Morrow Series of the Pennsylvanian System

NADEL AND GUSSMAN PERMIAN, L.L.C.
601 N. Marienfeld, Suite 508
Midland, TX 79701
Office: (915)682-4429
Fax: (915)682-4325

April 12, 2000

Hunker-Fedric, P.A.
P.O. Box 1837
Roswell, New Mexico 88202
Attn: Mr. Don M. Fedric

Re: N/2 Section 34, T-24-S, R-28-E, NMPM
Eddy County, New Mexico
Proposed Kyle 34 Fed #1

Dear Don:

Pursuant to your letter of March 21, 2000, please find enclosed two (2) original copies of a Term Assignment of Oil and Gas Leases pertaining to the interest owned by A.L. and Billie Peters under the captioned acreage. Please review and if acceptable, please have Mr. and Mrs. Peters sign both copies, and have their signatures notarized. Please return both originals to us, and I will record one of the originals in the County Records. I will forward you a fully executed copy when available.

Please call me if you have any questions or wish to further discuss the provisions of the Assignment. Thanks again for your assistance in this matter.

Sincerely,



Sam H. Jolliffe IV CPL/ESA
Land Manager

TERM ASSIGNMENT OF OIL AND GAS LEASES

THE STATE OF NEW MEXICO §
§
COUNTY OF EDDY §

A.L. Peters and Billie M. Peters (hereinafter called "Assignors"), for Ten Dollars (\$10.00) and other valuable consideration paid by Nadel and Gussman Permian, LLC, 601 N. Marienfeld, Suite 508, Midland, Texas 79701 (hereinafter called "Assignee"), does hereby assign, transfer and convey unto Assignee all of Assignors' right, title and interest in and to the oil and gas leases described in the attached Exhibit "A" insofar as said oil and gas leases cover the lands specifically described in Exhibit "A", all of which are referred to in this Assignment collectively as the "Conveyed Premises".

TO HAVE AND TO HOLD the Conveyed Premises unto the said Assignee forever, subject to the following terms and conditions herein set forth:

1. TERM:

- A. **PRIMARY TERM:** This Assignment shall be for a term of one (1) year from the effective date hereof (hereinafter called "primary term") and as long thereafter as oil and gas, or either of them is produced from the Conveyed Premises or from lands pooled therewith, or for so long as this Assignment is otherwise maintained in effect pursuant to the provisions hereof.
- B. **CONTINUOUS OPERATIONS:** At the expiration of the primary term or at the conclusion of the continuous development program as hereinafter defined, whichever occurs later, this Assignment shall terminate as to: 1) all of the Conveyed Premises covered hereby except as to those lands which are included within the geographical boundaries of a pooled unit and/or proration unit established in conformity with field rules or spacing laws of the applicable governmental body on which there is located a well producing or capable of producing oil and/or gas in paying quantities; and 2) all depths lying 100' below the base of the deepest depth drilled in each pooled unit and/or proration unit. If a well on any pooled or proration unit ceases to produce, this Assignment shall not terminate as to such pooled or proration unit if Assignee commences operations for drilling or reworking a well within sixty (60) days thereafter and continues drilling or reworking operations on said well or any additional well with no cessation of more than sixty (60) consecutive days until a well is completed which produces, or is capable of producing, oil and/or gas in paying quantities. If, prior to the end of the primary term, Assignee has drilled and completed a well on the Conveyed Premises or lands pooled therewith either as a dry hole or as a well capable of producing oil and/or gas or has commenced operations for drilling on the Conveyed Premises or lands pooled therewith prior to end of the primary term, then the commencement date of the continuous development program shall be one hundred eighty (180) days after the expiration date after the completion of any well drilled across the the primary term of this Assignment, and completed same as a dry hole or a productive well, whichever the later. Once the continuous development program has been commenced, this Assignment shall remain in full force and effect as to the Conveyed Premises as long as Assignee, at its option, drills, or causes to be drilled, wells on the Conveyed Premises or lands pooled therewith with a lapse of not more than one hundred eighty (180) days between the completion or abandonment of one well (such date of completion or abandonment to be fixed by the official New Mexico Oil Conservation Division completion date) and the commencement of operations for the drilling of the next well.
- C. **SAVINGS CLAUSE:** If at the expiration of the primary term, oil or gas is not being produced on the Conveyed Premises, but Assignee is then engaged in drilling or reworking operations thereon or shall have completed a dry hole thereon within sixty (60) days prior to the end of the primary term, this Assignment shall remain in force so long as operations on said well, or for the drilling or reworking of any additional well, are prosecuted with no cessation of more than sixty (60) consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from the Conveyed Premises.

2. OVERRIDING ROYALTIES:

Assignors reserve, except and retain from this Assignment an overriding royalty equal to the difference between existing leasehold royalty and overriding royalty burdens of record and twenty percent of eight-eighths (20% of 8/8ths) of all oil, gas and other hydrocarbon substances which may be produced from the Conveyed Premises or on acreage pooled therewith. It is the intent of this Assignment to deliver Assignee an eighty percent (80%) net revenue interest in the Conveyed Premises. In the event the leasehold interest of Assignors is less than the full leasehold interest in the Conveyed Premises, the overriding royalty interest retained by Assignors shall be reduced to the proportion thereof which Assignors' leasehold interest bears to the full leasehold interest. In the event the Conveyed Premises is included in a pooled spacing or proration unit, the overriding royalty interest of Assignors in the production from said unit shall be determined by multiplying said reserved overriding royalty by a fraction, the numerator of which is the net acreage in the Conveyed Premises in said unit and the denominator of which is the entire acreage of such unit. Such overriding royalty shall be delivered into the pipeline to which a well may be connected or to the purchaser of the products free and clear of the expense of drilling, testing, developing, operating and maintaining the Conveyed Premises and free

and clear of all gathering, transporting and processing costs. The overriding royalty shall bear its proportionate share of marketing costs, including without limitation, costs of compression, if any.

3. **AUTHORITY TO POOL ENTIRETY OF LEASE ACREAGE:** Assignee is hereby granted the right and power to pool or combine Assignors' interest in the Conveyed Premises, including any overriding royalty being retained by Assignors, for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Division or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Drilling operations on or production from any part of such unit shall be considered for all purposes as operations conducted upon or production from the Conveyed Premises. There shall be allocated to the Conveyed Premises included in any such unit that portion of the total production of pooled minerals, which the number of surface acres in the Conveyed Premises included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this Assignment.
4. **COMPLIANCE WITH LAWS AND REGULATIONS:** Assignee covenants and agrees that in the development and operation of the Conveyed Premises, Assignee will comply with all valid laws, rules and regulations of the state regulatory body and all other governmental agencies having jurisdiction or supervision of the field in which the Conveyed Premises are located, including, without limitation, the spacing regulations fixed by such body or agency.
5. **SUCCESSORS AND ASSIGNS:** The terms, covenants and conditions hereof shall be deemed to be covenants running with the leasehold estate(s) referred to in the attached Exhibit "A", and as such shall extend to, bind and inure to the benefit of the parties hereto, their successors and assigns.
6. **NO WARRANTY:** This Assignment is made without warranty of any kind, either express or implied, except Assignor specially warrants and agrees to defend Assignor's real property title to the Leases against the lawful claims of all persons claiming by, through or under Assignor, but not otherwise.
7. **DISCLAIMER OF JOINT LIABILITY:** It is understood and agreed that Assignment shall not create the relationship of a partnership or joint venture between the parties hereto.

EXECUTED on the dates set out in the acknowledgments hereto, but effective as of April 1, 2000.

ASSIGNORS

A.L. Peters

Billie M. Peters

ASSIGNEE

NADEL AND GUSSMAN PERMIAN, LLC

By: Scott H. Germann, Partner

THE STATE OF NEW MEXICO §
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me on this ____ day of April, 2000, by A.L. Peters and Billie M. Peters, husband and wife.

My Commission Expires:

Notary Public

THE STATE OF TEXAS §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me on this ____ day of _____, 2000, by Scott H. Germann, Partner, Nadel and Gussman Permian, LLC, on behalf of said company.

My Commission Expires:

Notary Public

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN
TERM ASSIGNMENT OF OIL AND GAS LEASES BY AND BETWEEN
A.L. PETERS AND BILLIE M. PETERS ("ASSIGNORS") AND
NADEL AND GUSSMAN PERMIAN, LLC ("ASSIGNEE")
EFFECTIVE APRIL 1, 2000

DATE: February 1, 1971
LESSOR: USA NM 13074
LESSEE: John A. Kochergen and Bob G. Howell
DESCRIPTION: T-24-S, R-28-E, NMPM
Section 34: W/2NW/4
Eddy County, New Mexico
from the surface to the base of the Morrow Series of the Pennsylvanian System

DATE: April 1, 1971
LESSOR: USA NM 25953 (segregated from Lease Serial No. NM 13412)
LESSEE: Shirley Starman
DESCRIPTION: T-24-S, R-28-E, NMPM
Section 34: E/2NE/4
from the surface to the base of the Morrow Series of the Pennsylvanian System

It is also the intent of Assignors to convey all contractual interest derived under that certain Joint Operating Agreement dated June 7, 1979, only insofar as said interest covers the aforementioned lands.

Facsimile Cover Sheet

To: Sam Jolliffe
Company: Nadel & Gussman

Phone: 682-4429

Fax: 682-4325

From: Dave Rose
Company: Childress Royalty Company

Phone: (915) 687-4220

Fax: (915) 687-4288

557-3724
LHLL

Date: April 14, 2000

Pages including this 6
cover page:

Sam

Please review and let me know if you want any changes made.

ALL CORRESPONDENCE:

Childress Royalty Company
P.O. Box 10280
Midland, Texas 79702
(915) 687-4220
(915) 687-4288 FAX

ALL REMITTANCE:

Childress Royalty Company
P.O. Box 66
Joplin, MO 64802
(417) 624-5825

TERM ASSIGNMENT

THE STATE OF NEW MEXICO §

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF EDDY §

THIS ASSIGNMENT, made and entered into this 15th day of March 2000, and effective as of the same date (hereinafter referred to as "effective date"), from Childress Royalty Company, a Delaware Corporation ("Assignor"), whose mailing address is P. O. Box 10280, Midland, TX, 79702, to Nadel and Gussman Permian, L.L.C., an Oklahoma Limited Liability Corporation ("Assignee"), whose mailing address is 601 N. Marienfield, Suite 508, Midland, Texas, 79701.

WITNESSETH:

FOR valuable consideration, being those covenants herein subscribed, the receipt and sufficiency of which are hereby acknowledged, Assignor hereby grants, conveys and assigns to Assignee, without covenant, representation or warranty of any kind whatsoever, excess, statutory, or implied, as to description, title, condition, quality, or otherwise, subject to the reservations contained herein, on all of Assignor's right, title and interest in and to the contractual interest described on Exhibit "A" attached hereto and made a part hereof, INsofar AND ONLY INsofar, as said contractual interest covers the lands and depths described on Exhibit "A", together with a like interest in all equipment, personal property, and fixtures located on said lands, (hereinafter referred to as "Properties"), there being expressly reserved to Assignor all formations and depths and all other minerals (including all rights to explore, develop, operate and produce from same) not specifically included in this Assignment below the depths herein conveyed.

There is hereby reserved and excepted to Assignor, its successors and assigns, an overriding royalty in an amount being the difference, if any, between twenty percent (20%) and the aggregate percentage of lease burdens (including any royalty or overriding royalty interests, production payments and similar burdens), created and existing as of the effective date hereof, of all oil and gas produced from said land or attributable thereto under the terms of said contract, to be delivered into the tanks or pipeline, free and clear of all cost of development and operation, but excepting Assignor's own gross production taxes.

If said contractual interest covers less than the full interest in said land or if Assignor owns less than the full interest in said leases (excepting only an overriding royalty or similar burden heretofore created), such overriding royalty herein reserved shall be proportionately reduced to accord with the interest owned by Assignor. If Assignee exercises any pooling rights or communitization rights, contained in any of the contractual rights comprising the Properties, Assignor's Overriding Royalty insofar as it covers such leases shall be pooled and paid on a pooled basis in the same manner as the base royalty is pooled.

TO HAVE AND HOLD the properties, subject to the following terms and conditions.

1. Term of Assignment. This Assignment shall be for a term of one (1) year from the effective date and for so long thereafter as oil and/or gas are produced in paying quantities from the Properties or from lands validly pooled therewith or for so long as this Assignment is otherwise maintained in effect pursuant to the provisions hereof (hereinafter referred to as the primary term).
2. Extension by Drilling or Reworking. If at the expiration of the Primary Term of this Assignment, oil and/or gas are not being produced from the Properties or lands validly pooled therewith, but Assignee is then engaged in drilling or reworking operations thereon, this Assignment shall remain in force so long as drilling or reworking operations are prosecuted (whether on the same well or different wells) with no cessation of more than sixty (60) consecutive days, and, if they result in production in paying quantities, for so long thereafter after

oil and/or gas are produced in paying quantities from the Properties or lands validly pooled therewith. If oil and/or gas on the Properties or lands validly pooled therewith should cease producing in paying quantities from any cause, this Assignment nevertheless shall continue in force and effect as long as additional drilling operations shall be deemed to be had when not more than one hundred eighty (180) consecutive days elapse between the abandonment of operations on one well and the actual commencement of drilling on another well, and if production in paying quantities is obtained, this Assignment shall continue as long thereafter. As additional operations, either drilling or reworking are had thereon.

3. **INDEMNITIES AND ASSUMPTION OF OBLIGATION AND CONDITION OF THE PROPERTIES:**

(a) ASSIGNEE SHALL FULLY PROTECT, INDEMNIFY, AND DEFEND ASSIGNOR, ITS OFFICERS, AGENTS AND/OR EMPLOYEES AND HOLD THEM HARMLESS FROM ANY LIABILITIES (INCLUDING ATTORNEY'S FEES, COSTS OF LITIGATION AND ALL CLAIMS, LOSSES, DAMAGES, DEMANDS, SUITS, CAUSES OF ACTION, AND/OR INVESTIGATION AND OTHER COSTS ASSOCIATED THEREWITH) (COLLECTIVELY REFERRED TO HEREAFTER AS "CLAIMS") OF EVERY KIND, INCLUDING WITHOUT LIMITATION THOSE RELATING TO INJURY OR DEATH OF ANY PERSON OR PERSONS WHOMSOEVER AND/OR DAMAGE TO OR LOSS OF PROPERTY OR RESOURCE, EXCEPT AS SPECIFICALLY SET OUT IN PARAGRAPH 3 (B) BELOW, ARISING OUT OF OR CONNECTED, DIRECTLY OR INDIRECTLY, WITH THE OWNERSHIP OR OPERATION OF THE PROPERTIES, OR ANY PART THEREOF, ACCRUING DURING THE TERM OF THIS ASSIGNMENT, REGARDLESS OF CAUSE OR OF ASSIGNOR'S NEGLIGENCE OR FAULT IMPOSED BY STATUTE, RULE OR REGULATION OR STRICT LIABILITY OF ASSIGNOR, ITS OFFICERS, AGENTS AND/OR EMPLOYEES.

(b) ASSIGNEE SHALL TIMELY PERFORM AND DISCHARGE ALL DUTIES AND OBLIGATIONS OF THE OWNER OF PROPERTIES, INCLUDING BUT NOT LIMITED TO: RESTORATION OF THE SURFACE, ENVIRONMENTAL AND POLLUTION CLEAN UP, PLUGGING AND ABANDONMENT OF ALL WELLS DRILLED BY ASSIGNEE AND ASSIGNOR SHALL INCUR NO LIABILITY FOR ASSIGNEE'S FAILURE TO PROPERLY PERFORM AND DISCHARGE SUCH DUTIES AND OBLIGATIONS. ASSIGNEE SHALL FULLY PROTECT, INDEMNIFY, DEFEND, AND HOLD ASSIGNOR, ITS OFFICERS, AGENTS AND/OR EMPLOYEES HARMLESS AGAINST ANY AND ALL CLAIMS FOR POLLUTION AND/OR ENVIRONMENTAL DAMAGE OF ANY KIND (INCLUDING WITHOUT LIMITATION ANY LIABILITY UNDER THE COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION AND LIABILITY ACT, 42 U.S.C. §9601, ET SEQ. AND AS THE SAME MAY BE AMENDED), ANY FINES OR PENALTIES ASSESSED ON ACCOUNT OF SUCH DAMAGE, CAUSED BY, ARISING OUT OF, OR ANY WAY INCIDENTAL TO OWNERSHIP OR OPERATIONS CONDUCTED ON THE PROPERTIES, IF ASSERTED SUBSEQUENT TO THE EFFECTIVE DATE OF THIS ASSIGNMENT, REGARDLESS OF CAUSE OR OF ASSIGNOR'S NEGLIGENCE OR FAULT IMPOSED BY STATUTE, RULE OR REGULATION OR STRICT LIABILITY OF ASSIGNOR, ITS OFFICERS, AGENTS OR EMPLOYEES.

4. Rework Operations. If after the expiration of the Primary Term of this Assignment, and after oil and or gas is produced from the Properties, or lands pooled therewith, the production thereof shall cease from any cause, this Assignment shall not terminate if Assignee commences operations for drilling or reworking within sixty (60) days after the cessation of such production, and shall remain in force and effect so long as operations are prosecuted with no cessation of more than sixty (60) days, and if they result in the production of oil, gas, so long thereafter as oil or gas is produced from the Properties, or lands pooled therewith.

5. Leases and Contracts. This Assignment is subject to all terms, covenants, and conditions and existing burdens and encumbrances of the hereinafter described Operating Agreement covering the Properties; and at and after the effective date of this Agreement, Assignee shall perform all covenants and obligations of Assignor under said leases, and under any previous assignments thereof, including, but not limited to, the payment of delay rentals, minimum royalties and shut-in royalties under any previous assignments thereof. Assignee shall record this Assignment in the County or Counties listed in the caption hereof and shall furnish Assignor with a copy of same showing all pertinent recording data.
6. Observance of Laws. This Assignment is subject to all applicable laws, ordinances, rules, and regulations affecting the Property and Assignee shall comply with the same and shall promptly obtain and maintain all permits required by governmental authorities in connection therewith.
7. Assignment. Assignee is permitted to assign, sell, transfer, mortgage, hypothecate or otherwise alienate the Properties without the express prior written consent of Assignor, and all Assignments of this interest shall be made subject to this Term Assignment.
8. Re-Assignment. Within thirty (30) days after complete termination of this Agreement under the Provisions of Paragraph 1, 2 or 3 hereof, Assignee shall execute and deliver to Assignor a reassignment of all acreage covered hereby. In the event of a partial termination at any time or from time to time in accordance with Subparagraph 3 (c) hereof, Assignee shall execute and deliver to Assignor within thirty (30) days of such termination(s) a reassignment of all land not included within the aerial boundaries of a spacing or proration unit assigned to a well producing oil or gas in paying quantities and of all subsurface depths in said spacing or proration unit(s) deeper than the base of the deepest producing formation in said producing well(s) thereon. If Assignee shall fail to execute or deliver to Assignor any reassignment(s) required hereunder within the thirty (30) day period, Assignee agrees that Assignor may unilaterally execute an instrument declaring termination of all or the portions of the Property affected, as applicable, and upon recordation of such instrument in the county records of Eddy County, New Mexico and such instrument shall be conclusive notice to all third parties dealing with Assignee or Assignor or with the Properties or production therefrom of the termination of Assignee's interests, as stated herein.
9. GOVERNING LAW. THIS ASSIGNMENT SHALL BE GOVERNED BY AND CONSTRUED UNDER THE LAWS OF THE STATE OF TEXAS, AND THE VENUE OF ANY ACTION BROUGHT BY EITHER PARTY IN REGARD HERETO OR ARISING OUT OF THE TERMS OR CONDITIONS HEREOF SHALL BE MIDLAND COUNTY, TEXAS.
10. Successors and Assigns. The terms, covenants, and conditions hereof bind and inure to the benefit of the parties hereto and their respective successors and assigns and are covenants running with the lands, leases, equipment, and facilities and with each transfer or assignment thereof or any portion thereof. All future conveyances of any portion of the Properties and/or their associated facilities and equipment shall recognize and perpetuate the rights and obligations set out hereof.
11. Entirety and Amendments. This Assignment constitutes the entire agreement between the parties with respect to the matters herein and the Properties, notwithstanding any prior oral or written promise or understanding to the contrary. This Assignment cannot be amended without the agreement hereto in writing by Assignor and Assignee.

IN WITNESS WHEREOF, this Assignment is executed to be effective as of the date first above written.

("ASSIGNOR")

Childress Royalty Company

By: _____

Title: President _____

("ASSIGNEE")

Nadel and Gussman Permian L.L.C.

By: _____

Title: _____

STATE OF TEXAS §

COUNTY OF MIDLAND

This instrument was acknowledged before me on this _____ day of _____, 2000 by Raymon D. Sharp, President of Childress Royalty Company, a Delaware corporation, on behalf of said corporation.

Commission expires _____

[print name]
Notary Public, State of Texas

STATE OF TEXAS §

COUNTY OF MIDLAND

This instrument was acknowledged before me on this _____ day of _____, 2000 by _____ of Nadel and Gussman Permian, L.L.C., an Oklahoma Limited Liability Corporation. on behalf of said corporation.

Commission expires _____

[print name]
Notary Public, State of Texas

EXHIBIT "A"

Attached to and made a part of that certain Term Assignment dated effective March 15, 2000 between Childress Royalty Company and Nadel and Gussman, Permian L.L.C.

LANDS CONVEYED

Eddy County, NM

T-24-S, R-28E, NMPM Survey

Section 34: W/2NW/4 and E/2NE/4 from the surface to the base of the Morrow Series of the Pennsylvanian System

CONTRACTUAL INTEREST: NON-PARTICIPATING

Assignor herein is successor to a contractual interest in said lands pursuant to the terms of Operating Agreement dated June 7, 1979, Amoco Production Company, Operator, Pecos Irrigation Company et al, non-operators, as amended, wherein Assignor's predecessors in title contributed unleased mineral fee acreage to this operating Agreement.