



SANTA FE
EXPLORATION COMPANY

(915) 685-3368
300 WEST TEXAS ST. - SUITE 533
MIDLAND, TEXAS 79701

(505) 623-2733
P. O. Box 1136
ROSWELL, NEW MEXICO 88202

January 14, 1988

Sun Exploration and Production Company
Sun Tower
ClayDestra Plaza
#24 Smith Road, Suite 600
Midland, Texas 79705

SF Exploration

9310

Attention: Mr. Michael A. Morgenthaler

Re: Joint Operating Agreement
N/2 Section 26, T18S, R33E
Lea County, New Mexico

Dear Mr. Morgenthaler:

Please find enclosed one executed AFE and one copy of the proposed Joint Operating Agreement, which has been executed subject to the following changes:

1. Notation should be made that from the surface to 100' below the base of the Queen Sand, including the Penrose Sand member in NE 1/4, E/2 NW/4 Section 26, is not a part of this agreement.
2. A mutually acceptable casing point election will be in effect on the subject well.
3. Maintenance of Uniform Interest, Article VIII, Paragraph D, page 12, is deleted.
4. Preferential Right to Purchase, Article VIII, Paragraph F, page 12, is deleted.
5. The Gas Balancing Agreement contained herein will not preclude this interest from selling its gas under the same terms and conditions to the purchaser of Sun's portion of this gas.
6. Delete the last sentence of Paragraph D, on Page 8, being "Notwithstanding anything to the contrary, Non-Operator who is in default under Article VII.B shall have no rights under this Article VI.D."
7. Exhibit "B" is deleted.

- ⑨ Exhibit "G" is deleted. (No tax partnership)
- 9. Operator agrees to provide non-operator, within thirty (30) days after the last day of the preceeding month, sales volumes and prices on all sales.
- ⑩. This Operating Agreement and AFE will terminate if the proposed Morrow test has not been spud with a rotary rig capable of drilling to 14,000' by April 30, 1988.

Thank you for all your hard work on this project.

Sincerely,

SANTA FE EXPLORATION COMPANY

William A. McAlpine, Jr.
President