

Nearburg Exploration Company

Exploration and Production
3300 North "A" Street
~~State 8100~~ Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

June 21, 1994

Mr. James T. Jennings
P. O. Box 1180
Roswell, New Mexico 88202-1180

Via FAX 505/622-8433

Re: Letter of June 15, 1994;
B&B #2 Well; Section 22,
T-19-S, R-25-E, Eddy
County, New Mexico
B&B Prospect

Dear Mr. Jennings:

Thank you for your letter of June 15, 1994 requesting changes to our proposed Operating Agreement concerning the drilling of the captioned well. As we discussed by telephone, Mr. Roy G. Barton and Panhandle Royalty Company have agreed to the terms of our Operating Agreement, as amended by previous Amendment Agreement furnished to you for your consideration. Both parties have agreed to be bound by the terms of the Operating Agreement which requires advance payment and in this case, we are requesting only advance payment of dry hole costs.

We do not believe it is beneficial to the entire working interest owner group to distinguish between various working interest owners with regard to the prepayment issue or other issues as stated in your June 15, 1994 letter.

I apologize for not being able to comply with all your requirements. We hope that you will still participate with us in the drilling of the B&B #2 well.

Thank you for your cooperation.

Yours very truly,



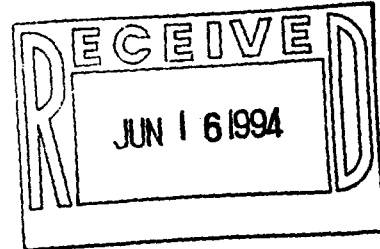
Bob Shelton
Consulting Landman

BS:kg

bs\jennings.1tr

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11010 Exhibit No. 2
Submitted By:
Nearburg Exploration Company
Hearing Date: June 23, 1994

JAMES T. JENNINGS
P. O. BOX 1180
ROSWELL, NEW MEXICO 88202-1180
(505) 622-8432



June 15, 1994
REGULAR MAIL

Via Fax: (915) 686-7806

Nearburg Exploration Company
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705

Attention: Bob Shelton
Consulting Landman

Re: B&B #2 Well; 2173' FEL and 660'
FSL Sec. 22, T-19-S, R-25-E.
Eddy County, New Mexico

Dear Mr. Shelton:

Thank you for your letter of May 17, 1994, regarding the drilling of the above well, as well as the letter Amendment Agreement dated May 26. The amendments set forth in the letter are quite satisfactory to me.

As I advised you in our conversation, I am interested in participating in the well and I am ready to pay my share of the expenses. If I do, however, I have the following problems with the Operating Agreement:

1. Exhibit "F": I feel that the financing and security provisions of the basic Operating Agreement form are sufficient to the Operator and will not execute this exhibit. This same problem arose at the the re-entry of the B&B #1 well and apparently was acceptable to the Operator.

2. Exhibit "D": In connection with this exhibit, I have a problem with the low limits set out in paragraph (c) regarding automobile public liability. I assume that Paragraph (b) regarding Public Liability Insurance covers all automobile public liability in excess of that set forth in (c). Please advise if this is correct and furnish a certificate covering each policy of insurance pursuant to this section.

*Does General
Cover above
limit*

Nearburg Exploration Company

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June 15, 1994

3. Exhibit "C", pages 5 and 6, IV: If you contemplate furnishing this material, I think it should be priced at the "current new price in effect as of the date of the movement maximum car load or barge load weight basis equalized to the lowest published price f.o.b. railroad point nearest the joint property" rather than the Eastern mill published basis. *JTM*

4. Exhibit "C", page 6, B: I think that the printed figure of 75% should remain rather than the delineated 80%. *JTM*

5. Exhibit "A": The proposed Operator, Nearburg Producing Company, is not an owner as is contemplated by force pooling statute, and if non-operators are all required to advance the drilling cost, then I would like to be furnished with a financial statement of Nearburg Producing Company and advised of what other guarantee of performance is made to the non-operators by Nearburg Producing Company, a Texas corporation. *WANTS
NEETS
guarantee*

Yours truly,


James T. Jennings

JTJ:pv

S-18 #2

Nearburg Producing Company

Exploration and Production
3300 North "A" Street
~~Suite 8100~~ Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

AMENDMENT AGREEMENT

May 26, 1994

Mr. James T. Jennings
P. O. Box 1180
Roswell, New Mexico 88202

Via Fax: 505/622-8433
405/948-2038

Ms. Wanda Tucker
Panhandle Royalty Company
Suite 210 Grand Centre
5400 N. W. Grand Blvd.
Oklahoma City, Oklahoma 73102

Re: Operating Agreement dated the
10th day of May, 1994; S/2 of
Section 22, T-19-S, R-25-E,
Eddy County, New Mexico
B&B Prospect

Dear Mr. Jennings and Ms. Tucker:

Pursuant to Nearburg Exploration Company's (NEC) well proposal letter of May 17, 1994, Panhandle Royalty Company (Panhandle) and Mr. Jennings have elected to participate with NEC in the drilling of said well. Panhandle has executed and returned the Authority for Expenditure estimating the cost of said well and a request for amendment to NEC's proposed Operating Agreement. During a recent conversation with Mr. Jennings, he also expressed the desire for certain amendments to said Operating Agreement.

Please allow this letter to serve as an Amendment Agreement to that certain Operating Agreement dated the 10th day of May 1994, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company et al, as Non-operators, covering the S/2 of Section 22, T-19-S, R-25-E, Eddy County, New Mexico, limited to those parties' interest that are or become signatory parties to this Amendment Agreement, and insofar only as is provided for as follows:

- 1) Exhibit "B" Oil and Gas Lease attached to said Operating Agreement shall be deleted in its entirety, and Exhibit "A" attached to this Amendment Agreement and made a part hereof shall be substituted therefor.
- 2) Exhibit "C," Page 4, III A. Overhead Rates; the Drilling Well Rate of \$6,000 and Producing Well Rate of \$600 shall be deleted and a Drilling Well Rate of \$5,664 and a Producing Well Rate of \$560 shall be substituted therefor.

Mr. James T. Jennings
Panhandle Royalty Company
May 26, 1994
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- 3) Exhibit "F," Paragraph 2, Liens and Payments, Line 1; following the word "upon," the word "it" shall be deleted and the phrase "its working interest" shall be substituted therefor. Line 14; following the word "Non-Operators," the phrase "working interest" shall be inserted.

This Amendment Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and may be ratified by other working interest owners, and will be effective with regard to those parties who execute same regardless of the failure of any other party to sign or to be bound hereby.

If you are in agreement with the foregoing amendments to the aforesaid Operating Agreement, please evidence your acceptance by executing and returning, by fax, one (1) copy of this Amendment Agreement.

Thank you for your cooperation.

Yours very truly,



Bob Shelton
Consulting Landman

BS:kg

AGREED TO AND ACCEPTED
this ____ day of _____, 1994

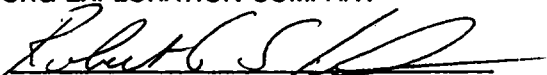
James T. Jennings

AGREED TO AND ACCEPTED
this ____ day of _____, 1994

PANHANDLE ROYALTY COMPANY

By: _____
Name: _____
Its: _____

NEARBURG EXPLORATION COMPANY

By: 
Robert G. Shelton
Attorney-in-Fact

OIL AND GAS LEASE

PAID UP

AGREEMENT, Made and entered into this _____ day of _____, 19____.

by and between _____

_____, Party of the first part, hereinafter called lessor (whether one or more).

and _____, part _____ of the second part, hereinafter called lessee.

WITNESSETH, That the said lessor, for and in consideration of _____ DOLLARS, cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee, for the sole and only purpose of exploring by geophysical and other methods, mining and operating for oil (including but not limited to distillate and condensate), gas (including casinghead gas and helium and all other constituents), and for laying pipe lines, and building tanks, powers, stations and structures thereon, to produce, save and take care of said products, all that certain tract of

land, together with any reversionary rights therein, situated in the County of _____

State of Oklahoma, described as follows, to-wit: _____

EXHIBIT "A"

Attached to and made a part of that _____
certain Amendment Agreement dated _____
May 26, 1994 by and between Near-
burg Producing Company and James _____
T. Jennings _____

of Section _____, Township _____, Range _____, and containing _____ acres, more or less.

It is agreed that this lease shall remain in force for a term of _____ years from date (herein call primary term) and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee.

In consideration of the premises the said lessee covenants and agrees:

1st. To deliver to the credit of lessor free of cost, in the pipe line to which it may connect its wells, the one-eighth (1/8) part of all oil (including but not limited to condensate and distillate) produced and saved from the leased premises.

2nd. To pay lessor for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the leased premises, or used in the manufacture of products therefrom, one-eighth (1/8) of the gross proceeds received for the gas sold, used off the premises, or in the manufacture of products therefrom, but in no event more than one-eighth (1/8) of the actual amount received by the lessee, said payments to be made monthly. During any period (whether before or after expiration of the primary term hereof) when gas is not being so sold or used and the well or wells are shut in and there is no current production of oil or operations on said leased premises sufficient to keep this lease in force, lessee shall pay or tender a royalty of One Dollar (\$1.00) per year per net royalty acre retained hereunder, such payment or tender to be made, on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this lease during the period such well is shut in, to the royalty owners. When such payment or tender is made it will be considered that gas is being produced within the meaning of the entire lease.

3rd. To pay lessor for gas produced from any oil well and used off the premises, or for the manufacture of casing-head gasoline or dry commercial gas, one-eighth (1/8) of the gross proceeds, at the mouth of the well, received by lessee for the gas during the time such gas shall be used, said payments to be made monthly.

If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

Lessee is hereby granted the right at any time and from time to time to unitize the leased premises or any portion or portions thereof, as to all strata or any stratum or strata, with any other lands as to all strata or any stratum or strata, for the production primarily of oil or primarily of gas with or without distillate. However, no unit for the production primarily of oil shall embrace more than 40 acres, or for the production primarily of gas with or without distillate more than 640 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be used in such allocation of allowable. Lessee shall file written unit designations in the county in which the leased premises are located. Operations upon and production from the unit shall be treated as if such operations were upon or such production were from the leased premises whether or not the well or wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this lease except that the royalty on production from the unit shall be as below provided, and except that in calculating the amount of any shut in gas royalties, only the part of the acreage originally leased and then actually embraced by this lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such proportion of the royalties stipulated herein as the amount of his acreage placed in the unit, or his royalty interest therein on an acreage basis bears to the total acreage in the unit.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid to the lessor only in the proportion which his interest bears to the whole and undivided fee.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of lessor.

When requested by the lessor, lessee shall bury his pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor.

Lessee shall pay for all damages caused by its operations to growing crops on said land.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the estate of either part hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules and Regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or such failure is the result of any such Law, Order, Rule or Regulation.

This lease shall be effective as to each lessor on execution hereof as to his or her interest and shall be binding on those signing, notwithstanding some of the lessors above named may not join in the execution hereof. The word "Lessor" as used in this lease means the party or parties who execute this lease as Lessor, although not named above.

Lessee may at any time and from time to time surrender this lease as to any part or parts of the leased premises by delivering or mailing a release thereof to lessor, or by placing a release of record in the proper County.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for subrogated to payment any mortgages, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof.

IN TESTIMONY WHEREOF, we sign this the _____ day of _____, 19____

Lessor