

**MEWBOURNE OIL COMPANY**

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TYLER, TX 75711  
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September 25, 2000

Holly Petroleum, Inc.  
Navajo Refining Company  
100 Crescent Court, Suite 600  
Dallas, Texas 75201-6927

Attention: Mr. George H. Walbert  
Vice President

Re: Chalk Bluff Federal Com. No. 1 Wellbore  
Section 1-18S-27E  
Eddy County, New Mexico

Gentlemen:

Thank you for your letter of July 31, 2000, whereby Holly Petroleum, Inc. and Navajo Refining Company offered to purchase the wellbore of the Chalk Bluff Federal Com. No. 1 well located 2250' FWL & 790' FSL of Section 1. The Chalk Bluff Federal Com. No. 1 well was temporarily abandoned in 1994 after an unsuccessful attempt to recompleate the well up hole in the Cisco and Wolfcamp.

Mewbourne Oil Company (Mewbourne) hereby offers to sell to Holly Petroleum, Inc. ("Holly") and Navajo Refining Company ("Navajo") the wellbore only of the Chalk Bluff Federal Com. No. 1 well, subject to Mewbourne obtaining the necessary partner approvals and consents and waivers under existing contracts, and further subject to the following:

1. Holly and Navajo agree to pay to Mewbourne, upon delivery by Mewbourne of the executed conveyance documents, a total cash consideration of \$40,000.00 for an assignment of all right, title and interest in the wellbore only of the Chalk Bluff Federal Com. No. 1 well and the casing situated therein, with such cash consideration to be distributed by Mewbourne in accordance with the current working interest ownership in the well.
2. Upon receipt by Mewbourne of the agreed cash consideration and acceptance by Holly and Navajo of the conveyance instruments, Holly and Navajo shall have the right at their sole cost, risk and expense to re-enter the wellbore of the Chalk Bluff Federal Com. No. 1 and complete the well for the sole purpose of water disposal between the depths of 7000' and 9000'. Holly and Navajo shall be solely responsible for and shall obtain and furnish to Mewbourne all necessary permits and right-of-ways from the NMOCD and BLM prior to conducting any operations for the disposal of water in said wellbore.

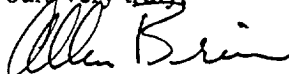
3. Upon execution of this Agreement by all parties, Mewbourne agrees to make available to Holly and Navajo information in Mewbourne's land files and well files relating to the history of the Chalk Bluff Federal Com. No. 1 wellbore, including but not limited to trade agreements, title opinions, daily drilling reports, cementing and testing reports, casing records, etc. All information obtained by Holly and Navajo shall remain confidential and shall not be disclosed by Holly and Navajo to third parties without the express written consent of Mewbourne.
4. Subject to review of Mewbourne's land and well files by Holly and Navajo, which review is to be completed by Holly and Navajo and any exceptions or objections raised within twenty (20) days from the date of execution of this Agreement by all parties, Holly and Navajo agree to accept delivery of the wellbore in its present condition and state of repair without warranty of title either express or implied. Further, Mewbourne expressly disclaims and negates any implied or express warranty of fitness for a particular purpose or for any purpose. In the event Holly and Navajo fail within said twenty (20) day period to advise Mewbourne to the contrary, Holly and Navajo shall be deemed to have accepted the wellbore in its present condition and state of repair.
5. Neither Mewbourne nor the other working interest owners will oppose Holly and Navajo's water disposal program.
6. Mewbourne will retain, except and reserve in any conveyance to Holly and Navajo all right, title and interest in and to the operating rights and the exclusive right to explore for and produce oil and gas in the S/2 of Section 1. Mewbourne shall continue to have the right to conduct operations as to any depths or horizons in the Chalk Bluff Federal Com. No. 3 well located 1980' FSL and 990' FEL of Section 1 and/or any additional wells drilled in the S/2 of Section 1.
7. Mewbourne shall be under no obligation whatsoever to maintain or perpetuate the leases and operating rights in the S/2 of Section 1.
8. Holly and Navajo shall have the right for a period of twenty (20) days from the date of execution of this Agreement by all parties to inspect and approve or raise objections to the environmental condition of the location of the Chalk Bluff Federal Com. No. 1 wellbore. In the event Holly and Navajo fail within said twenty (20) day period to advise Mewbourne to the contrary, Holly and Navajo shall be deemed to have approved the environmental condition of the location of the Chalk Bluff Federal Com. No. 1 wellbore. All information obtained by Holly and Navajo as a result of such inspection shall remain confidential and shall not be disclosed by Holly and Navajo to third parties without the express written consent of Mewbourne.
9. Holly and Navajo agree to indemnify, defend and hold harmless Mewbourne, its directors, officers, agents, employees and invitees from and against any and all claims, actions, causes of action, liabilities, damages, losses, costs or expenses (including, without limitation, court costs, attorney's fees and damages to persons [including death])

and/or property) of any kind or character from and after the effective date of the conveyance.

10. All operations conducted by Holly and Navajo with respect to the wellbore of the Chalk Bluff Federal Com. No. 1 well (including, without limitation, plugging and abandonment operations) shall be conducted in strict compliance and in accordance with the governing leases and the statutes, rules, regulations, requirements and orders of any governmental agency having jurisdiction thereof. Holly and Navajo agree, at their sole risk and cost, to timely and properly plug the wellbore of the Chalk Bluff Federal Com. No. 1 well, remove wastes, remediate and close all pits and restore the surface of the land to the condition (and within any time period) required by the express or implied covenants of the governing leases and any other agreements pertaining to the wellbore.

Should Holly and Navajo be agreeable to the terms and provisions set forth above, please execute and return one (1) copy of this agreement to my attention at the above address, and I will prepare the conveyance instruments. This offer to sell the wellbore of the Chalk Bluff Federal Com. No. 1 well shall expire on October 6, 2000 without further notice unless sooner accepted by Holly and Navajo.

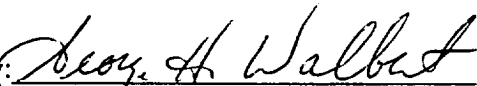
Yours very truly,



Allen Brinson  
Administrative Land Manager

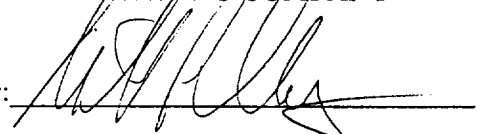
AGREED TO AND ACCEPTED  
this 29 day of September, 2000

HOLLY PETROLEUM, INC.

By: 

George H. Walbert  
Vice President

NAVAJO REFINING COMPANY

By: 

Matthew P. Clifton  
President