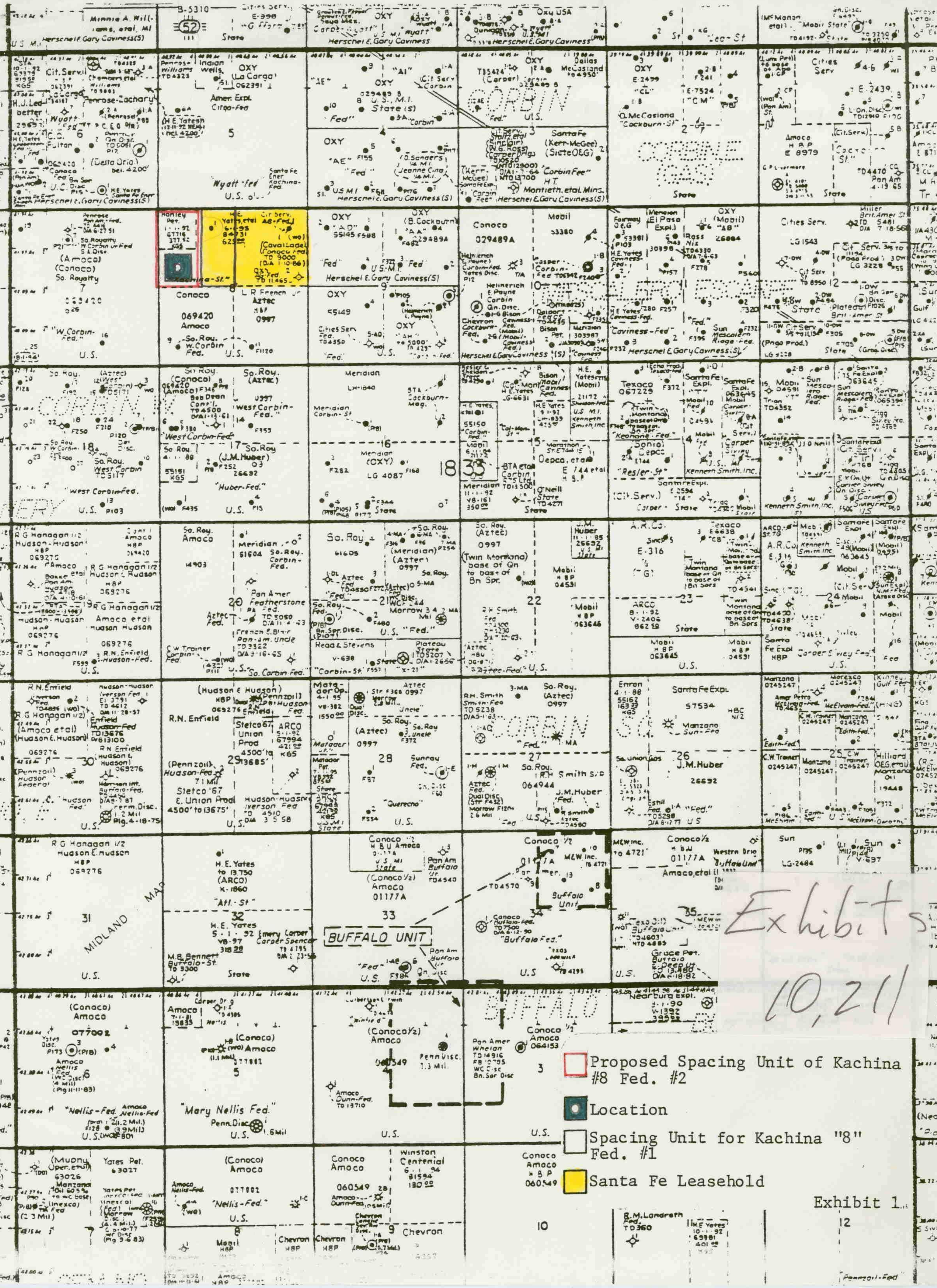
Exhibits
10,211
Proposed Spacing Unit of Kachina #8 Fed. #2
Location
Spacing Unit for Kachina "8" Fed. #1
Santa Fe Leasehold
Exhibit 1
CORBIN
BUFFALO UNIT
BUFFALO
MIDLAND MAP

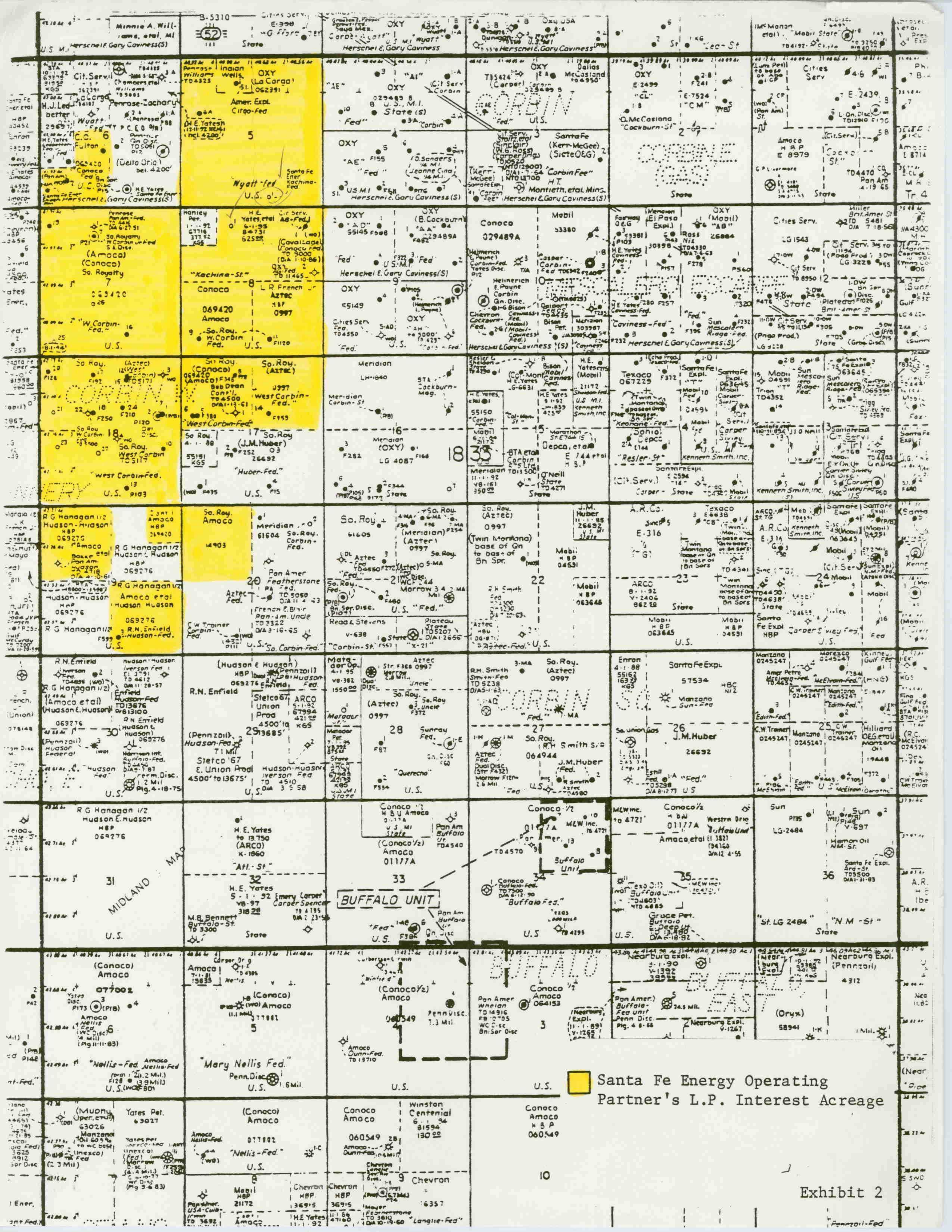
Santa Fe Energy Operating Partner's L.P. Interest Acreage
CORBIN
BUFFALO UNIT
BUFFALO
MIDLAND MAP

Exhibit 2

HANLEY PETROLEUM INC.
ESTABLISHED 1903

415 WEST WALL, SUITE 1500/MIDLAND, TEXAS 79701-4473/915-684-8051 FAX: 915-685-1104

VD	TP
LM	LES
GG	DB
EW	DF
PR	DRFT
File	

February 4, 1991

RECEIVED
FEB 6 - 1991
LAND DEPT.
MIDLAND, TX

Santa Fe Energy Operating Partners, L.P.
Permian Basin ~~District~~
550 West Texas, Suite 1330
Midland, Texas 79701

Attn: Mr. Larry Murphy
Senior Landman

RE: Proposed Working Interest Unit
W2/NW/4 Section 8, T-18-S, R-33-E
Lea County, New Mexico

Gentlemen:

You have previously been furnished with information concerning the drilling of a proposed 11,500' Wolfcamp test well known as the Hanley "8" Federal #1, at a proposed location 1980' from the north and 660' from the west line, Section 8, T-18-S, R-33-E on the proposed captioned working interest unit. Hanley Petroleum Inc. hereby notifies you that it has changed the location of it's test well from the SW/4NW/4 location to a legal location in the NW/4NW/4 Section 8, T-18-S, R-33-E. This change in location is being made due to the fact that we believe the NW/4NW/4 location has, among other reasons, a better chance of producing greater reserves of oil and gas from the Wolfcamp formation than a location in the SW/4NW/4 Section 8.

We further propose that the Operating Agreement naming Hanley Petroleum Inc. as operator be amended to cover the W/2NW/4 Section 8 as to rights below the base of the Bone Springs formation. By excepting rights from the surface to the base of the Bone Springs will permit the parties owning the leasehold rights to separately develop the productive zones beneath the surface to the base of the Bone Springs for their own accounts.

Yours very truly,

James W. Rogers

James W. Rogers
Vice President Land

/pjm

Exhibit "3"

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

January 21, 1991

Hanley Petroleum, Inc.
415 West Wall, Suite 1500
Midland, Texas 79701-4473

ATTN: James W. Rogers

Re: Kachina "8" Fed Com #2
Wolfcamp Test - 11,500'
W/2NW/4 Section 8
T-18-S, R-33-E
Lea County, New Mexico

Gentlemen:

Reference is made to your letter received "Via Fax" on January 8, 1991, however dated January 7, 1991, wherein you furnished the undersigned a copy of Hanley's AFE to drill the above captioned well.

After reviewing Hanley's AFE, it appears that on a line item basis the difference between Hanley's AFE and Santa Fe Energy Operating Partners, L.P.'s Cost Estimate (AFE) are as follows:

1) Hanley's drilling cost is higher
2) Hanley's AFE did not include abandonment cost
3) Hanley's AFE did not include rig supervision on Drilling Cost
4) Hanley's AFE did not include Administrative Overhead
5) Hanley's AFE did not include Testing - (BHP, GOR, 4Pt.Pot)
6) Hanley's AFE did not include inspection of intangibles
7) Hanley's AFE did not include Drilling Equipment Rental

Santa Fe's Cost Estimate (AFE) is approximately 8% higher than Hanley's due to the above mentioned factors. However, it is very difficult to compare Hanley's AFE and Santa Fe's AFE since the details are different. In order for both parties to be on a level playing field comparing these AFES, it would be appreciated if a detailed breakdown can be performed on Hanley's AFE.

Santa Fe Operating Partners, L.P. has drilled and operates the offset well in this section and operates additional wells in the immediate area, which includes a large number of wells operated in Southeast New Mexico. At this time, Santa Fe Energy Operating Partners, L.P. herein maintains that it is the logical company to operate this type of well.

Permian Basin District
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3551

EXHIBIT "3"

If you wish to discuss this matter further, please advise the undersigned so the appropriate personnel can be made available to discuss this matter in detail.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By: Larry Murphy
Larry Murphy, Senior Landman

LM/efw

EFW1613

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. [X] Show to whom delivered, date, and addressee's address. *(Extra charge)*
2. [ ] Restricted Delivery *(Extra charge)*

3. Article Addressed to: Hanley Petroleum, Inc. 415 West Wall Suite 1500 Midland, Texas 79701-4473 ATTN: James W. Rogers	4. Article Number P 355 214 469 Type of Service: [ ] Registered [ ] Insured [X] Certified [ ] COD [ ] Express Mail [ ] Return Receipt for Merchandise Always obtain signature of addressee or agent and DATE DELIVERED.
5. Signature — Addressee X	8. Addressee's Address *(ONLY if requested and fee paid)* 415 W Wall #1500
6. Signature — Agent X J. McGinnis	
7. Date of Delivery 1-27	

PS Form **3811**, Apr. 1989 ★U.S.G.P.O. 1989-238-815 **DOMESTIC RETURN RECEIPT**

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS
Print your name, address and ZIP Code in the space below.
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- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

U.S.MAIL®
PENALTY FOR PRIVATE USE, $300

RETURN TO
Print Sender's name, address, and ZIP Code in the space below.

Larry Murphy
Kachina 8 Fed Com #2
~~Santa Fe Energy Operating Partners, L.P.~~
550 W. Texas Suite 1330
~~Midland, Texas 79701~~

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

January 8, 1991

Hanley Petroleum, Inc.
415 West Wall, Suite 1500
Midland, Texas 79701-4473

<u>Certified - P355 214 436</u>

ATTN: James Rogers
Vice-President Land

Re: Kachina "8" Fed. Com #2
W/2NW/4 Sec. 8
T-18-S, R-33-E
Lea County, New Mexico

Gentlemen:

We are in receipt of your Letter dated January 2, 1991, wherein you provide changes including placing your name as Operator, to the Operating Agreement furnished under my Letter of December 20, 1990.

Please be advised that Santa Fe Energy Operating Partners, L.P. originally proposed this well as Operator on a Santa Fe prospect and Harvey E. Yates Company (25%) has agreed to join this well with Santa Fe Energy Operating Partners, L.P. (25%) Operating, and has agreed to sign the AFE furnished by Santa Fe. In addition, your letter does not state Hanley's election as to joining under Santa Fe's proposals of November 12, 1990, December 3, 1990 and December 17, 1990. However, it does infer you will join the well, but you did not send the AFE furnished you nor did you furnish your AFE, therefore Santa Fe is not sure of your intention.

Please advise Santa Fe, as Operator, of your election concerning Santa Fe's proposals, should you decide to join, please notify us and we will review changes suggested in your Letter of January 2, 1991.

Should you have any questions or if we can be of any assistance concerning this matter, please feel free to contact me.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By: Larry Murphy
Larry Murphy, Senior Landman

LM/efw

EFW1596

Permian Basin District
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3551

An Affiliate of Santa Fe Pacific Corporation

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. [X] Show to whom delivered, date, and addressee's address. *(Extra charge)*
2. [ ] Restricted Delivery *(Extra charge)*

3. Article Addressed to:

Hanley Petroleum,Inc.
415 West Wall, Suite 1500
Midland, Texas 79701-4473
Attn: James Rogers
Vice President Land

4. Article Number
P 355 214 436

Type of Service:
- [ ] Registered
- [ ] Insured
- [X] Certified
- [ ] COD
- [ ] Express Mail
- [ ] Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature — Addressee
X

6. Signature — Agent
X J. McGinnis

7. Date of Delivery
1-9

8. Addressee's Address *(ONLY if requested and fee paid)*

PS Form 3811, Apr. 1989 ★U.S.G.P.O. 1989-238-815 DOMESTIC RETURN RECEIPT

UNITED STATES POSTAL SERVICE

OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE, $300

U.S.MAIL

SENDER INSTRUCTIONS

Print your name, address and ZIP Code in the space below.
- Complete items 1, 2, 3, and 4 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

RETURN TO

KACHINA 8 #2

Print Sender's name, address, and ZIP Code in the space below.

Larry Murphy, Santa Fe Energy Operating
Operating Partners, L.P.
550 West Texas, Suite 1330
Midland, Texas 79701

HANLEY PETROLEUM INC.
ESTABLISHED 1883

415 WEST WALL, SUITE 1500/MIDLAND, TEXAS 79701-4473/915-684-8051 FAX: 915-685-1104

January 7, 1991

RECEIVED
JAN 9 - 1991
LAND DEPT.
MIDLAND, TX

Santa Fe Energy Operating Partners, L.P.
Permian Basin District
550 W. Texas, Suite 1330
Midland, Texas 79701

Attn: Mr. Larry Murphy
Senior Landman

RE: Proposed 80 Acre Working Interest
Unit Comprising the W½NW¼
Section 8, T-18-S, R-33-E
Lea County, New Mexico

Gentlemen:

Enclosed for your information and further handling is a copy of Hanley Petroleum Inc.'s AFE for the drilling of an 11,500' Wolfcamp Test well on the subjected working interest unit. The AFE breaks down in detail costs for the drilling and completing of the well aggregating $667,782.

Should you have any questions with regard thereto, please do not hesitate to advise.

Yours very truly,

HANLEY PETROLEUM INC.

James W. Rogers
Vice President Land

/pjm

Enclosure

VD	TP
LM	LES
GG	DB
EW	DF
PR	DRFT
File	

HANLEY PETROLEUM INC.
ESTABLISHED 1893

415 WEST WALL, SUITE 1500/MIDLAND, TEXAS 79701-4473/915-684-8051 FAX: 915-685-1104

TP
LES
3
File

January 2, 1991

RECEIVED
JAN 4 - 1991
LAND DEPT.
MIDLAND, TX

Santa Fe Energy Operating Partners, L.P.
Permian Basin District
550 W. Texas, Suite 1330
Midland, Texas 79701

Attn: Mr. Larry Murphy
Senior Landman

RE: Kachina "8" Fed Com #2
W/2NW/4 Sec. 8, T-18-S, R-33-E
Lea County, New Mexico

Gentlemen:

We have now completed our review of the proposed form of Operating Agreement covering the captioned well and property. With regard thereto we make the following changes and comments:

Front Page - Delete Santa Fe Energy Operating Partners, L.P. as operator and insert Hanley Petroleum Inc. (Inasmuch as Hanley Petroleum Inc. owns the majority 50% interest in the proposed well and operating area as opposed to Santa Fe Energy Operating Partners, L.P. and Harvey Yates Company's 25% interest each, Hanley should be named as operator.)

Page II - Do not strike the preferential right to purchase (Article VIII F).

Page 1
Line 3 - Name Hanley Petroleum Inc. as operator.

Page 2
Line 15 - Insert 25.00% in place of the 12.50%.

EXHIBIT #3

Page 4 Line 6	- Name Hanley Petroleum Inc. as operator, in place of Santa Fe Energy Operating Partners, L.P.
Page 5 Line 15	- Do not strike "exclusive of Saturday, Sunday and legal Holidays".
Page 8 Line 10	- Add to the type written phrase - reasonably obtainable under the circumstances the following ",including payment of any bonuses paid for oil sold".
Line 36	- Do not strike "exclusive of Saturday, Sunday and legal Holidays".
Page 10 Line 7	- Do not strike "exclusive of Saturday, Sunday and legal Holidays".
Page 12 Lines 35 thru 45	- Do not strike the preferential right to purchase.
Page 13 Line 53	- Mark the box for Option No. 2.
Page 14D	- Delete in it's entirety Provision J - Operator's Reorganization and Status Change.

With regard to the Accounting Procedure, attached to the proposed form of Operating Agreement we make the following changes and comments:

Page 4 Article III -	1. ii and iii the selection "shall be covered by overhead rates", shall be chosen by placing an X in the spaces provided.
Article III -	2A (1) the drilling well rate shall be \$5,000.00 and the producing well rate \$500.00.

In addition the following provisions shall be added in the blank space to the right side of the well rates:

"Notwithstanding the producing well rate prevailing at any given time, if production of oil during any given three month calendar period should average less than thirty (30) barrels per day such rate thereafter shall be reduced by twenty percent (20%).

Article III
(3) - First line after the word April add 1992; after the word year add thereafter.

Page 5
Article III - 2 and 3 delete in their entirety.

Exhibit "D"
Insurance - In sub-paragraph "B" increase the rates for bodily injury limits to $500,000.00 for death or injury to one person and $1,000,000 for death or injury to more than one person in any one accident, and $1,000,000 for public liability property damage.

Sub-paragraph "C" increase automobile liability insurance, bodily injury to $500,000 for death for injury to one person, or not less than $1,000,000 for death or injury to more than one person in one accident and increase property damage liability to $500,000 for any one accident.

Sub-paragraph "D" add the following at the end of the paragraph:

> Any such contracts so entered into with sub-contractors shall contain the following language:
>
> > Contractor assumes and agrees to hold harmless, indemnify, protect, and defend the parties subject to this agreement against any and all liability for injuries and damages to contractor himself and to contractors employees, agents, sub-contractors and guests, third parties or otherwise, incident to or resulting from any and all operations performed by contractor under any of the terms of this contract.

Add a final paragraph to Exhibit "D" as follows:

> Operator shall notify non-operators prior to commencement of any well provided for in the Operating Agreement to which this Exhibit "D" is attached, of any well control insurance that will be in place for the particular well(s). The non-operators shall have the right to join with the operator under Operator's coverage or elect to provide separate coverage for its own account. Any such notification or election between the operator and non-operators shall be in writing.

After your review of the suggested changes to the proposed Operating Agreement, we would appreciate hearing from you so that we may attempt to resolve the matters at hand prior to the drilling of the captioned well.

Yours very truly,

HANLEY PETROLEUM INC.

James W. Rogers
Vice President Land

/pjm

HANLEY PETROLEUM INC.
ESTABLISHED 1983

415 WEST WALL, SUITE 1500/MIDLAND, TEXAS 79701-4473/915-684-8051 FAX: 915-685-1104

December 21, 1990

RECEIVED
DEC 26 1990
LAND DEPT.
MIDLAND, TX

Santa Fe Energy Operating Partners, L.P.
Permian Basin District
550 W. Texas, Suite 1330
Midland, Texas 79701

Attn: Larry Murphy
Senior Landman

RE: Kachina "8" Fed. Com. #2
W/2NW/4 Sec. 8, T-18-S, R-33-E
Lea County, New Mexico

Gentlemen:

Receipt is here acknowledged of your letter of December 20, 1990 wherein we were furnished with a proposed form of Operating Agreement prepared by you. Thank you for your response to our request concerning the matter.

We are now in the process of reviewing the terms and provisions thereof.

Yours very truly,

HANLEY PETROLEUM INC.

James W. Rogers

James W. Rogers
Vice President Land

/pjm

VD	TP
LM	LES
GG	DB
EW	DF
PR	DRFT
File	

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

December 20, 1990

Hanley Petroleum, Inc.
415 West Wall, Suite 1500
Midland, Texas 79701-4473

ATTN: James Rogers

Re: Kachina "8" Fed Com #2
W/2NW/4 Sec. 8, T-18-S, R-33-E
Lea County, New Mexico

Gentlemen:

Reference is made to your Letter of December 19, 1990 requesting the Operating Agreement for the above captioned well.

Please find enclosed the Operating Agreement which was prepared for this well. In addition, normally I do not send these Agreements out until I know what the other parties are going to do, so the Agreement can be mutually agreed upon before being written.

Please review and advise of your comments, if acceptable, please execute and return one signature page to the undersigned.

Thank you for your cooperation in this matter.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By: Larry Murphy
Larry Murphy, Senior Landman

LM/efw
Encls a/s

EFW1564

Permian Basin District
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3551

An Affiliate of Santa Fe Pacific Corporation

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
P[illegible] your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. *(Extra charge)*
2. ☐ Restricted Delivery *(Extra charge)*

3. Article Addressed to:
Hanley Petroleum, Inc.
415 West Wall
Suite 1500
Midland, Texas 79701-4473
ATTN: James Rogers

4. Article Number
P 355 214 461

Type of Service:
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature – Addressee
X

6. Signature – Agent
X [illegible signature]

7. Date of Delivery
1221

8. Addressee's Address *(ONLY if requested and fee paid)*
415 W Wall
#1500

PS Form 3811, Apr. 1989 ★U.S.G.P.O. 1989-238-815 DOMESTIC RETURN RECEIPT

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

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- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

U.S.MAIL

PENALTY FOR PRIVATE USE, $300

RETURN TO

Print Sender's name, address, and ZIP Code in the space below.

Kachina "8" Fed #2

Larry Murphy
[illegible]
Santa Fe Energy Operating Partners, L.P.
550 W. Texas Suite 1330
Midland, Texas 79701

ILLEGIBLE

HANLEY PETROLEUM INC.
ESTABLISHED 1883

415 WEST WALL, SUITE 1500/MIDLAND, TEXAS 79701-4473/915-684-8051 FAX: 915-685-1104

December 19, 1990

VD	TP
LM	LES
GG	DB
EW	DF
PR	DRFT
File	

RECEIVED
DEC 20 1990
LAND DEPT.
MIDLAND, TX

Santa Fe Energy Operating Partners, LP
Permian Basin District
550 West Texas, Suite 1330
Midland, Texas 79701

Attn: Larry Murphy
Senior Landman

RE: Well Proposal W½NW¼ Section 8,
T-18-S, R-33-E, Lea County,
New Mexico Kachina "8" Fed. #2

Gentlemen:

Reference is here made to your correspondence of November 12, 1990 and following. In the November 12 letter you stated that an Operating Agreement was being prepared and was to be furnished to us. As of this date we have not received a proposed form of Operating Agreement for our inspection and approval. Further, the data included in your application for compulsory pooling under Paragraph 3 & 4 are false in that your acts have been to withhold information vital to a reasonable decision to drill the proposed well from a 50% owner in the proposed venture. You have failed to make these data available under reasonable conditions including not providing the proposed form of Operating Agreement as above discussed. Due to the timing of your proposal, with week-ends and holidays it is unreasonable to expect our response to your proposed timetable. Please call us at your earliest and propose a reasonable arrangement and we will respond. In addition, your December 3rd reply to my November 26th letter was neither responsive nor constructive in our efforts to properly develop the minerals in the subject spacing unit. I request that you review our November 26th letter and provide us with a detailed meaningful response to each of the items we raised in that letter.

The fact remains that Hanley does own a valid and subsisting Federal Oil and Gas lease covering the NW¼NW¼ Section 8, and if necessary we will employ all legal means to receive our just and fair share of the reservoir applicable thereto. In the alternative we stand ready to work with you toward an amenable resolution, but the basis of any such resolution is not enhanced by such demands as your are attempting to place on Hanley with your paper trail of correspondence.

Yours very truly,

HANLEY PETROLEUM INC.

James W. Rogers
Vice President Land

/pjm

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

December 17, 1990

Hanley Petroleum, Inc.
415 West Wall, Suite 1500
Midland, Texas 79701-4473

ATTN: James W. Rogers

Re: Well Proposal
W/2NW/4 Sec. 8
T-18-S, R-33-E
Eddy County, New Mexico
Kachina "8" Fed. Com. #2

Dear Mr. Rogers:

Reference is made to our phone conversation of December 13, 1990 wherein we discussed the drilling of the above captioned well.

Santa Fe Energy Operating Partners, L.P. herein is willing to allow Representatives of Hanley Petroleum, Inc. to review the logs and drilling reports from spud date until 11/12/90 of the Kachina "8" Fed. #1 during normal business hours at Santa Fe's offices located at 550 West Texas, Suite 1330, Midland, Texas.

The viewing of this information is based on a commitment from Hanley Petroleum, Inc. to join in the drilling of this well or enter into a Farmout Agreement with Santa Fe Energy Operating Partners, L.P., and the information shown to Hanley will be kept Confidential.

If Hanley agrees to participate in the well, the contract area will cover the W/2NW/4 of Section 8, T-18-S, R-33-E from the surface to the base of the Wolfcamp Formation. The ownership of this area will be as follows:

Hanley Petroleum	50%
Santa Fe Energy Operating Partners, L.P.	50%

If Hanley elects to Farmout, the Agreement will cover the NW/4NW/4 Section 8 from the surface to the base of the Wolfcamp Formation.

1) Hanley will deliver an 80% NRI lease to Santa Fe, retaining an ORRI equal to the difference between existing burdens and 20%, but in no event will Hanley's ORRI be less than 2.50%.

2) Upon payout of said well, Hanley will have the option to convert its ORRI to a 25% Working Interest, proportionately reduced.

3) Upon execution of a formal Agreement, Santa Fe will have 150 days to drill or cause to be drilled a well at a legal location in the W/2NW/4 of Section 8, T-18-S, R-33-E.

4) Santa Fe will earn rights from the surface down to 100' below total depth drilled, but in no event below the Wolfcamp Formation.

Hanley will have 5 days upon receipt of this letter to commit its interest to the options stated above and will have 10 days after reviewing the information above to make its election on these options.

In addition, Santa Fe is requesting to be placed on the January 10, 1991 docket for compulsory pooling, so a prompt reply is appreciated.

If you agree with the above captioned terms, please acknowledge your approval, by signing in the space provided below.

If you have any questions, please contact the undersigned.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By: Larry Murphy
Larry Murphy, Senior Landman

LM/efw

HANLEY PETROLEUM, INC. herein agrees this ________ day of December, 1990 to commit its interest in the NW/4NW/4 of Sec. 8 to an Operating Agreement or Farmout Agreement before the logs and drilling report (from spud date until 11/12/90) have been reviewed. In addition, Hanley agrees to make an election 10 days after the information stated above has been reviewed. The viewing of this information will be done no later than December 28, 1990 at Santa Fe's offices during normal business hours.

HANLEY PETROLEUM, INC.

By: ______________________

Type Name: ______________________

Title: ______________________

Date: ______________________

EFW1549

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. *(Extra charge)*
2. ☐ Restricted Delivery *(Extra charge)*

3. Article Addressed to:
Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88201
ATTN: Melissa Randle

4. Article Number
P 355 214 451

Type of Service:
- ☐ Registered
- ☐ Insured
- ☒ Certified
- ☐ COD
- ☐ Express Mail
- ☐ Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature — Addressee
X

6. Signature — Agent
X Sharon Hefner

7. Date of Delivery
12-18-90

8. Addressee's Address *(ONLY if requested and fee paid)*

PS Form 3811, Apr. 1989 ★U.S.G.P.O. 1989-238-815 DOMESTIC RETURN RECEIPT

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS
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- Complete items 1, 2, 3, and 4 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

U.S.MAIL

PENALTY FOR PRIVATE USE, $300

RETURN TO

[illegible] space below.

Kachina 8 Fed #2

[illegible]

[illegible] Energy Operating Partners, L.P.
550 W. Texas Suite 1330
Midland, Texas 78701

ILLEGIBLE

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

December 3, 1990

Hanley Petroleum, Inc.
415 West Wall, Suite 1500
Midland, Texas 79701-4473

ATTN: James W. Rogers

Re: Well Proposal
W/2NW/4 Sec. 8
T-18-S, R-33-E
Eddy County, New Mexico
Kachina "8" Fed #2

Gentlemen:

Reference is made to your Letter of November 26, 1990, concerning the above captioned well proposal.

Earlier this year, I called your office concerning your acreage in the NW/4NW/4 of Section 8, and I was told you were not interested in any of our proposals to farmout, buy this acreage or any support of any kind. Unfortunately, I am unable to recall the person's name I talked to on this matter. We feel that since your office was not interested in our verbal proposals, you are not entitled to any of the well information from the Kachina "8" #1.

If you are not interested in a Wolfcamp test, Santa Fe Energy Operating Partners, L.P. herein would request a farmout of your interest to the Wolfcamp Formation only covering the NW/4NW/4 of Section 8, delivering an 80% NRI with an option to convert the ORRI to a 25% WI proportionately reduced.

To address the sliding scale royalty provision of your lease, I was unaware that this lease had sliding scale royalty. If this sliding scale comes into play under the farmout, your ORRI will never be less than 2.5%.

Santa Fe Energy Operating Partners, L.P. has drilled or participated in more than 40 wells in this immediate area; our experience and activity in this area is only matched possibly by Meridian.

Permian Basin District
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3551

If you wish to discuss this proposal further, please do not hesitate to contact the undersigned. Thank you in advance for your consideration and promptness.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By: Larry Murphy
Larry Murphy, Senior Landman

LM/efw

EFW1515

HANLEY PETROLEUM INC.
ESTABLISHED 1883

415 WEST WALL, SUITE 1500/MIDLAND, TEXAS 79701-4473/915-684-8051 FAX: 915-685-1104

November 26, 1990

RECEIVED
NOV 28 1990
LAND DEPT.
MIDLAND, TX

VD	TP
LM	LES
GG	DB
EW	DF
PR	DRFT
File	

Santa Fe Energy Operating Partners, L.P.
550 West Texas, Suite 1330
Midland, Texas 79701

Attn: Mr. Larry Murphy
Senior Landman

RE: Well Proposal
W½ NW¼ Sec. 8, T-18-S, R-33-E
Eddy County, New Mexico (HPI NM-43)

Gentlemen:

We have received your letter dated November 12, 1990 concerning the drilling of a Wolfcamp test 1980 feet FNL and 660 feet of FWL of Section 8, T-18-S, R-33-E to be dedicated to the W2 NW/4 of said section. Unfortunately, you have failed to supply us with sufficient information from which to evaluate your request.

First; we are currently evaluating the drilling of a Bone Spring test in the NW/4NW/4 for 40-acre spaced oil production. Your acreage in the SW/4NW/4 may have some potential for Bone Spring production but your proposal fails to address how you propose to allocate costs between the Bone Spring and the Wolfcamp so that we do not have to help you pay for exploration for production in zones in which we would have no interest. Please submit to us your revised AFE addressing this issue.

Second; we are unable to completely evaluate your proposed well location and its opportunity to success in the Wolfcamp unless you also submit to us relevant data available to your from the Kachina "8" Federal #1 well which you have recently drilled and on which you have run production casing. If your proposal is intended to be a good faith effort to obtain our voluntary participation, then we will need the following information:

(1) Daily Drilling and Completion Reports,
(2) Mechanical Logs and Mud Logs if any,
(3) Geologic interpretations by which you justify the well and evaluate its risk.

Third; we are unable to evaluate your farmout terms without further information from you including why you have offered us only a 20% ORRI subject to payment of outstanding burdens against production. The sliding scale royalty provision in our lease should be taken into consideration.

Fourth; we recommend to you that we operate the subject well. You have failed to supply us with any information from which to determine why we would allow you to be the operator when we believe our company structure and experience will result in more efficient operations of the well than you can obtain.

In summary, we consider your well proposal premature pending obtaining and disclosing to us the results of the Kachina "8" Federal #1 well. In the alternative, please consider this letter our offer to you that you join with us under the same terms you have offered to us and we will operate the well.

Yours very truly,

HANLEY PETROLEUM INC.

James W. Rogers

James W. Rogers
Vice President Land

/pjm

Certified Mail - Return Receipt

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

November 12, 1990

Hanley Petroleum, Inc.
415 West Wall
Suite 1500
Midland, Texas 79701

ATTN: James Rogers

Re: Well Proposal
Kachina "8" Fed. Com. #2
1980' FNL & 660' FWL
(W/2NW/4) Sec. 8, T-18-S, R-33-E,
Lea County, New Mexico

Gentlemen:

Santa Fe Energy Operating Partners, L.P. herein proposes to drill an 11,500' Wolfcamp test at the above captioned location.

Please find enclosed two (2) Well Cost Estimates (AFES) covering the cost of drilling said well. If you elect to participate, please execute the enclosed AFES and return one copy to the undersigned. The Operating Agreement covering the W/2NW/4 is presently being prepared and will be furnished to you for your signature.

If you elect not to join in the drilling of this well, Santa Fe Energy Operating Partners, L.P. respectfully requests a farmout of your interest in the NW/4NW/4 of Section 8, T-18-S, R-33-E, based on the following terms:

1. Hanley will deliver an 80% NRI Lease to Santa Fe, while retaining an ORRI equal to the difference between existing burdens and 20%.

2. Upon payout of said well, Hanley will have the option to convert your ORRI to a 25% Working Interest, proportionately reduced.

3. Upon execution of a formal Agreement, Santa Fe will have 180 days to drill or cause to be drilled a well at the above captioned location.

4. Santa Fe will earn rights from the surface down to 100' below total depth drilled.

If these terms are acceptable, please prepare your agreement for Santa Fe Energy Operating Partners, L.P.'s approval and signature.

Please advise the undersigned of your election, so the necessary paper work can be prepared for signatures.

If you have any questions, please do not hesitate to contact the undersigned. Thank you in advance for your cooperation and prompt reply to this proposal.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By: Larry Murphy
Larry Murphy, Senior Landman

LM/efw
Encls a/s

EFW1473

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. *(Extra charge)*
2. ☐ Restricted Delivery *(Extra charge)*

3. Article Addressed to: Hanley Petroleum, Inc. 415 West Wall Suite 1500 Midland, Texas 79701 ATTBL James Rogers	4. Article Number P 355 214 309 Type of Service: ☐ Registered ☐ Insured ☒ Certified ☐ COD ☐ Express Mail ☐ Return Receipt for Merchandise Always obtain signature of addressee or agent and DATE DELIVERED.
5. Signature — Addressee X	8. Addressee's Address *(ONLY if requested and fee paid)* 415 W Wall #1500
6. Signature — Agent X D. J. McDennis	
7. Date of Delivery 11-14	

PS Form 3811, Apr. 1989 ★U.S.G.P.O. 1989-238-815 DOMESTIC RETURN RECEIPT

UNITED STATES POSTAL SERVICE

OFFICIAL BUSINESS

SENDER INSTRUCTIONS
Print your name, address and ZIP Code in the space below.
- **Complete items 1, 2, 3, and 4 on the reverse.**
- **Attach to front of article if space permits, otherwise affix to back of article.**
- **Endorse article "Return Receipt Requested" adjacent to number.**

U.S.MAIL

PENALTY FOR PRIVATE USE, $300

RETURN TO

Print Sender's name, address, and ZIP Code in the space below.

Kachina 8 Fed #2
FO/A 0 Well Prop

Larry Murphy
Santa Fe Energy Operating Partners, L.P.
550 West Texas, Suite 1330
Midland, Texas 79701

ILLEGIBLE

9063

SANTA FE ENERGY RESOURCES, INC.

GENERALIZED WELL COST ESTIMATE

NAME: Kachina 8 Federal No.2

LOC: 1980' FNL & 660' FWL, Section 8-18S-33E, Lea County, New Mexico

DESC: Drill and complete a 11,500' Wolfcamp well

ACCOUNT	DESCRIPTION OF COSTS		DRY HOLE	PRODUCER
501-000	TANGIBLE WELL COSTS			
-41	CONDUCTOR CSG		3,000	3,000
-41	SURFACE CSG	13-3/8" 48.0 ppf H-40 @ 400'	9,200	9,200
-41	PROTECTION CSG	8-5/8" 24.0 ppf K-55 @ 3100'	36,804	36,804
-41	DRILLING LINER			
-41	PROD CSG	5-1/2"15.5 &17 ppf K-55 & N-80 @ 11,500'		95,763
-41	PROD LINER			
-42	TUBING	2-7/8" 6.5 ppf N-80 EUE @ 11,500'		52,000
-43	WELLHEAD		2,000	12,000
-44	PMPG UNIT			
-45	PRIME MOVER			
-50	OTHER DWN HOLE EQUIP	Packer		3,500
-50	RODS			
-50	SUBSURFACE PMPS			
-55	CSG EQUIP		640	940
-55	ELECTRICAL			
-55	MISC. TANGIBLES			1,000
-55	ROD EQUIP			
-55	TUBING EQUIP			2,000
	TOTAL TANGIBLE COSTS		51,644	216,207
541-000	LEASE FACILITY COSTS			
-50	FLOW LINES			3,000
-50	LABOR			15,000
-50	OTHER PROD EQUIP			5,000
-50	TANK FACILITIES			
	TOTAL LEASE FACILITY COSTS		0	23,000
511-000	INTANGIBLE WELL COSTS			
-21	LOCATION		16,000	16,000
-22	FENCING		1,000	4,200
-26	WTR & FUEL FOR RIG		10,000	10,000
-31	CONTRACTOR MOVING EXP			
-32	CONT FOOTAGE OR TURNKEY	$16.80/ft	193,200	193,200
-32	CONTRACTOR DAY WORK	3 @ $4500	13,500	13,500
-33	DRLG FLUID & ADDITIVES		10,000	10,000
-34	BITS & REAMERS			
-36	CORING & CORE ANALYSES			
-37	CEMENT		21,000	43,000
-39	INSPECTION & TSTG OF TANG		1,000	5,000
-41	DIRECTIONAL DRLG SURVEYS			
-42	DRILLING EQUIP RENTAL		3,000	3,000
-43	OPEN HOLE LOGGING		33,500	33,500
-44	DRILL STEM TSTG		22,000	22,000
-45	MUD LOGGING		11,000	11,000
-51	TRANSPORTATION		3,000	7,000
-52	COMPLETION UNIT			15,000
-53	COMPLETION TOOL RENTAL			4,000
-54	CASED HOLE LOGS & PERFING			6,000
-55	STIMULATION			10,000
-56	RIG SITE SUPERVISION		12,250	18,250
-72	ADMINISTRATIVE OVERHEAD		4,600	9,200
-99	FSHG TOOLS & EXPENSES			
-99	TESTING: BHP,GOR,4 PT.POT			5,000
	ABANDONMENT COST		10,000	
	OTHER INTANGIBLES			
0	CONTINGENCY (10%)		36,505	43,885
	TOTAL INTANGIBLES		401,555	482,735
	TOTAL COSTS		453,199	721,942

Drilling Dept: Darell Roberts Date: 11/8/90

Operations Dept: Thomas E. Jentry Date: 11-8-90

SFER Approval By: [signature] Date: 11-8-90

Non Operator Approval By: ____________ Date: ________

EXHIBIT #4

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

MODEL FORM OPERATING AGREEMENT

KACHINA "8" FED. COM #2

OPERATING AGREEMENT

DATED

November 12th, 19 90 ,

OPERATOR Santa Fe Energy Operating Partners, L.P.

CONTRACT AREA W/2NW/4 Section 8, T-18-S, R-33-E

COUNTY OR PARISH OF Lea STATE OF New Mexico

EXHIBIT #5

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blanks as applicable.

2. Preamble, Page 1 - Enter name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article III.B. - Interests of Parties in Costs and Production - Enter royalty fraction as agreed to by parties.

5. Article IV.A. - Title Examination - Select option as agreed to by the parties.

6. Article IV.B. - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.E. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
   (d) Article X. - Add as the concluding sentence - "All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto."

7. Article V - Operator - Enter name of Operator.

8. Article VI.A - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

9. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

10. Article VI.C. - Taking Production in Kind - If a Gas Balancing Agreement is not in existence nor attached hereto as Exhibit "E", then use Alternate Page 8.

11. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

12. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

13. Article IX. - Internal Revenue Code Election - Delete this article in the event the agreement is a Tax Partnership and Exhibit "G" is attached.

14. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

15. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

16. Article XIV.B - Governing Law - Enter state as agreed to by parties.

17. Signature Page - Enter effective date.

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Santa Fe Energy Operating Partners, L.P. ________________, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

X A. Exhibit "A", shall include the following information:

(1) Identification of lands subject to this agreement,

(2) Restrictions, if any, as to depths, formations, or substances,

(3) Percentages or fractional interests of parties to this agreement,

(4) Oil and gas leases and/or oil and gas interests subject to this agreement,

(5) Addresses of parties for notice purposes.

~~B. Exhibit "B", Form of Lease.~~

X C. Exhibit "C", Accounting Procedure.

X D. Exhibit "D", Insurance.

X E. Exhibit "E", Gas Balancing Agreement.

X F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

~~G. Exhibit "G", Tax Partnership.~~

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of 12.50% which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

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A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

~~☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

ARTICLE IV
continued

X Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests; and,

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses of title incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ILLEGIBLE

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Santa Fe Energy Operating Partners, L.P. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence,* no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators ~~, except the selection of a successor~~ who may select a successor in accordance with Paragraph 2 below. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator. *becomes bankrupt, insolvent, or is placed in receivership.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of March, 19 91, Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FNL & 660' FWL of Section 8, T-18-S, R-32-E
Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 11,500' or to a depth sufficient to adequately test the Wolfcamp Formation, whichever is the lesser depth.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

ARTICLE VI
continued

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, ~~exclusive of Saturday, Sunday and legal holidays.~~ Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours ~~(exclusive of Saturday, Sunday and legal holidays)~~ after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk.

ARTICLE VI
continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

ARTICLE VI
continued

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

ARTICLE VI
continued

required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price ~~obtainable~~ reasonably obtainable under the circumstances in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of ~~all~~ such parties participating in the drilling of such well. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours ~~(exclusive of Saturday, Sunday and legal holidays)~~ after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of ~~all~~ such parties owning a current interest in such well. If ~~all~~ such parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of ~~all~~ such the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties owning an interest in such well its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

ARTICLE VI
continued

"B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

~~☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.~~

X Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours after receipt of such notice and all logs ~~(exclusive of Saturday, Sunday and legal holidays)~~ in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty Thousand and no/100---------- Dollars ($20,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Twenty Thousand and no/100---------- Dollars ($20,000.00) but less than the amount first set forth above in this paragraph.

E. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes* imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

*including excise and crude oil Windfall Profit taxes

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ARTICLE VII
continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

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ARTICLE VIII
continued

said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~F. Preferential Right to Purchase:~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision 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 and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the 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 Secretary of 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 the data required by Federal Regulations 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 Contract Area is 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 1954, 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.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Twenty Five Thousand & no/100------------------------------------ Dollars ($ 25,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.

☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of New Mexico shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS

See Article XV. attached hereto and made a part hereof.

ARTICLE XV

OTHER PROVISIONS

A. REWORKING OPERATIONS

Notwithstanding any language set out in Article VI(B) to the contrary, each non-consenting party to a reworking operation on a well conducted pursuant to Article VI(B) shall, upon commencement of such operations, be deemed to have relinquished to consenting parties, and the consenting parties shall own and be entitled to receive, in proportion to their respective interests, all of such non-consenting party's interest in the well, its leasehold operating rights and share of production therefrom, only insofar as the interval or intervals of the formation or formations which are being reworked and to which such non-consenting party does not desire to join in the reworking thereof, until the proceeds or market value thereof (after deducting production taxes, windfall profits taxes, royalty, overriding royalty and other interests payable out of, or measured by the production from such well, only insofar as the production secured from the interval or intervals of the formation or formations which are subject to said reworking operations accruing with respect to such interest until it reverts) shall equal the total of those certain costs as further described in subparagraphs (a) and (b) of the third grammatical paragraph under Article VI(B) 2, hereof.

B. NONDISCRIMINATION

In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F. R. 12319), which are hereby incorporated by reference in this agreement, and of all provisions of said Executive Order 11246 and all rules, regulations and relevant orders of the Secretary of Labor.

C. COVENANTS RUN WITH THE LAND

The terms, provisions, covenants and conditions of this agreement shall be deemed to be covenants running with the lands, the lease or leases and leasehold estates covered hereby, and all of the terms, provisions, covenants and conditions of this agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, executors, administrators, personal representatives and assigns.

D. LAWS AND REGULATIONS

All of the provisions of this agreement are expressly subject to all applicable laws, orders, rules and regulations of any governmental body or agency having jurisdiction in the premises, and all operations contemplated hereby shall be conducted in conformity therewith. Any provision of this agreement which is inconsistent with any such laws, orders, rules or regulations is hereby modified so as to conform therewith, and this agreement, as so modified, shall continue in full force and effect.

E. PRIORITY OF OPERATIONS

If at any time there is more than one operation proposed in connection with any well subject to this agreement, then unless all participating parties agree on the sequence of such operations, such proposals shall be considered and disposed of in the following order of priority:

1. Proposals to do additional testing, coring or logging.
2. Proposals to attempt a completion in the objective zone.
3. Proposals to plug back and attempt completions in shallower zones, in ascending order.

4. Proposals to side-track the well to reach any zone not below the original authorized objective.
5. Proposals to deepen the well, in descending order.

F. REGULATORY PROVISIONS

1. Gaseous Hydrocarbons:

Non-Operators hereby authorize Operator to file and prosecute all applications for determination for well pricing qualification under the Natural Gas Policy Act of 1978 and to make interim collection filings on behalf of Non-Operators. Operator may employ counsel and technical experts to the extent Operator in its sole discretion considers appropriate for such filings and seeking favorable resolutions thereof. Costs incurred by Operator for such counsel and experts together with all other costs incurred by Operator in preparing the application for determination and interim collection documents as well as the cost of prosecuting the application shall be charged to the Joint Account.

2. Liquid Hydrocarbons:

Non-Operators hereby authorize Operator to file with the purchaser of crude oil or other liquid hydrocarbons or with any other person required by law, any statement or certification required by the Crude Oil Windfall Profit Tax Act, the Emergency Petroleum Allocation Act of 1973, the Energy Policy and Conservation Act or by any rule, regulation or order issued thereunder or by any other law, rule, or regulation relating to the pricing of crude oil and other liquid hydrocarbons or the taxation thereof. To the extent that Operator may by law be authorized to do so, Non-Operators hereby authorize Operator to agree with any purchaser to relieve Operator (in whole or in part as Operator may determine) of any filing or certification requirements. In making any filing or certification with any purchaser or crude oil or other liquid hydrocarbons, each Non-Operator shall be solely responsible for furnishing to Operator or such purchaser or any other person required by law any exemption certificate, independent producer certificate or any other evidence required by law to entitle Non-Operator to a higher price for the sale of his production or for a lower rate of windfall profit or other excise tax thereon, and upon a Non-Operator's failure to furnish the same, Operator shall certify to such purchaser for such Non-Operator's interest the lower price and/or higher rate of tax. Operator shall have no duty to seek any refunds on behalf of any Non-Operator of any overpayment of any windfall profit or excise tax to which any Non-Operator may be entitled by law.

3. Refunds:

In the event any Non-Operator receives a greater sum for the sale of its share of production than that to which such Non-Operator is entitled, such Non-Operator shall promptly refund any excess sums so collected to the person entitled thereto together with any interest thereon required by law. In the event Operator is required for any reason to make any such refund on any Non-Operator's behalf and such Non-Operator refuses upon Operator's request to reimburse Operator for the amount so paid, then Operator, in addition to any other rights or remedies which it may have as a result of making such refund, (i) shall have the lien provided by Article VII.B. to secure such reimbursement and (ii) shall be authorized to collect from Non-Operator's purchaser of production all revenues attributable to Non-Operator's share of production until the full amount required to be paid or refunded by Non-Operator has been recovered.

4. Operator's Liability:

Operator shall use its best judgment in making any of the filings and certifications referred to under Paragraph 1 and 2 above in prosecuting any filings and applications. However, in no event shall Operator have any liability to any Non-Operator in making and prosecuting any such filing or in rendering any statement or certification, absent bad faith, gross negligence or willful misconduct. Any penalties incurred as a result of any incorrect certification, statement or filing shall, in absence of bad faith, gross negligence or willful misconduct, be charged to the parties owning the production to which the penalty pertains. In no event shall any error by Operator relieve any Non-Operator of the liability for any refund under Paragraph 3 above.

G. OPERATOR PROTECTION

1. Assignment:

No assignment or other transfer or disposition of an interest subject to this Agreement shall be effective as to Operator or the other parties hereto until the first day of the month following the month in which (i) Operator receives an authenticated copy of the instrument evidencing such assignment, transfer or disposition and (ii) the person receiving such assignment, transfer or disposition has become obligated by instrument satisfactory to Operator to observe, perform and be bound by all of the covenants, terms and conditions of this Agreement. Prior to such date, neither Operator nor any other party shall be required to recognize such assignment, transfer or disposition for any purpose but may continue to deal exclusively with the party making such assignment, transfer, or disposition in all matters under this Agreement including billings. No assignment or other transfer or disposition of an interest subject to this Agreement shall relieve a party of its obligations accrued prior to the effective date aforesaid. Further, no assignment, transfer or other disposition shall relieve any party of its liability for its share of costs and expenses which may be incurred in any operation to which such party has previously agreed or consented prior to the effective date aforesaid for the drilling, testing, completing and equipping, reworking, recompleting, side-tracking, deepening, plugging-back, or plugging and abandoning of a well even though such operation is performed after said effective date, subject however to such party's right to elect not to participate in completion operations under Article VI.B. and Article VII.D., Option No. 2., not previously consented to.

2. Attorneys Fees:

In the event any party hereto shall ever be required to bring legal proceedings in order to collect any sums due from any party under this Agreement, then party or parties shall also be entitled to recover all court costs, costs of collection and a reasonable attorney's fee, which the lien provided for herein shall also secure.

H. PERPETUITIES

It is not the intent of the parties that any provision herein violate any applicable law regarding the rule against perpetuities, the suspension of the absolute power of alienation or other rule regarding the vesting or duration of estates, and this agreement shall be construed as not violating such rule to the extent the same can be so construed consistent with the intent of the parties. In the event, however, any provision hereof is determined to violate such rule, then such provision shall nevertheless be effective for the maximum period (but not longer than the maximum period) permitted by such rule which will result in no violation.

I. NO THIRD-PARTY BENEFICIARY CONTRACT

This Agreement is made solely for the benefit of those persons who are parties hereto (including those persons succeeding to all or part of the interest of an original party if such succession is recognized under the other provisions hereof), and no other person shall have or claim or be entitled to enforce any rights, benefits or obligations under this Agreement.

J. OPERATOR'S REORGANIZATION AND STATUS CHANGE

1. Notwithstanding, the second sentence of Article V.B.1, in the event of a transfer of all Operator's interest to a corporation which controls, is controlled by or is under common control with Operator or in the event of a transfer of all Operator's interest to any person as a part of the transfer to such person of all or substantially all of Operator's oil and gas properties, such transferee shall automatically become the successor Operator without the approval of Non-Operators.

2. For the purposes of Article V.B., Operator shall be considered to own an interest in the Contract Area if it is a general partner of a limited partnership which owns an interest in the Contract Area or if it owns a carried or reversionary working interest in the Contract Area.

K. OVERHEAD RATE ADJUSTMENT PROVISIONS

In the event the drilling well rates or the producing well rates provided for in Section III.1.A.(3) of the Accounting Procedure shall ever be less than the prevailing rates being charged by financially responsible prudent operators in the area for comparable operations, then Operator may give written notice of such higher prevailing rates to Non-Operators. The higher prevailing rates specified in said notice shall become the effective rates hereunder as of the first day of the month following thirty (30) days from the giving of said notice unless a Non-Operator by written notice to Operator within said thirty-day period shall do either of the following:

(a) Object to the proposed rates on the basis the same does not represent the prevailing rate as aforesaid. In such event, the parties shall attempt to agree upon such prevailing rates, failing which such rates shall be determined by law.

(b) Propose to operate for a lesser rate (which shall never be less than the rate then in effect under the Agreement) than that proposed by Operator's notice. In this event Non-Operator shall take over operations as of the beginning of the month following said thirty-day period unless the existing Operator shall agree to operate at such lesser rate.

Any new rates established pursuant to this provision shall be subject to adjustment in the manner provided by Section III.1.A.(3) of the Accounting Procedure, but otherwise the procedure set out in these provisions shall not be exercised on a greater frequency than once each twelve months.

L. BANKRUPTCY

If, following the granting of relief under the Bankruptcy Code to any party hereto as debtor thereunder, this Agreement should be held to be an executory contract within the meaning of 11 U.S.C. §365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said other party shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

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 1st day of December, 19 90.

OPERATOR

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company

APPROVED
JM

By: ______________________
T. S. Parker, Attorney-in-Fact

NON-OPERATORS

HANLEY PETROLEUM, INC.

By: ______________________

HARVEY E. YATES COMPANY

By: ______________________
George M. Yates, President

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated November 12, 1990 between Santa Fe Energy Operating Partners, L.P., as Operator and Hanley Petroleum, Inc. et al, as Non-Operators.

I. Acreage Subject to this Agreement:

W/2NW/4 Section 8, T-18-S, R-33-E
Lea County, New Mexico

II. Depth Restrictions:

Surface to the base of the Wolfcamp Formation.

III. Interest of the Parties to this Agreement:

Santa Fe Energy Operating Partners, L.P.	25%
Hanley Petroleum, Inc.	50%
Harvey E. Yates Company	25%
	100%

IV. Addresses of the Parties for Notice Purposes:

Santa Fe Energy Operating Partners, L.P.
550 West Texas, Suite 1330
Midland, Texas 79701
ATTN: Larry Murphy

Hanley Petroleum, Inc.
415 West Wall, Suite 1500
Midland, Texas 79701
ATTN: James Rogers

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88202
ATTN: Melissa Randle

OAS504

EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement dated November 12th, 1990, by and between Santa Fe Energy Operating Partners, L.P., as Operator and Hanley Petroleum, Inc., et al, as Non-Operators.

OMITTED

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Recommended by the Council of Petroleum Accountants Societies

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated November 12, 1990 by and between Santa Fe Energy Operating Partners, L.P. as Operator, and Hanley Petroleum Inc. et al as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.
"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.
"Operator" shall mean the party designated to conduct the Joint Operations.
"Non-Operators" shall mean the Parties to this agreement other than the Operator.
"Parties" shall mean Operator and Non-Operators.
"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.
"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.
"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within ~~fifteen (15)~~ thirty (30) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within ~~fifteen (15)~~ thirty (30) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at The Chase Manhattan Bank on the first day of the month in which delinquency occurs plus 2% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. **Audits**

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. **Approval By Non-Operators**

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. **Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations.

3. **Labor**

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. **Employee Benefits**

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. **Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. **Transportation**

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. **Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. **Equipment and Facilities Furnished By Operator**

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. **Damages and Losses to Joint Property**

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. **Legal Expense**

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. **Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. **Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. **Abandonment and Reclamation**

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. **Communications**

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. **Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

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III. OVERHEAD

1. **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 $ 6,260.00
(Prorated for less than a full month)

Producing Well Rate $ 626.00

(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.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

____________ Percent (____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

____________ Percent (____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. **Overhead - Major Construction**

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of $ 25,000.00 :

A. ___5___ % of first $100,000 or total cost if less, plus

B. ___2___ % of costs in excess of $100,000 but less than $1,000,000, plus

C. ___1___ % of costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. **Catastrophe Overhead**

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. ___5___ % of total costs through $100,000; plus

B. ___2___ % of total costs in excess of $100,000 but less than $1,000,000; plus

C. ___1___ % of total costs in excess of $1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. **Amendment of Rates**

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. **Purchases**

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. **Transfers and Dispositions**

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2⅜ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2⅜ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. **Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. **Warranty of Material Furnished By Operator**

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. **Reconciliation and Adjustment of Inventories**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. **Special Inventories**

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. **Expense of Conducting Inventories**

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

Attached to and made a part of that certain Operating Agreement dated November 12th, 1990 by and between Santa Fe Energy Operating Partners, L.P. as Operator, and Hanley Petroleum Inc. et al as Non-Operators.

EXHIBIT "D"

INSURANCE

Operator shall at all times during the terms of this Agreement or an extension thereof, and at all times relative thereto, carry insurance to protect the parties hereto as follows:

(a) Statutory Workmen's Compensation Insurance as may be required in the state or states where work under this agreement, or activities relative thereto, will be performed, plus Workmen's Compensation Insurance as may be required by Federal Law, if applicable, plus Employers Liability Insurance.

(b) Public Liability Insurance with bodily injury limits of not less than $100,000 for death or injury to one person, and not less than $300,000 for death or injury to more than one person in any one accident; and Public Liability property damage liability insurance with a limit of not less than $100,000 for any one accident for loss of or destruction of, or damage to property. Said public liability insurance shall include Contractural Liability coverage and shall include Products Liability and Completed Operations coverage.

(c) Automobile Liability Insurance with bodily injury policy limits of not less than $100,000 for death or injury to one person, or not less than $300,000 for death or injury to more than one person in any one accident and property damage liability insurance with a limit of not less than $100,000 for any one accident, for loss of or destruction of or damage to property.

(d) Insurance coverage of the types and amounts as set out in subsections (a), (b) and (c) hereinabove on subcontractors, service companies, and all others who may have been engaged, contracted with, or otherwise employed by Operator in the performance of this Agreement with such insurance coverage to cover the subcontractors service companies, or others so employed and all of their employees, except that Operator may require each such subcontractor, service company, or other person or organization to provide his, its or their own insurance coverage of the types and in the amounts specified hereinabove, and such person or organization, under such circumstances, shall furnish to Operator Certificates of Insurance as evidence of such insurance coverage.

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated November 12th, 1990 Between Santa Fe Energy Operating Partners, L.P. as Operator, and Hanley Petroleum Inc. et al ~~XXXX~~ as Non-Operators.

GAS STORAGE AND BALANCING AGREEMENT

1. In accordance with the terms of the Operating Agreement, each Party thereto has the right to take its share of gas produced from lands subject to said Operating Agreement and market the same. In the event any of the Parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced to a purchaser which does not at any time while this Agreement is in effect take the full share of gas attributable to the interest of such Party, the terms of this Agreement shall automatically become effective.

2. During the period or periods when any Party hereto has no market for all of its share of gas produced or its purchaser does not take its full share of gas produced, the other Parties shall be entitled to produce each month one hundred percent (100%) of the allowable assigned or in the absence of an assigned allowable the maximum production capacity and shall be entitled to take and deliver to its or their purchaser such gas production; provided, however, no party shall be entitled to produce, own and dispose of each month more than three hundred percent (300%) of its share of the allowable or maximum production capacity as the case may be, unless it has gas in storage. All Parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement, but the Party or Parties taking such gas shall own all of such gas delivered to its or their purchaser.

3. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this Agreement, less its share of gas used in lease operations, vented or lost, and less that portion such Party took or delivered to its purchaser. The Operator (as that term is defined in the Operating Agreement) will maintain a current account of the gas balance between the Parties and will furnish all Parties hereto monthly statements showing the total quantity of gas

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produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over-and-under account of each Party.

4. At all times while gas is produced, each Party hereto will make settlement with the respective royalty owners to whom it is accountable, just as if each Party were taking or delivering to a purchaser its share, and its share only, of such gas production exclusive of gas used in lease operations, vented or lost. Each Party hereto agrees to hold each other Party harmless from any and all claims for royalty payments asserted by royalty owners to whom each Party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

5. After notice to the Operator, any Party which has gas in storage pursuant to the terms hereof at any time may begin taking or delivering to its purchaser its full share of the gas produced less such Party's share of gas used in operations, vented or lost. In addition to such share, each Party including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the Party or Parties without gas in storage by a fraction, the numerator of which is the interest of such party with gas in storage and the denominator of which is the total percentage interest of all Parties with gas in storage currently taking or delivering to a purchaser.

6. Each Party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

7. Nothing herein shall be construed to deny any party the right from time to time, to produce and take or deliver to its purchaser its full share of the gas production to meet the deliverability tests required by its purchaser.

8. Should production of gas be permanently discontinued before the gas account is balanced, settlement will be made within sixty (60) days between the underproduced and overproduced Parties. In making such settlement, the underproduced Party or Parties will be paid a sum of money by the overproduced

Party or Parties attributable to the overproduction which said overproduced Party received, less applicable taxes theretofore paid, at the applicable prices over the term of delivery for a volume of gas equal to that for which settlement is made. The price basis shall be the rate collected from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission pursuant to final order or settlement applicable to the gas sole, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto. The operator shall have no liability with respect to the correctness of the funds received by it from any overproduced party or on account of the failure of any overproduced party (other than operator if it is overproduced) to pay into the balancing account any amount due hereunder.

9. Nothing herein shall change or affect each Party's obligations to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

10. The terms and provisions of this Agreement shall apply separately to each well and/or separate completion in each well. Underproduction on one well or completion shall not be be recouped by overproduction of any other well or completion.

11. Notwithstanding anything contained herein to the contrary, no Party shall have the right to produce more than its proportionate share of Ultimate Recoverable Reserves from any separate completion in each well without the consent of all other Parties having working interests in such completion. As used herein, the term "Ultimate Recoverable Reserves" is defined as the sum of cumulative production to date together with estimated quantities of natural gas which geological and engineering data indicate to be recoverable in future years from a completion in a particular well under existing and anticipated economic and operation conditions, as such quantities may be from time to time revised. Operator shall be responsible for determining the Ultimate Recoverable Reserves attributable to each separate completion and shall advise each of the non-operators of its determination from time to time as such determination is made, but no less frequently than once every twelve (12) months. For a period of thirty (30) days following mailing of a notice of determination, Non-Operators may submit to Operator proposed adjustments to such

reserve determination which Operator may accept or reject, and any revision by Operator shall be made with said thirty (30) day period. Operator's determination, however, shall be final unless within thirty (30) days after mailing to Non-Operators of any such reserve determination or a revision thereof, Non-Operators comprising not less than fifty percent (50%) of the working interest in the completion zone for which the determination is made request an independent determination of reserves. If such a request is made, then such reserves for such completion zone shall be determined by an independent reservoir engineering consulting firm acceptable to a majority of working interest owners, and the cost of such independent determination shall be charged to the joint account.

At such time as a Party had produced eighty percent (80%) of its proportionate share of Ultimate Recoverable Reserves, such Party may make no further sales of gas production from such completion zone which will not be in balancing with the sales of other Parties without Operator's consent. Operator may refuse to consent to out of balance sales until the Party desiring to sell has furnished Operator with adequate assurance of such Party's ability to pay future costs which may be subsequently chargeable to such Party under the Operating Agreement and to pay any potential cash balancing under this Gas Balancing Agreement upon depletion. Such assurance may be in the form of a bond or letter of credit or in any other form as the Operator deems appropriate. A Party may not produce more than one hundred percent (100%) of its proportionate share of Ultimate Recoverable Reserves without the written approval of one hundred percent (100%) of the working interest owners of such reserves.

Operator shall incur no liability to other working interest owners for its good faith administration of the gas balancing provisions contained herein. In the event Operator is sued by any third parties as a result of Operator's actions in enforcing these provisions, the costs and expenses of Operator's legal defense shall be charged to the joint account.

12. If any underproduced party sells or assigns all or any part of its interest in the well or completion, then unless the assignment instrument otherwise specifically provides, such sale or assignment shall include all of the interest of such underproduced party in gas to be produced attributable to such assigned interest, all of such underproduced party's right to make up gas attributable to such assigned interest, and all of such underproduced party's right to any cash payment that may be due hereunder after the effective date of the assignment

attributable to the assigned interest. The selling or assigning party shall look solely to its purchaser or assignee for any interest in the gas or cash payment to which such party may be entitled. If any overproduced party sells or assigns all or any portion of its interest in the well or completion, the interest sold or assigned shall be burdened by the right of all underproduced parties to take a portion of the gas produced attributable to such interest as provided herein, and the assignee shall be subject to the obligation to make cash payments to the underproduced parties as provided herein that become payable after the effective date of such assignment. The assignor shall remain primarily liable to the underproduced parties for any cash payment payable with respect to the period prior to the effective date of the assignment.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED November 12th, 1990 between Santa Fe Energy Operating Partners, L.P. as Operator and Hanley Petroleum Inc. et al as Non-Operators.

Unless exempted by Federal law, regulation or order, the following terms and conditions shall apply during the performance of this contract:

EQUAL OPPORTUNITY CLAUSE

A. During the performance of this contract, the CONTRACTOR agrees as follows:

(1) The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

(2) The Contractor will, in all solicitations or advertisements for employees, placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(3) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the Contractor's noncompliance with the nondiscrimination clauses of this Agreement or with any of such rules, regulations, or orders, this Agreement may be cancelled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor to vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

B. If required to do so by Federal law, regulation, or order, Contractor agre[illegible] that he shall:

(1. [illegible]e with the Office of Federal Contract Compliance or agency [illegible]esignated by it, a complete and accurate report on Standard Form 100(EEO-1) within 30 days after the signing of this Agreement (unless such a report has been filed in the last 12 months), and continue to file such reports annually, on or before March 31st;

(2) Develop and maintain a written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended.

CERTIFICATE OF NONSEGREGATED FACILITIES

Contractor certifies that he does not and will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not and will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Contractor understands that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, creed, or national origin, because of habit, local custom, or otherwise. Contractor understands and agrees that maintaining or providing segregated facilities for his employees or permitting his employees to perform their services at any locations, under his control, where segregated facilities are maintained is a violation of the Equal Opportunity Clause required by Executive Order No. 11246 of September 24, 1965, and the regulations of the Secretary of Labor set out in 41 CFR Chapter 60. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files, and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES: A Certification of Nonsegregated Facilities as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 F.R. 7439, May 19, 1967), and as required by the regulations of the Secretary of Labor set out in 41 CFR Chapter 60, and as they may be amended, must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually or annually).

Santa Fe Energy Operating Partners, L.P.
Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL - RETURN RECEIPT

December 17, 1990

TO: Addressees on Exhibit A

Re: Proposed Well
Kachina "8" Fed No. 2
Lea County, New Mexico

Gentlemen:

Enclosed is a copy of the Application of Santa Fe Energy Operating Partners, L.P. for compulsory pooling involving the W/2NW/4 of Section 8, Township 18 South, Range 33 East, in Lea County, New Mexico.

This Application will be heard by the New Mexico Oil Conservation Division on Thursday, January 10, 1991 at 8:15 a.m. at its offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico 87501. Failure to appear at that time will preclude you from contesting this matter at a later date.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company
Managing General Partner

By: Larry Murphy
Larry Murphy, Senior Landman

LM/efw
1 Encl a/s

EFW1551

Permian Basin District
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3551

EXHIBIT #6

EXHBIT "A"

Hanley Petroleum
415 West Wall
Suite 1500
Midland, Texas 79701
ATTN: James Rogers

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88201
ATTN: Melissa Randle

INFORMATION ONLY

EFW1552

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF SANTA FE ENERGY OPERATING PARTNERS, L.P. FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

No. ____________

APPLICATION

Santa Fe Energy Opeerting Partners, L.P. hereby makes application for an order pooling all interests from the surface to the base of the Wolfcamp formation underlying the W½NW¼ of Section 8, Township 18 South, Range 33 East, N.M.P.M., Lea County, New Mexico, and in support thereof states:

1. Applicant is an interest owner and has the right to drill a well in the W½NW¼ of said Section 8.

2. Applicant proposes to drill its Kachina 8 Well No. 2 in the W½NW¼ of Section 8, at an orthodox location 1980 feet from the North line and 660 feet from the West line of the Section, to a depth sufficient to test the Wolfcamp formation, and seeks to dedicate the following acreage to the well:

(a) The W½NW¼ of Section 8 for all pools or formations spaced on 80 acres; and

(d) The SW¼NW¼ of Section 8 for all pools or formations spaced on 40 acres.

3. Applicant has in good faith sought to join all other mineral or leasehold interest owners in the W½NW¼ of Section 8 for the purposes set forth herein.

4. Although Applicant attempted to obtain voluntary agreements from all mineral or leasehold interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their acreage. Therefore, Applicant seeks an order pooling all mineral and leasehold interest owners underlying the W½NW¼ of Section 8, as described above, pursuant to N.M. Stat. Ann. § 70-2-17 (1987 Repl.).

5. Applicant requests the Division to consider the cost of drilling and completing the well, the allocation of the cost thereof, as well as actual operating charges and costs charged for supervision. Applicant requests that it be designated as operator of the well and that the Division set a penalty of 200% for the risk involved in drilling the well.

6. The pooling of all interests underlying the W½NW¼ of Section 8, as described above, will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

7. Applicant requests that this matter be heard at the January 10, 1991 Examiner hearing.

WHEREFORE, Applicant requests that, after hearing, the Division grant the relief requested above.

Dated: 12/11/90.

Respectfully Submitted,

HINKLE, COX, EATON, COFFIELD &
HENSLEY

By James Bruce

James Bruce
500 Marquette, N.W.
Suite 800
Albuquerque, New Mexico 87102
(505) 768-1500

Attorneys for Applicant

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☒ Show to whom delivered, date, and addressee's address. *(Extra charge)*
2. ☐ Restricted Delivery *(Extra charge)*

3. Article Addressed to:
Hanley Petroleum
415 West Wall, Suite 1500
Midland, Texas 79701
ATTN: James Rogers

4. Article Number
P 355 214 450

Type of Service:
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature — Addressee
X HPI - L. Locke

6. Signature — Agent
X

7. Date of Delivery
12-1-9

8. Addressee's Address *(ONLY if requested and fee paid)*
415 W Wall
#1500

PS Form 3811, Apr. 1989 ★U.S.G.P.O. 1989-238-815 DOMESTIC RETURN RECEIPT

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS
Print your name, address and ZIP Code in the space below.
- **Complete items 1, 2, 3, and 4 on the reverse.**
- **Attach to front of article if space permits, otherwise affix to back of article.**
- **Endorse article "Return Receipt Requested" adjacent to number.**

U.S.MAIL

PENALTY FOR PRIVATE USE, $300

RETURN TO
Print Sender's name, address, and ZIP Code in the space below.

Kachina 8 Fed #2

Larry Murphy
Santa Fe Energy Operating Partners, L.P.
550 W. Texas Suite 1330
Midland, Texas 79701

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