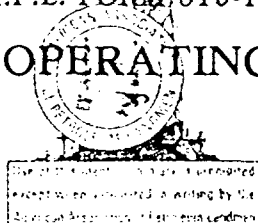


124-70000

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

April 17, 19 89,

OPERATOR BP EXPLORATION INC, formerly Sohio Petroleum Company

CONTRACT AREA Lots 3 and 4, E1/2 SW1/4 of Section 30,

Township 17 South, Range 38 East N.M.P.M.

COUNTY OR PARISH OF LEA STATE OF NEW MEXICO

COPYRIGHT 1982 — ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 2408 CONTINENTAL LIFE BUILDING,
FORT WORTH, TEXAS, 76102, APPROVED FORM.
A.A.P.L. NO. 610 - 1982 REVISED

NM1-0010-0A-06

EX. 11
Case 9645

III. OVERHEAD

Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or

() Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

() shall be covered by the overhead rates, or

(X) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

() shall be covered by the overhead rates, or

(x) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 5700.00

(Prorated for less than a full month)

Producing Well Rate \$ 570.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

XX

(XXX)

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 17th day of April, 1989.

OPERATOR

BP EXPLORATION INC., formerly
Sohio Petroleum Company

By: T. R. Brown
T. R. Brown,
Agent and Attorney-in-Fact

NON-OPERATORS

DAVID PETROLEUM CORP.

By: Edward K. David
Edward K. David, President

COLIN R. MCMILLAN & KAY MCMILLAN

By: Colin R. McMillan Kay McMillan

YATES PETROLEUM CORP.

By: _____

SANTA FE ENERGY OPERATING PARTNERS, L.P.

By: _____

HARVEY E. YATES COMPANY

By: _____
George M. Yates, President

SPIRAL INC.

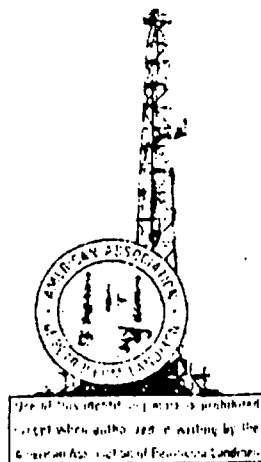
By: _____
George M. Yates, Vice-President

EXPLORERS PETROLEUM CORP.

By: _____
George M. Yates, President

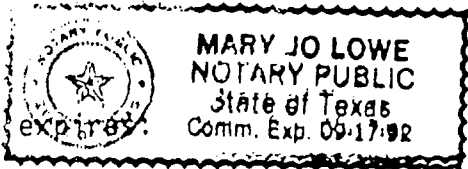
YATES ENERGY CORP.

By: _____
Fred G. Yates, President



STATE OF TEXAS)
) ss.
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before me this 17th day of April, 1989 by T. R. Brown, Agent and Attorney-in-Fact of BP EXPLORATION INC., formerly SOHIO PETROLEUM COMPANY, A Delaware corporation, on behalf of said corporation.



My commission expires:

Mary Jo Lowe
Notary Public

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 1st day of MAY, 1989 by Edward K. David, President of DAVID PETROLEUM CORP., a Texas Corporation, on behalf of said corporation.

Lillian B. Owen
Notary Public

My commission expires:

11-29-92

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 1st day of MAY, 1989 by COLIN R. MCMILLAN AND WIFE, KAY MCMILLAN.

Lillian B. Owen
Notary Public

My commission expires:

11-29-92

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1989 by George M. Yates, President of HARVEY E. YATES COMPANY a New Mexico corporation, on behalf of said corporation.

Notary Public

My commission expires:

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 17th day of April, 19 89.

OPERATOR

BP EXPLORATION INC., formerly
Sohio Petroleum Company

By: T. R. Brown
T. R. Brown,
Agent and Attorney-in-Fact

NON-OPERATORS

DAVID PETROLEUM CORP.

By: Edward K. David, President

COLIN R. MCMILLAN & KAY MCMILLAN

YATES PETROLEUM CORP.

By: Santa Fe Energy Operating Partners, L.P.
SANTA FE ENERGY OPERATING PARTNERS, L.P.

HARVEY E. YATES COMPANY

By: George M. Yates, President

SPIRAL INC.

By: George M. Yates, Vice-President

EXPLORERS PETROLEUM CORP.

By: George M. Yates, President

YATES ENERGY CORP.

By: Fred G. Yates, President

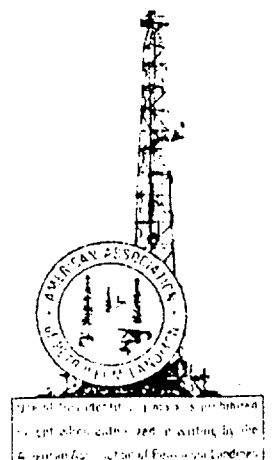


EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated April 17, 1989, between BP Exploration Inc., Operator and David Petroleum Corporation, et al as Non-operators.

CONTRACT AREA:

The Contract Area shall be the following described lands situated in Lea County, New Mexico.

Township 17 South, Range 38 East
Section 30: Lots 3 & 4, E/2 SW/4
Containing 155.56 acres, more or less.

WORKING INTEREST AND ADDRESSES OF PARTIES:

| | |
|---|------------------|
| *BP Exploration Inc. P. O. Box 4587 Houston, TX 77120 | 43.5204 |
| *David Petroleum Corporation **116 W. First St. Roswell, New Mexico 88201 | 13.9535 |
| *Colin R. McMillan **118 W. First St. Roswell, New Mexico 88201 | 16.5108 |
| **Yates Petroleum Corporation 105 South Fourth St. Artesia, New Mexico 88210 | 13.0561 |
| Santa Fe Energy Operating Partners, L. P. 500 W. Illinois, Suite 500 Midland, Texas 75701 | 11.3967 |
| Harvey E. Yates Company (HEYCO) P. O. Box 1933 Roswell, New Mexico 88202 | .8916 |
| Spiral, Inc. P. O. Box 1933 Roswell, New Mexico 88202 | .1172 |
| Explorer's Petroleum Corporation P. O. Box 1933 Roswell, New Mexico 88202 | .1172 |
| Yates Energy Corporation P. O. Box 2323 Roswell, New Mexico 88202 | .4365 |
| | <u>100.0000%</u> |

*These Interests are subject to that certain Exploration Agreement dated October 15, 1988 between BP Exploration Inc., formerly Sohio Petroleum Company and David Petroleum Corporation and Colin R. McMillan.

**These interests are subject to that certain Exploration Agreement dated December 20, 1988 between Yates Petroleum Corporation, David Petroleum Corporation and Colin R. McMillan.