MEMORANDUM OF UNDERSTANDING

This memorandum sets forth the understanding between Santa Fe Energy Company (SFEC) and Felmont Oil Corporation (Felmont) whereby Felmont will acquire an interest in SFEC's acreage in Southeast New Mexico and will participate with SFEC in future lease acquisitions and the drilling of wells. The essential terms of this understanding are as follows:

1. Felmont will acquire an undivided twenty-five percent (25%) of SFEC's leasehold working interest in approximately 55,900 net acres in Lea, Eddy, Chaves and Roosevelt Counties, New Mexico (approximately 13,900 net to Felmont). Said acreage is fully described by prospect name and attached as Exhibit "A" and is colored on a map being attached as Exhibit "B". Said colored acreage is not to represent 100%, but is to show the location of the described acreage regardless of what percent is owned.

2. Assignments shall be subject to all existing farmout, exploration, AMI and operating agreements, and further said assignments shall warrant title only against SFEC's own acts, which acts shall further exclude the foregoing agreements. Felmont will assume its proportionate obligations under the foregoing agreements.

3. Felmont shall have the option to purchase an undivided 25% of all leases acquired by SFEC between June 1, 1983, and the date of signing the Definitive Agreement, for which Felmont shall reimburse SFEC for 25% of SFEC's actual cost. In the same respect SFEC shall have the same option with 75%. All future lease acquisitions shall be subject to the election of each party to participate under an area of mutual interest (AMI) to exist for a period of three years from the date of signing the Definitive Agreement. The AMI may be dissolved at any time upon the mutual agreement of both parties.

4. All future costs for drilling, seismic and acreage shall be borne 75% by SFEC and 25% by Felmont, subject, however, to (i) Felmont's obligation to carry costs chargeable to SFEC as provided in paragraphs 5 and 6, (ii) appropriate non-consent provisions for the drilling of future wells to be provided in the Definitive Agreement, and (iii) the right to participate in future lease acquisitions under the terms of the AMI.

5. The consideration for the leasehold interest and the seismic data to be acquired under paragraph 1 is the sum of $2 million to be paid by Felmont as follows:

(a) Felmont paying SFEC's share of future lease acquisition costs in the amount of $600,000.00.

(b) $1.4 million by Felmont paying drilling costs to casing point chargeable to SFEC in the amount of $1.4 million for Exploratory Wells (as defined in the Definitive Agreement) commenced after the Effective Date.

6. Felmont shall participate in all wells drilling on the Effective Date, these wells being the Lea "CL" State #1, in Lea County, New Mexico and operated by Gulf Oil Corp. a working interest; the Walters #1, in Eddy County, New Mexico and operated by Robert Enfield a farmout interest, which are on acreage which are within the prospect listed on Exhibit "A" and shown on Exhibit "B". To reimburse SFEC for costs previously incurred prior to the Effective Date, Felmont will pay all well costs chargeable to the interest of SFEC until such time as Felmont has carried SFEC for an amount equal to the well costs previously borne by SFEC chargeable to Felmont's interest.

7. The Definitive Agreement shall provide assurance to SFEC of the recovery of the carried costs referred to in paragraphs 4 and 5 above.

8. SFEC shall be the operator for all joint operations under this agreement except in the case when SFEC goes non-consent.

Lease Acquisition:

(1) New leases acquired must be offered to partner proportionately reduced.
(2) Partner will have 30 days to decide on lease participation...In or Out
(3) Must show partner all data justifying lease acquisition.
(4) Leases offered at cost.
(5) If Partner does not participate in lease, cannot bid against it.
(6) SFEC will bid at land sales and be responsible for all rentals... Felmont reimburses SFEC for their proportionate share.
(7) Charge Felmont flat rate on handling leases.

Drilling Wells:

(1) SFEC is Operator unless SFEC goes non-consent...then Felmont may operate for that prospect only.
(2) Either party can propose a well. The well proposal must be accompanied with justifying data.
(3) Partner has maximum of 30 days to join or go non-consent; unless there is a lease expiration earlier.
(4) Non-consent Clause:
Exploration: Non-Consent partner 400% on all leases covering the spacing unit plus 50% of all leases covering the 4 spacing units adjoining and cornering the spacing unit. The 4 spacing unit being at the choice of the consenting party.
Development: Non-Consenting parties will have 300% penalty.

Seismic:

(1) Detail/Prospect

(A) Either party may propose a seismic program.
(B) In or Out on Detail...If Out, and leases are acquired by consenting partner before the non-consenting partner can participate, however, the non-consenting party will be promoted at a rate of 1/3 for 1/4 on the seismic cost to be able to acquire their interest in the lease which are purchased in the detailed seismic area.

(2) Regional Seismic

(A) Either party may propose a seismic program.
(B) Non-Consenting partner will not have access to the seismic data, but may participate in lease acquisition.
(C) If both partners join, neither party will pay in excess of 100% of seismic acquisition cost.
(D) Non-Proposing party has 30 days to join.

General:

(1) Set up Budget meeting in September of each year for submittal to management.
(2) Early termination once parity is reached may be accomplished by either partner, with the partner wanting out paying the other partner a sum of money as follows:
(A) SFEC termination penalty - [redacted] million to Felmont.
(B) Felmont's termination penalty - [redacted] million to SFEC.
(3) Press Release:
(A) Both partner's management must approve all press releases.
(4) Time:
(A) Felmont has 30 days to examine title.
(B) SFEC has 15 days to respond to any decrepancy
(C) Definitive Agreement will be executed 45 days after signing of Memorandum of Understanding.

9. This transaction is subject to approval by the appropriate managerial authority for Felmont. Felmont shall inform SFEC that said approval has been secured by signing this memorandum and returning same to SFEC's offices by Express Mail or hand delivery. The Effective Date shall be the date of SFEC's receipt of notice of such approval. This Memorandum shall become null and void unless said approval has been secured by June 1, 1983.

10. The Definitive Agreement shall provide for annual budget meeting in the month of September each year at a time and place to be specified for the purpose of establishing the parties respective spending levels for the succeeding calendar year.

11. The parties understanding is subject to the subsequent execution of a Definitive Agreement satisfactory in form and in substance to each of the parties embodying the terms expressed in this Memorandum and such other terms as the parties agree, which Definitive Agreement shall include tax partnership provisions and an operating agreement. The parties agree to proceed with diligence and in good faith to execute such an Agreement by July 15, 1983. If such an Agreement has not been executed by such date, but the parties are working with diligence and in good faith to execute such an Agreement, this Memorandum shall be extended automatically for as long as the parties are proceeding in good faith and with diligence to execute such an Agreement. In any and all events, and notwithstanding the foregoing, if said Definitive Agreement is not executed by July 31, 1983, this Memorandum shall automatically terminate.

Executed this 27th day of May, 1983.

SANTA FE ENERGY COMPANY

BY Bud Schaefer, Jr.

FELMONT OIL CORPORATION

BY Wayne Duryea

Nearburg Producing Company

Exploration and Production
401 E. Illinois, Suite 300
Midland, Texas 79701
915 686-8235

November 12, 1990

FAX NO. 713-655-1269

Mr. Scott Guy
Torch Energy Advisors Inc.
1221 Lamar, Suite 1600
Houston, Texas 77010

Re: Ewing State No. 1 Well
1980' FNL & 1980' FWL
Section 16, Township-18-South, Range-25-East
Eddy County, New Mexico
Ewing Prospect

Dear Mr. Guy:

As you are aware, Nearburg Producing Company (NPC), Operator, and Nearburg Exploration Company (NEC), as owner, acquired a portion of the leasehold interest of Santa Fe Energy Operating Partners, L. P. (Santa Fe) in the referenced land with the obligation to drill the referenced well. It was our understanding that Santa Fe would acquire Torch Energy Advisors, Incorporated's (Torch's) interest in said land and participate with the same in the drilling of such well. We learned after drilling commenced that Torch's interest is uncommitted. Nearburg is now at total depth and proposes to complete same in the Morrow formation pursuant to the enclosed authority for expenditure.

Although it is NPC's and NEC's right to drill the Ewing State No. 1 well under the laws of co-tenancy without sharing our well information with you, we will nevertheless give you the right to participate with us in the drilling and completion of said well and agree to furnish you copies of all well information reasonably necessary to allow you to elect whether or not to participate, upon the following terms and conditions:

1. You will execute the Operating Agreement dated September 17, 1990, between Nearburg Producing Company, as Operator, and Santa Fe Energy Operating Partners, L. P., as Non-Operator, covering the referenced well and land. A copy of the same is attached hereto as Exhibit "A" and incorporated by reference herein.

2. Upon receipt of this Letter Agreement (by facsimile), duly executed by Torch, NPC shall immediately furnish to Torch copies of said well information and any other contracts or agreements entered into between NPC, NEC and Santa Fe covering the captioned land along with an original operating agreement prepared for Torch's signature (together with an additional signature page) and an election form. Within 48 hours of Torch's receipt of same, Torch shall elect whether or not to participate with its leasehold interest in the drilling and completion of the Ewing State No. 1 Well. If Torch elects not to participate, it will be subject to the non-consent penalties (100%/500%) set forth in Article VI B.2. of said Operating Agreement, which shall be returned (executed by Torch) to NPC along with its written election not to participate. If Torch elects to participate, it will timely furnish to NPC an executed signature page to the Operating Agreement, its executed election to participate and its check for all estimated costs of drilling and completing said well in accordance with A.F.E. attached hereto. Additional costs of drilling and completion shall be paid in accordance with said Operating Agreement.

   Torch's election to participate may be made by facsimile provided the originals and payment are received by NPC by 5:00 p.m. on the day thereafter. FAILURE TO TIMELY EXERCISE THE ELECTION IN ACCORDANCE HEREWITH SHALL BE DEEMED AN ELECTION NOT TO PARTICIPATE UNDER THE TERMS OF THE NEARBURG, ET AL OPERATING AGREEMENT.

If the above is agreeable to you, please execute this Letter Agreement where provided hereinbelow and return the same to the undersigned at your earliest opportunity.

Yours very truly,

Bob Shelton
Land Manager

BS/my
Enc.

AGREED TO AND ACCEPTED THIS
____ DAY OF _____, 1990.

TORCH ENERGY ADVISORS, INC.

_____
BY: _____
its: _____

Enclosures:
(1) Plat
(2) Authority for Expenditure
(3) Exhibit "A", Operating Agreement
(4) First Conditional Letter of Acceptance
(5) Second Conditional Letter of Acceptance

● **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: TORCH ENERGY ADVISORS, INC. - 1221 Lamar, Suite 1600 Houston, TX.	4. Article Number P 087 299 344 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 – Address X	8. Addressee's Address *(ONLY if requested and fee paid)*
6. Signature – Agent X W. Sartin	
7. Date of Delivery NOV 26 1990	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

Nearburg Exploration Company

Oil and Gas Exploration
401 E. Illinois, Suite 300
Midland, Texas 79701
915-686-8235
FAX 915-686-7806

September 25, 1990

HAND DELIVERED

Mr. Larry Murphy
Santa Fe Energy Company Partners L.P.
500 W. Illinois, Su. 500
Midland, Texas 79701

Re: Operating Agreement dated September 17, 1990; lands out of Sections 16 and 17, Township-18-South, Range-25-East
Eddy County, New Mexico
Ewing Prospect

Dear Mr. Murphy:

Pursuant to our recent acquisition of the Ewing Prospect and our Letter Agreement dated September 14, 1990, attached herewith please find Nearburg Producing Company's proposed Operating Agreement covering the Ewing Prospect, Eddy County, New Mexico. We have enclosed two (2) original executed Agreements for your approval. If this Agreement meets with your approval, we request you execute both copies and return one (1) entire Agreement to the attention of the undersigned. Additionally, we request that you execute and return one (1) original AFE previously furnished.

Thank you for your cooperation and if you have any questions or comments concerning the Operating Agreement, please so advise.

Yours very truly,

Bob Shelton
Land Manager

BS/my
Enc.

Larry Murphy
well File

Nearburg Producing Company

Exploration and Production
401 E. Illinois, Suite 300
Midland, Texas 79701
915 ~~FAXED~~ TO 687-1052

RECEIVED
OCT 24 1990

October 15, 1990

Mr. Larry Murphy
Santa Fe Energy Operating Partners, L.P.
500 W. Illinois, Su. 500
Midland, Texas 79701

Re: Ewing State No. 1 Well
1980' FNL & 660' FWL of
Section 16, Township-18-
South, Range-25-East
Eddy County, New Mexico
Ewing Prospect

Dear Mr. Murphy:

Pursuant to Santa Fe Energy Operating Partners, L. P. Agreement to participate in the captioned well, Nearburg Producing Company has drilled said well to a total depth of 8770', penetrating and testing the Morrow formation. Nearburg Producing Company proposes to attempt a completion in the Morrow formation and recommends running pipe to an approximate depth of 8770' and attempt a completion in the Morrow formation out of two separate sands, the lower sand being 8609' to 8634' and an upper sand at 8526' to 8564'. Additionally, we desire that any input you have with regard to the completion attempt be directed to Mr. Tim MacDonald in our Dallas, Texas office.

We appreciate your cooperation and request your election to either participate or go non-consent with respect to the Ewing State No. 1 well. Please indicate your election below and return by facsimile to the attention of the undersigned.

Yours very truly,

Bob Shelton
Land Manager

BS/my

ELECT TO PARTICIPATE ____

ELECT NOT TO PARTICIPATE X

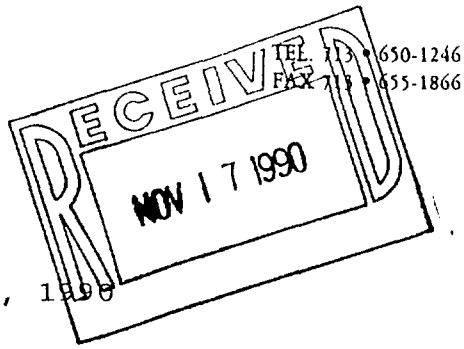
SANTA FE ENERGY OPERATING PARTNERS, L. P.

BY: [signature]
its: Exploration Manager

APPROVED
[initials]

Ewing file

TORCH OIL & GAS COMPANY
1221 LAMAR, SUITE 1600
HOUSTON, TEXAS 77010
TEL 713 • 650-1246
FAX 713 • 655-1866



November 14, 1990

FACSIMILE TRANSMISSION WITH ORIGINAL MAILED

Santa Fe Energy Operating Partners, L.P.
Permian Basin District
500 West Illinois - Suite 500
Midland, TX 79701
ATTENTION: Mr. Vernon D. Dyer

RE: May 27, 1983 Santa Fe-Felmont
Exploration Agreement
Ewing State "16" #1
1,980' FNL and 660' FWL
Section 16, T18S-R25E
Eddy County, NM

Dear Mr. Dyer:

It is my understanding that you do not believe that the above captioned Agreement ("Agreement") is now in affect. However, there is nothing in our files or in Felmont's files that would substantiate your position. For your information, Torch Oil & Gas Company ("Torch") is the successor to Felmont Oil & Gas Company ("Felmont") in the Agreement through a stock purchase and name change.

It has also come to my attention that a third party, Nearburg Producing Company, ("Nearburg") has now drilled and is completing a well on acreage to which Torch would be entitled to an interest. Nearburg contends in their letter of November 12, 1990, to us, that they were relying on Santa Fe to acquire Torch Energy Advisors Incorporated's interest in the said land and to participate in the drilling of such well. Since Torch's and Santa Fe's actions are governed and accountable under the Agreement, we respectfully ask that you review the Exploration Agreement in its entirety and comply with the following requests:

1. Pursuant to Section 16 of the Agreement "Access to Information", Torch requests a meeting in your office on Tuesday, November 27, 1990 at 10:00 a.m. to review the data under the captioned Agreement. Torch would like to review

the information of the Ewing Prospect, the captioned well and the Lea "CL" State #1 Well. Torch would also like to review copies of complete log suites on the captioned well and all tests as provided for under said Section.

2. Torch would like to review copies of leases and purchase information on acreage acquired by Santa Fe, its subsidiaries and affiliates, within one mile of joint leasehold (pursuant to Section 5.1., 5.1.1., 5.1.5., "AMI" "Lease Acquisition" "Affiliate Acquisitions", etc.

3. Torch would also like a full disclosure and copies of all offers and agreements as provided for under Section 15.4. "Preferential Rights" and Section 15.5. "Transfer of Interest".

4. Any other information as applicable.

I would greatly appreciate it if you would call me at (713) 753-1476 to confirm the proposed meeting of this letter by no later than 5:00 p.m. November 16, 1990. Torch takes the position that a failure to set-up this meeting by the date requested shall deem you in breach of this contract under Section 16.1., which allows each of the parties access to all geological, engineering and other data and information pertaining to any well upon the contract lands during regular business hours.

I appreciate your cooperation in this matter and I look forward to hearing from you.

Very truly yours,

Matthew S. Ramsey
Vice President

MSR:jas
msr\62

xc: J. B. Abney, Jr.
R. S. Guy

Nearburg Producing Company

Exploration and Production
401 E. Illinois, Suite 300
Midland, Texas 79701
915 686-8235

SECOND CONDITIONAL LETTER OF ACCEPTANCE

October 9, 1990

Mr. Larry Murphy
Santa Fe Energy Operating Partners, L.P.
500 W. Illinois, Suite 500
Midland, Texas 79701

Re: Conditional Letter of Acceptance dated October 5, 1990 and Operating Agreement dated September 17, 1990

Dear Mr. Murphy:

By letter dated October 5, 1990, Santa Fe Energy Operating Partners, L.P. (Santa Fe) conditionally accepted Nearburg Producing Company's (NPC) proposed September 17, 1990 operating agreement. Please be advised that NPC will accept Santa Fe's proposed amendments to the extent set forth below. The numbers set forth below correspond to the numbers of your October 5, 1990 Letter of Conditional Acceptance.

1) NPC is agreeable to this amendment, however subject to the words "to the extent of" reinstated in line 15 of said Article III.B.

2) NPC is agreeable.

3) NPC is agreeable.

4) NPC is agreeable.

5) NPC is not agreeable.

6) NPC is not agreeable.

7) NPC is not agreeable.

8) NPC is agreeable.

9) NPC is agreeable to this Amendment with the following change to the copas:

Copas; Page 1; General Provisions 3.; Advances and Payments by Non-operators; B. line 1, following the word "bills" insert ", including advance payments requests".

10) NPC is not agreeable.

11) NPC is agreeable.

12) NPC is not agreeable.

13) NPC is not agreeable.

14) NPC is not agreeable.

15) NPC is agreeable.

16) NPC is not agreeable.

17) NPC is not agreeable.

18) NPC is not agreeable, however NPC will amend its rates to $5000.00 drilling and $500.00 producing.

19) NPC is agreeable.

20) NPC is agreeable.

21) NPC is not agreeable.

I hope that this letter amending your October 5, 1990 Conditional Letter will be acceptable to Santa Fe Energy and that a final form operating agreement can be entered into promptly. It is unfortunate that Nearburg cannot accept all of Santa Fe's proposed amendments, however, we have tried to allow as many changes as possible.

We appreciate your cooperation and if you are in agreement with this Second Conditional Letter of Acceptance altering to the extent set forth above, your Conditional Letter of Acceptance dated October 5, 1990, please so indicate your acceptance of these term and conditions and the terms and conditions of our September 17, 1990 Operating Agreement as amended by your letter dated October 5, 1990 and this Second Conditional Letter of Acceptance by executing one (1) copy of this Second Conditional Letter of Acceptance in the space

provided for below. We appreciate your cooperation and look forward to a prompt response.

Yours very truly,

Bob Shelton
Land Manager

BS/my
Enc.

AGREED TO AND ACCPTED THIS
16th DAY OF October, 1990.

SANTA FE ENERGY OPERATING PARTNERS, L. P.

BY:
its: Attorney-in-Fact

APPROVED

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

October 5, 1990

OCT 1 1

Nearburg Producing Company
401 E. Illinois, Suite 300
Midland, Texas 79701

ATTN: Bob Shelton
Land Manager

Re: NM-4155
Ewing "E" State #1 Well
W/2 Sec. 16, T-18-S, R-25-E
Eddy County, New Mexico
Ewing Prospect

Dear Mr. Shelton:

Enclosed are two (2) executed originals of the September 17, 1990 Operating Agreement. The execution and acceptance by Santa Fe Energy Operating Partners, L.P. of this Operating Agreement is subject to the following amendments to the Operating Agreement.

1. Page 2, Article III B.

   Delete "due on its share of production" and insert "1/8"

2. Page 3 Article IV B. 3

   In Line 63 delete "above,"

3. Page 4 Article V B. 1

   In Line 15, delete "no longer owns an interest hereunder in the Contract Area"

4. Page 4 Article VI A.

   In Line 54, delete the inserted language of "be authorized to"

5. Page 5 Article VI, B.1

   In Line 13 delete the inserted language "and pay"
   In Line 18 delete "and to pay"

6. Page 6 Article VI B 2 (b)

   Change the percentages in (b) from "500%" to "300%"

Permian Basin District
500 W. Illinois
Suite 500
Midland, Texas 79701
915/687-3551

7. Page 8 Article VI E. 2

   In Line 49 delete **and delete Lines 58 through 61 in its entirety

8. Page 9 Article VI E. 3 (In the typewritten remarks)

   At the bottom of Page 9

   Delete - "having the right to conduct further" and Insert - "who participated in such"

9. Page 9 Article VII c 2nd paragraph

   Delete the ** and the typewritten portion at the bottom of the page Exhibit "C" in the Copas shall prevail

10. Page 10 Article VII D. Option 2

    Line 13 change 30 to 60

11. Page 11 Article VIII B.

    Line 44 - change 15 days back to 30 days

12. Page 11 Article VIII A. Line 32 **

    Delete ** in Line 32 and the statement corresponding at the bottom of the page,

13. Page 14 (A) Article XV C

    Change 15 days to 30 days

14. Page 14 (B) Article XV, I.

    Delete this clause in its entirety

15. Page 14 (B) Article XV J.

    Change 15 days to 30 days.

Exhibit "C"

16. Page 1 Article I 3 A

    Change 15 days to 30 days

17. Page 3 Article II 8 A

    In blank delete see below and insert 12%
    Delete language at bottom of the page

18. Page 4 Article III 1. A

    Change the overhead rates to the following:

    Drilling Well Rate - $4,000.00
    Producing Well Rate - $400.00

19. Page 5 Article III 2.

    In the blank insert $25,000.00

Exhibit "D"

20. Insurance - This Exhibit is rejected as to Nearburg providing control of Well Insurance. Santa Fe Energy Operating Partners, L.P. carries its own insurance for such matters.

This is to advise that this portion of Exhibit "D" is rejected.

Exhibit "E"

21. Gas Balancing Agreement

    Delete the last paragraph in its entirety.

If the above terms and conditions are acceptable, please sign in the space provided below and return one original to the undersigned by October 18,

1990, at which time the Operating Agreement, as amended, hereby shall become a fully binding agreement upon us.

Sincerely yours,

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

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

APPROVED

LM/efw
Encls a/s

AGREED TO AND ACCEPTED
this 15th day of October, 1990

NEARBURG PRODUCING COMPANY

By: _____ *
BOB SHELTON
Title: Land Manager

* Executed subject to that Second Conditional Letter of Acceptance dated October 9, 1990.

EFW1420

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

MODEL FORM OPERATING AGREEMENT

Ewing "E" State #1 Well

OPERATING AGREEMENT

DATED

September 17, 19 90,

OPERATOR NEARBURG PRODUCING COMPANY

CONTRACT AREA Northeast Quarter (NE/4); Northeast Quarter Southeast Quarter (NE/4 SE/4) of Section 17; West Half (W/2); Northeast Quarter (NE/4) and Southwest Quarter Southeast Quarter (SW/4 SE/4) of Section 16, All in Township-18-South, Range-25-East

COUNTY OR PARISH OF EDDY STATE OF NEW MEXICO

BEFORE EXAMINER STOGNER
OIL CONSERVATION DIVISION
NEARBURG EXHIBIT NO. 4
CASE NO. 10178

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between NEARBURG PRODUCING COMPANY _____, 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:

☒ 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~~.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

☒ F. ~~Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities~~ Notice of Joint Operating Agreement Lien

☐ ~~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~~ due on its share of production 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

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

☒ 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 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.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Nearburg Producing Company 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. 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.

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 30th day of October, 1990, Operator shall be authorized to commence the drilling of a well for oil and gas at the following location:

1980' from the North line and 660' from the West line of Section 16, Township-18-South, Range-25-East, Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to

an estimated depth of 8,650' or to a depth sufficient in the opinion of Operator to adequately test the Morrow 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:

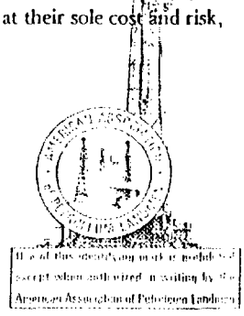
1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in 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 and pay 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. Failure of a participating party to make said election and to pay within thirty (30) days after receiving the notice of the proposed operation shall constitute an election by that party not to participate in the cost of the proposed operation.

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:

150%

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead 150%
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) 500 % 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 500 % 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, stand-by 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)~~ fifteen (15) days.

C. TAKING PRODUCTION IN KIND:

Each party shall ~~take~~ have the right to 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 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: Subject to Article XV, Other Provisions, Paragraph I

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 parties. 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 parties. If all 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 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 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

*by a reasonable appraisal of its current fair market value.

**In the event an abandoning party's interest in the aforesaid salvage value is less than such party's share of such estimated costs, the abandoning party shall pay the Operator, for the benefit of the non-abandoning parties, a sum equal to the deficiency.

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: Except as to cost participation, 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" at the rate **see below 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:

*As to any well excepted from Article VI.E.1 or VI.E.2, the Consenting Parties shall plug and abandon the portion of the wells to which the Non-Consent operation applied at their sole cost, risk and expense. Thereafter, the well shall be plugged and abandoned in accordance with applicable regulations at the cost, risk and expense of all parties having the right to conduct further operations in such well.

**2% per annum higher than the prime lending rate of the Texas Commerce Bank of Dallas, Dallas, Texas

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.

☒ 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 (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. Consenting parties not paying necessary expenditures within thirty (30) days of receipt of a written notice therefor shall be considered non-consent.*

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 Five Thousand Dollars ($ 25,000) 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 Ten Thousand Dollars ($ 10,000) 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.

*subject to the provisions of Article XV, Other Provisions

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.

fifteen (15)

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

*by a reasonable appraisal of its current fair market value

**In the event such party assignor's or lessor's interest in the aforesaid salvage value is less than such party's share of such estimated costs, the assigning party shall pay the Operator, for the benefit of the assignees, a sum equal to the deficiency.

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 Dollars ($ 25,000) 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 _____ 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 _____ 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

Notwithstanding any provision herein to the contrary, the parties hereto agree as follows:

A. Any party creating the necessity for separate measurement facilities shall alone bear all costs of such facilities. Any party using separate production measurement facilities shall keep accurate records of such production in accordance with applicable state and federal regulations, and upon Operator's request, under the terms of this agreement or any agreement executed in conjunction with this agreement, true and complete copies of said records shall be furnished to Operator. Said production records supplied to the Operator shall be treated as confidential information and shall be used by Operator only to the extent necessary to fulfill its duties as operator.

B. With regard to the Initial Well as provided for under Article VI A. hereof, if such well is lost and the bore hole junked and abandoned because of mechanical difficulties or difficulties reaching total depth because of an impenetrable subsurface which are not the result of Nearburg Producing Company's (hereinafter referred to as "NPC") gross negligence or willful misconduct, and NPC has incurred costs in excess of 40% of the anticipated authorization for expenditures for such well, Nearburg at its election may discontinue drilling operations and the obligatory well requirement as committed to in that certain Letter Agreement dated September 14, 1990, by and between the parties hereto shall be fully satisfied. Any subsequent or substitute well drilled thereafter shall be drilled, owned and operated subject to the provisions of Article VI. B. Subsequent Wells hereof. In the event NPC has incurred cost less than 100% of said AFE cost, NPC shall, upon final accounting, settle with Santa Fe Energy Operating Partners, L.P., (hereinafter referred to as "Santa Fe") in regard to the 20.2% additional carried working interest, as hereinafter defined. Such credit to be granted by NPC subject to the provisions of Article XV K. hereof.

C. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to an oil and/or gas and other interest which may be owned by a third party or which, failing in such operation, may revert to third party, or (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. The party desiring to drill, deepen, rework, plug back, sidetrack, recomplete, or to perform any other operation that may be required pursuant to this paragraph D, 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 notice shall have fifteen (15) 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, and any party electing to participate must pay its share of the cost within the fifteen (15) day period after receipt of the notice, failing in which the party electing to participate but not timely paying will be considered a non-participating party. If a drilling rig is on location, notice of a proposal to rework, drill, deepen, plug back, sidetrack, recomplete, or any other operation pursuant to this paragraph D may be given by telephone and the response period shall be limited to forty-eight (48) hours inclusive of Saturdays, Sundays, and legal holidays. Failure of a party receiving such notice to reply or pay its share of the cost within the period above fixed shall constitute an election by that party not to participate in the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

Should less than all of the parties elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties electing to participate shall have the right to do so at their sole cost, risk, and expense. Promptly following the conclusion of such operation, each non-participating party agrees to execute and deliver an appropriate assignment or lease of the total interest of each non-participating party in and to the lease, leases, agreement, or rights which would have terminated and which otherwise may have been preserved by virtue of such operation and in the drilling unit upon which the well was drilled excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be made to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest.

D. All costs and expenses incurred by Operator in securing attorneys, geologists, engineers, exhibits and related documentation, for the preparation and filing of material relative to the sale of oil and/or gas production, but not an oil and/or gas interest, shall be borne by all parties in accordance with their respective interest as set forth on Exhibit "A" attached hereto and part a part hereof.

E. All costs and expenses including fees and expenses of attorneys and consultants incurred by Operator which may arise due to other operators in the area applying for non-standard locations and/or other regulatory hearings shall be borne by all parties in accordance with their respective interests as set forth in Exhibit "A" attached hereto and made a part hereof.

F. Notwithstanding any provisions contained herein to the contrary, it is agreed and understood that during such times as major supply stores are charging out-of-stock prices, Operator shall, when furnishing tubular goods for the account of Non-Operator, price such tubular goods to Non-Operator on the same basis but not more than the actual price paid by Operator. Operator shall add to the mill base the same percentage as major supply stores are adding for out-of-stock prices on the date that tubular goods are moved from stock inventory. Provided further, that should Operator be required to pay Eastern mill price, tubular goods shall be charged to the joint account based upon Eastern mill price plus freight and out-of-stock price fee.

G. The parties hereto agree to execute a Notice of Joint Operating Agreement Lien in the form of Exhibit "F" to this agreement in order to permit perfection of the hereinabove described security interests by placing said NOTICE of record in the county in which the Contract Area is located and in accordance with the Uniform Commercial Code of the State in which the Contract Area is located.

H. Operator shall comply where applicable with the following clauses contained in 41 CFR:

60-1.4(a)	(Equal Employment Opportunity);
1-12.803-10	(Certification of Non-Segregated Facilities);
60-250	(Employment Opportunity for Veterans);
60-741	(Employment Opportunity for Handicapped Individuals);
1-1.710	(Subcontracting With Small Business Concerns);
1-1.805	(Subcontracting With Labor Surplus Area Concerns);
1.1.1310	(Subcontracting With Minority Business Enterprises);
1.1.2302-2	(Environmental Protection).

These clauses are incorporated herein by reference if and to the extent applicable to this contract by law, executive order, or regulation. Operator represents that he is in compliance with the reporting requirements of 41 CFR 60-1.7 and the Affirmative Action Program requirements of 41 CFR 60-1.40 and 60-2.

I. If a party to this agreement elects not to participate in a proposed operation, fails to timely pay its share of the cost involved in such operation, and is determined to be a non-participating party, or if any party hereto is in default in payment of its share of expenses charged pursuant to this agreement for the period of time while the non-consenting parties interest is subject to the provisions of Article VI.B.2. or VII.B, said parties shall not have access to or be entitled to receive well information with regard to operations conducted on the contract area.

J. For a period of three (3) years following the effective date hereof, the lands as set forth and outlined on Exhibit "A-1" attached hereto and made a part hereof are included in an Area of Mutual Interest as between the parties to this agreement or their affiliates. If during said term, any party to this agreement or any employee, affiliate, partnership or investor of any party to this agreement acquires an oil and gas interest, leasehold or contribution (hereinafter referred to as "Interest") in any acreage or land within said Area of Mutual Interest, the acquiring party shall within fifteen (15) days notify the other parties to this agreement. Each non-acquiring party shall have the option to participate in such acquisition for its pro-rata share as set forth on Exhibit "A" attached hereto. Notice by the acquiring party shall include a copy of any lease or conveyance document along with an invoice with support, for all acquisition costs. Each party to this agreement shall have fifteen (15) days within which to notify the acquiring party of its election to either participate in such acquisition by paying its pro-rata share of such costs, or its election not to participate in such acquisition. If less than all parties elect to participate in any acquisition, those parties electing to participate shall have the right to acquire their pro-rata share of the interest of those parties electing not to participate. Any party electing to participate shall pay its net share of all acquisition costs within fifteen (15) days of notification of each participating parties' final interest. Failure by any participating party to pay its net share within said period shall be considered an election not to participate in such acquisition. The acquiring party shall make the appropriate assignment or conveyance to each acquiring party within fifteen (15) days following payment by such acquiring party.

K. As a promotion for the acquisition of the Ewing Prospect from Santa Fe, Nearburg Exploration Company (hereinafter referred to as "NEC") agrees with regard to the Initial Well only to pay 79.8% of the total Initial Well costs to casing point for a 60% net working interest. As an additional consideration, NEC agrees to exchange $66,000 in acreage acquisition costs owed to Santa Fe by NEC for an additional carry of 20.2% working interest in the Initial Well to casing point. With regard to the 79.8% promotion for a 60% net working interest and the additional 20.2% working interest promotion as an exchange for acreage costs, NEC will carry Santa Fe for 100% of Initial Well costs to casing point. It is anticipated that Santa Fe will acquire the full interest of Felmont Oil Corporation (Felmont) in the proration unit for the Initial Test Well and if so acquired, Santa Fe will participate in such well for a 40% working interest. NEC shall not be burdened by any excess burden created by Santa Fe as the result of such acquisition whether by purchase, farmout or non-consent.

If Santa Fe does not acquire the interest of Felmont, Santa Fe's working interest in the Initial Well will be 15% and NEC agrees to carry said 15% working interest to the extent of a $66,000 credit against drilling and completion or plugging and abandonment expense of the Initial Well. If Santa Fe fails to acquire the interest of Felmont, a settlement will be made with regard to said $66,000 credit after completion of the well as a dry hole or a completed for production well. If Felmont's interest is acquired by Santa Fe, no settlement shall be made for before casing point costs but Santa Fe will pay its full share of all after casing point costs and expenses.

This provision Article XV K. shall apply only to the Initial Well, except as to the excess burden created by Santa Fe after the date hereof and all subsequent wells or operations shall be conducted and costs shared as set forth on Exhibit "A" attached hereto and made a part hereof and subject to Article VI B.

L. This operating agreement shall be subject to that certain Letter Agreement dated the 14th day of September, 1990, by and between Nearburg Exploration Company and Santa Fe Energy Operating Partners L. P. and in the event of conflict between the terms and provisions of this operating agreement and the terms and provisions of the Letter Agreement, the Letter Agreement shall prevail.

M. Nearburg Exploration Company and Santa Fe Energy Operating Partners L. P. expressly acknowledge that Nearburg Producing Company has been designated operator although Nearburg Producing Company owns no interest in the contract area. Nearburg Producing Company's operatorship shall, for the purposes of Article V A. through D. be tied to the interest of Nearburg Exploration Company and the vote of Nearburg Exploration Company under the terms of this operating agreement shall be considered the vote of Nearburg Producing Company.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 17th day of September, 19 90.

OPERATOR

NEARBURG PRODUCING COMPANY

BY: _____

MARK K. NEARBURG
Vice President

NON-OPERATORS

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

BY: _____
its: T. S. Parker, Attorney-in-Fact

APPROVED
JSM
VDA

NEARBURG EXPLORATION COMPANY

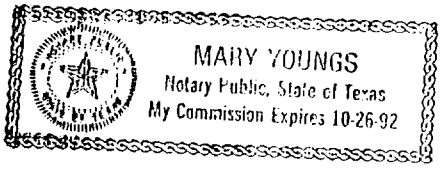
BY: _____
MARK K. NEARBURG
Attorney-in-Fact

* Subject to terms and conditions of Letter Agreement dated October 5th, 1990.

ACKNOWLEDGEMENTS

STATE OF TEXAS)
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me on the 21st day of September, 1990, by MARK K. NEARBURG, Vice President of NEARBURG PRODUCING COMPANY, a Texas Corporation.



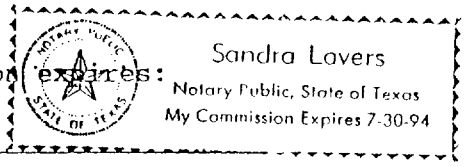
Mary Youngs
Notary Public, State of Texas
Notary's Name, Printed:

Notary's commission expires:

STATE OF TEXAS §
§
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 10th day of October, 1990, by T. S. Parker, Attorney-in-Fact of SANTA FE PACIFIC EXPLORATION COMPANY as Managing General Partner for SANTA FE ENERGY OPERATING PARTNERS, L.P., a Delaware corporation on behalf of said corporation.

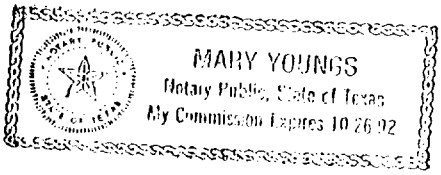
My commission expires:



Sandra Lovers
Notary Public

STATE OF TEXAS)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on the 21st day of September, 1990, by MARK K. NEARBURG, as Attorney-in-Fact for NEARBURG EXPLORATION COMPANY, a sole proprietorship.



Mary Youngs
Notary Public, State of Texas
Notary's Name, Printed:

Notary's commission expires:

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated September 17, 1990, between Nearburg Producing Company, as Operator and Santa Fe Energy Operating Partners, L.P., et al as Non-Operators

I. Identification of Lands Subject to this Agreement

Northeast Quarter (NE/4); Northeast Quarter Southeast Quarter (NE/4 SE/4) of Section 17; West Half (W/2); Northeast Quarter (NE/4) and Southwest Quarter Southeast Quarter (SW/4 SE/4) of Section 16, All in Township-18-South, Range-25-East, Eddy County, New Mexico

II. Restrictions as to Depths

None

III. Percentage Interest of Parties to this Operating Agreement

A. Northeast Quarter (NE/4); Northeast Quarter Southeast Quarter (NE/4 SE/4) of Section 17; South Half Northwest Quarter (S/2 NW/4 and Northeast Quarter Northwest Quarter (NE/4 NW/4) of Section 16, both in Township-18-South, Range-25-East, Eddy County, New Mexico

Nearburg Exploration Company	60%
Santa Fe Energy Operating Partners L.P.	40%

B. Northwest Quarter Northwest Quarter (NW/4 NW/4); Southwest Quarter (SW/4); Northeast Quarter (NE/4) and Southwest Quarter Southeast Quarter (SW/4 SE/4) of Section 16, Township-18-South, Range-25-East, Eddy County, New Mexico

Nearburg Exploration Company	60%
Santa Fe Energy Operating Partners L.P.	15%
Felmont Oil Corporation	25%

IV. Oil and Gas Leases subject to this Operating Agreement

Lessor:	State of New Mexico, Oil and Gas Lease V-3067
Lessee:	Santa Fe Energy Operating Partners, L.P.
Date:	September 1, 1989
Description:	NE/4 NW/4; S/2 NW/4 Section 16, Township-18-South, Range-25-East Eddy County, New Mexico
Recording:	

Lessor:	State of New Mexico, Oil and Gas Lease V-3019
Lessee:	Santa Fe Energy Operating Partners, L.P.
Date:	August 1, 1989
Description:	NE/4; NE/4 SE/4 Section 17, Township-18-South, Range-25-East Eddy County, New Mexico
Recording:	

Lessor:	State of New Mexico, Oil and Gas Lease LG-9278
Lessee:	Coquina Oil Corporation
Date:	February 1, 1981
Description:	NE/4; NW/4 NW/4; SW/4; SW/4 SE/4 Section 16, Township-18-South, Range-25-East Eddy County, New Mexico

V. Addresse of Parties

Nearburg Producing Company
P. O. Box 823085
Dallas, Texas 75382-3085
(Mr. Tim MacDonald)

Nearburg Exploration Company
401 E. Illinois, Su. 300
Midland, Texas 79701
(Mr. Bob Shelton)

Santa Fe Energy Operating Partners L.P.
500 W. Illinois, Su. 500
Midland, Texas 79701
(Mr. Larry Murphy)

THERE IS NO EXHIBIT "B" TO THIS
OPERATING AGREEMENT

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated September 17, 1990, between Nearburg Producing Company, as Operator, and Santa Fe Energy Operating Partners, L. P., 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) 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) 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 Texas Commerce Bank of Dallas, Dallas, Texas on the first day of the month in which delinquency occurs plus 1% or the maximum 2% 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 ____ see below ____ percent (~~xxxxxx%~~) 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 8.~~

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.

**the prime rate of interest in effect at Texas Commerce Bank of Dallas, Texas on the first day of the month in which usage occurs plus two percent (2%).

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 $ 6,000.00
   (Prorated for less than a full month)

   Producing Well Rate $ 600.00

   (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 $ _____ :

A. 5.0 % of first $100,000 or total cost if less, plus

B. 3.0 % of costs in excess of $100,000 but less than $1,000,000, plus

C. 2.0 % 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. 5.0 % of total costs through $100,000; plus

B. 3.0 % of total costs in excess of $100,000 but less than $1,000,000; plus

C. 2.0 % 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.

EXHIBIT "D"
ATTACHED TO AND MADE A PART OF THAT CERTAIN
OPERATING AGREEMENT DATED SEPTEMBER 17, 1990,
BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR,
AND SANTA FE ENERGY OPERATING PARTNERS, L. P.,
ET AL, AS NON OPERATORS

INSURANCE

Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

(a) Workmen's compensation insurance in accordance with the requirements of the laws of the State or States where work is conducted and employers liability insurance of Five Hundred Thousand Dollars ($500,000.00) bodily injury by accident and Five Hundred Thousand Dollars ($500,000.00) bodily injury by disease per employee, with a policy limit of Five Hundred Thousand Dollars ($500,000.00) for bodily injury by disease.

(b) Public liability insurance with limits of One Million Dollars ($1,000,000) as to any one person, and One Million Dollars ($1,000,000) as to any one occurrence.

(c) Automobile public liability insurance of Twenty Thousand Dollars ($20,000) for each person up to a maximum of Forty Thousand Dollars ($40,000) for each accident, plus Fifteen Thousand Dollars ($15,000) property damage per accident, up to a combined One Million Dollars ($1,000,000) per accident, including physical damage.

(d) Umbrella catastrophe liability of Ten Million Dollars ($10,000,000) each occurrence and Ten Million Dollars ($10,000,000) aggregate.

Each policy of insurance issued pursuant to the provisions of (a), (b), (c) or (d) of this section shall provide by endorsement or otherwise that the provisions of the policy are extended to cover the interest of the Non-Operator for whom the assured is acting as Operator, agent, or contractor under contract, but only with respect to operations conducted by named assured, and shall charge the premiums for all such insurance to the joint account.

Operator carries Control of Well Insurance covering his proportionate share of expenses involved in controlling a blowout, the expense of redrilling and certain other related costs. Coverage under this insurance is available to non-operating working interest owners. Such insurance is optional, however, and if not rejected by the non-operating working interest owners prior to spud date, they will be billed accordingly. Any working interest owner rejecting above coverage shall be responsible for his proportionate share of such loss, anything in this agreement to the contrary notwithstanding.

Operator shall furnish, upon request, to Non-Operators a certificate covering each policy of insurance issued pursuant to this section.

EXHIBIT "E"
ATTACHED TO AND MADE A PART OF THAT CERTAIN
OPERATING AGREEMENT DATED SEPTEMBER 17, 1990 BETWEEN
NEARBURG PRODUCING COMPANY, AS OPERATOR, AND
SANTA FE ENERGY PARTNERS, L. P.,
ET AL, AS NON-OPERATORS

GAS BALANCING AGREEMENT

During the period or periods when any party hereto has no market for, or such party's purchaser is unable to take, or if any party fails to take its share of gas, the other parties shall be entitled to produce, take and deliver each month one hundred percent of the allowable gas production assigned to the unit area by the appropriate governmental entity having jurisdiction, and each of such parties shall be entitled to take its pro-rata share of such production. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser.

Each party unable to market its full share of the gas produced shall be credited with underproduction equal to its share of the gas produced, less its share of gas taken or sold, used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto annual statements showing the total quantity of gas produced, taken or sold, used in lease operations, vented or lost, and the total quantity of condensate recovered. After seventy two (72) hours prior notice to Operator, any party may begin taking or delivering its share of the gas produced.

In addition to its share, each underproduced party, until it has recovered its underproduction and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five percent (25%) of each overproduced party's share of gas produced. If more than one party is entitled to take additional gas, they shall divide such additional gas in proportion to their unit participation.

It is recognized that the purpose of this Provision is to permit any party not marketing or taking its share of current gas production to defer its production from the reservoir and permit the other party or parties to pass clear title to all gas which is marketed or taken on a current basis. Therefore, in the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, the complete balancing shall be made based upon the price actually received by each overproduced party for gas produced and sold in excess of its share, such gas being the last volumes produced from such well or wells.

Each party producing and taking gas shall pay any and all production taxes due on such gas. At all times while gas is produced from the contract area, each party hereto, while producing, taking or delivering any gas to a purchaser, shall pay or cause to be paid, all royalties due on the gas produced, taken or delivered to a purchaser. Such royalty payments shall be paid to all royalty owners in the well spaced unit of the well being produced and shall be for each royalty owner's proportionate share of the royalty due on the production.

If, after one (1) year from the date of first sales and on a quarterly basis thereafter, an out-of-balance condition exists because of any party's inability or failure to take or deliver its share of production, then at the election of either the over-balanced party or the under-balanced party, either may require a cash balancing. The price basis for a cash-balancing pursuant to terms of this paragraph shall be the lower of either the over-balanced party's or parties' average price received during the period for which the cash balancing covers or the under-balanced party's or parties' average gas purchase contract price for such period. In the event an under-balanced party does not have a gas purchase contract, the price basis shall be the average price received by the over-balanced party or parties. This option may be exercised quarterly by either party during the thirty day period immediately following the quarterly anniversary of the date of first sales of gas by the first party selling any gas from the well.

EXHIBIT "F"
ATTACHED TO AND MADE A PART OF THAT CERTAIN
OPERATING AGREEMENT DATED SEPTEMBER 17, 1990,
BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR,
AND SANTA FE ENERGY PARTNERS, L. P.,
ET AL, AS NON-OPERATORS

NOTICE OF JOINT OPERATING AGREEMENT LIEN

STATE OF NEW MEXICO (

COUNTY OF EDDY (

WHEREAS, A Joint Operating Agreement dated September 17, 1990 has been entered into between Nearburg Producing Company, as Operator, and the undersigned parties, as Non-Operators, with respect to the exploration, development and operation of their Working Interest and Mineral Interest, insofar as said interests pertain to the following described land (hereinafter called "Contract Area") in Eddy County, New Mexico, to wit:

> Northeast Quarter (NE/4); Northeast Quarter Southeast Quarter (NE/4 SE/4) of Section 17; West Half (W/2); Northeast Quarter (NE/4) and Southwest Quarter Southeast Quarter (SW/4 SE/4) of Section 16, All in Township-18-South, Range-25-East, Eddy County, New Mexico

And Whereas said Operating Agreement provides in part that the parties hereto have granted certain lien priorities in the above referenced property, fixtures and production located thereon or produced therefrom, to wit:

"Liens and Payment Defaults:

> Each Non-Operator grants to Operator a lien upon it 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 a rate provided in Exhibit "C" to the above referenced Operating Agreement. 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 as 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."

WHEREAS, it is the intent of the parties to file this instrument of notice in the records of Eddy County, New Mexico.

NOW, THEREFORE, the undersigned parties do hereby grant to each other those rights under the said Agreement regarding a lien priority and security interests upon the property described above insofar as said parties' property is covered by the terms of the Joint Operating Agreement outlined herein.

A carbon, photograph or other reproduction of this Notice shall be sufficient as a financing statement.

The original of the Operating Agreement herein referenced, or a copy thereof, is maintained at Operator's office at 401 E. Illinois, Suite 300, Midland, Texas 79701.

This instrument may be executed in multi-counterparts, no one of which need be executed by all parties hereto and the same shall be binding upon those parties, as well as their successors and assigns, who execute same, whether or not all named parties join in execution hereof. Counterparts thus executed shall together constitute but one and the same instrument. In the interest of facilitating, filing or recording this instrument thus executed in multi-counterparts, each executing party hereby authorizes removal of signature and acknowledgement pages and reassembly of the same into a single document composed of one copy of the substantive portions of this instrument attached to multiple, separately executed signature and acknowledgement pages.

Executed this 10th day of October, 1990, to be effective however, the 17th day of September, 1990.

OPERATOR

NEARBURG PRODUCING COMPANY

By: Mark K. Nearburg
its: Vice President

NON OPERATORS

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

By: T. S. Parker
its: Attorney-in-Fact

APPROVED
JJM
10-10-90

NEARBURG EXPLORATION COMPANY

By: Mark K. Nearburg
its: Attorney-in-Fact

ACKNOWLEDGEMENTS

STATE OF TEXAS)
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me on the 24th day of September, 1990, by MARK K. NEARBURG, Vice-President of NEARBURG PRODUCING COMPANY, a Texas Corporation.

MARY YOUNGS
Notary Public, State of Texas
My Commission Expires 10-26-92

Mary Youngs
Notary Public, State of Texas
Notary's Name, Printed:

Notary's commission expires:

STATE OF TEXAS §
§
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 10th day of October, 1990, by T. S. Parker, Attorney-in-Fact of SANTA FE PACIFIC EXPLORATION COMPANY as Managing General Partner for SANTA FE ENERGY OPERATING PARTNERS, L.P., a Delaware corporation on behalf of said corporation.

Sandra Lavers
Notary Public, State of Texas
My Commission Expires 7-30-94

My commission expires:

Sandra Lavers
Notary Public

STATE OF TEXAS)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on the 24th day of September, 1990, by MARK K. NEARBURG, as Attorney-in-Fact for NEARBURG EXPLORATION COMPANY, a sole proprietorship.

MARY YOUNGS
Notary Public, State of Texas
My Commission Expires 10-26-92

Mary Youngs
Notary Public, State of Texas
Notary's Name, Printed:

Notary's commission expires:

EXHIBIT "F"
ATTACHED TO AND MADE A PART OF THAT CERTAIN
OPERATING AGREEMENT DATED SEPTEMBER 17, 1990,
BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR,
AND SANTA FE ENERGY PARTNERS, L. P.,
ET AL, AS NON-OPERATORS

NOTICE OF JOINT OPERATING AGREEMENT LIEN

STATE OF NEW MEXICO (

COUNTY OF EDDY (

WHEREAS, A Joint Operating Agreement dated September 17, 1990 has been entered into between Nearburg Producing Company, as Operator, and the undersigned parties, as Non-Operators, with respect to the exploration, development and operation of their Working Interest and Mineral Interest, insofar as said interests pertain to the following described land (hereinafter called "Contract Area") in Eddy County, New Mexico, to wit:

> Northeast Quarter (NE/4); Northeast Quarter Southeast Quarter (NE/4 SE/4) of Section 17; West Half (W/2); Northeast Quarter (NE/4) and Southwest Quarter Southeast Quarter (SW/4 SE/4) of Section 16, All in Township-18-South, Range-25-East, Eddy County, New Mexico

And Whereas said Operating Agreement provides in part that the parties hereto have granted certain lien priorities in the above referenced property, fixtures and production located thereon or produced therefrom, to wit:

"Liens and Payment Defaults:

> Each Non-Operator grants to Operator a lien upon it 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 a rate provided in Exhibit "C" to the above referenced Operating Agreement. 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 as 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."

WHEREAS, it is the intent of the parties to file this instrument of notice in the records of Eddy County, New Mexico.

NOW, THEREFORE, the undersigned parties do hereby grant to each other those rights under the said Agreement regarding a lien priority and security interests upon the property described above insofar as said parties' property is covered by the terms of the Joint Operating Agreement outlined herein.

A carbon, photograph or other reproduction of this Notice shall be sufficient as a financing statement.

Nearburg Producing Co
401 E Illinois, Ste 300
Midland, TX 79701

RECEPTION
909939

Original to KC 6/24/90

The original of the Operating Agreement herein referenced, or a copy thereof, is maintained at Operator's office at 401 E. Illinois, Suite 300, Midland, Texas 79701.

This instrument may be executed in multi-counterparts, no one of which need be executed by all parties hereto and the same shall be binding upon those parties, as well as their successors and assigns, who execute same, whether or not all named parties join in execution hereof. Counterparts thus executed shall together constitute but one and the same instrument. In the interest of facilitating, filing or recording this instrument thus executed in multi-counterparts, each executing party hereby authorizes removal of signature and acknowledgement pages and reassembly of the same into a single document composed of one copy of the substantive portions of this instrument attached to multiple, separately executed signature and acknowledgement pages.

Executed this 10th day of October, 1990, to be effective however, the 17th day of September, 1990.

OPERATOR

NEARBURG PRODUCING COMPANY

By: Mark K. Nearburg
its: Vice President

NON OPERATORS

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

By: T. S. Parker
its: Attorney-in-Fact

APPROVED
JIM
1988

NEARBURG EXPLORATION COMPANY

By: Mark K. Nearburg
its: Attorney-in-Fact

ACKNOWLEDGEMENTS

STATE OF TEXAS)
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me on the 21st day of September, 1990, by MARK K. NEARBURG, Vice-President of NEARBURG PRODUCING COMPANY, a Texas Corporation.

MARY YOUNGS
Notary Public, State of Texas
My Commission Expires 10-26-92

Mary Youngs
Notary Public, State of Texas
Notary's Name, Printed:

Notary's commission expires:

STATE OF TEXAS §
§
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 10th day of October, 1990, by T. S. Parker, Attorney-in-Fact of SANTA FE PACIFIC EXPLORATION COMPANY as Managing General Partner for SANTA FE ENERGY OPERATING PARTNERS, L.P., a Delaware corporation on behalf of said corporation.

Sandra Lavers
Notary Public, State of Texas
My Commission Expires 7-30-94

My commission expires:

Sandra Lavers
Notary Public

STATE OF TEXAS)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on the 21st day of September, 1990, by MARK K. NEARBURG, as Attorney-in-Fact for NEARBURG EXPLORATION COMPANY, a sole proprietorship.

MARY YOUNGS
Notary Public, State of Texas
My Commission Expires 10-26-92

Mary Youngs
Notary Public, State of Texas
Notary's Name, Printed:

Notary's commission expires:

STATE OF NEW MEXICO, County of Eddy, ss. I hereby certify that this instrument was filed for record on the 19 day of October, A.D. 19 90 at 4:01 o'clock P. M., and duly recorded in BOOK 79 PAGE 505 of the Eddy County Records.

KAREN DAVIS, County Clerk By Judy Humphrey Deputy

Nearburg Exploration Company

Oil and Gas Exploration
401 E. Illinois, Suite 300
Midland, Texas 79701
915-686-8235
FAX 915-686-7806

September 14, 1990

Mr. Larry Murphy
Santa Fe Energy Company
Suite 500, United Bank Building
500 West Illinois
Midland, Texas 79702

Re: Ewing and J.R. Prospects
Sections 16, 17, 28, 29 and
33, T-18-S, R-25-E
Eddy County, New Mexico

Dear Mr. Murphy:

Nearburg Exploration Company (NEC) desires to acquire an undivided 60 percent interest in both the captioned prospects from Santa Fe Energy Company (Santa Fe) and commit to drill one (1) initial test well on the Ewing Prospect at a mutually agreeable location under the following terms and conditions.

Ewing Prospect

1. As consideration for the purchase of an undivided 60 percent interest in the Ewing Prospect consisting of 720 acres located in Sections 16 and 17, T-18-S, R-25-E, Eddy County, New Mexico, NEC will carry Santa Fe to casing point for its share of all before casing point well costs. It is anticipated that Santa Fe will acquire the interest of Felmont Oil Corporation (Felmont) and thereby participate for an undivided 40 percent. Nearburg's agreement to carry Santa Fe for 100 percent of its before casing point working interest shall be divided as 1) a 1/3 for 1/4 carry to casing point on Nearburg's 60 percent working interest, and 2) an additional carry of $66,000 as consideration for an assignment of oil and gas lease rights.

2. On oil and gas leases where Santa Fe owns less than 100 percent working interest in the Ewing Prospect, NEC will receive an assignment of 80 percent of Santa Fe's undivided interest so as to receive a full 60 percent working interest throughout the Ewing Prospect.

3. NEC and Santa Fe will enter into a mutually acceptable operating agreement designating Nearburg Producing Company (Nearburg) as Operator, authorizing Nearburg to commence the initial test well on the Ewing Prospect within sixty (60) days.

As set forth above, NEC will pay in addition to the 1/3 for 1/4 promotion Santa Fe's remaining 20.2 percent well costs to casing point if Santa Fe acquires the interest of Felmont. However, if Santa Fe does not acquire such interest, Santa Fe's working interest in the test well will be 15 percent and NEC agrees to carry said 15 percent working interest to the extent of a $66,000 credit against drilling and completion cost of the test well. If Santa Fe fails to acquire the interest of Felmont, a settlement will be made with regard to the $66,000 credit after completion of the well. However, if Felmont's interest is acquired by Santa Fe, no settlement shall be made for the 100 percent carry of Santa Fe's 40 percent working interest before casing point but Santa Fe will pay its full share of all after casing point costs.

4. At closing Santa Fe will deliver to NEC an assignment of the undivided interest in the oil and gas leases set forth above, free and clear of any overriding royalty interest, reversionary interest, non-consent interest, or other burden reserved or hereinafter created by Santa Fe.

5. If the obligatory initial test well is lost and the hole junked and abandoned because of mechanical difficulties which are not the result of Nearburg's gross negligence or willful misconduct, and Nearburg has incurred costs on such junked and abandoned hole in excess of 40 percent of the AFE cost furnished simultaneously with this agreement, Nearburg at its election may discontinue drilling operations, and it shall be considered that Nearburg's obligation to drill the initial test well has been satisfied. Any portion of the $66,000 credited to Santa Fe as their share of drilling cost to casing point not spent on such junked and abandoned hole shall be reimbursed to Santa Fe. All subsequent drilling operations shall be subject to the operating agreement to be entered into.

If the above terms and conditions are agreeable, NEC further desires to acquire the J. R. Prospect on the following basis.

J. R. Prospect

1. NEC will attempt to acquire by bid at the September 18, 1990 New Mexico State Land Sale Tracts V-6, V-7, and V-0-2 for the joint account of both NEC and Santa Fe. If successful in its bid, the leases will owned by NEC 60 percent and Santa Fe 40 percent with NEC and Santa Fe entering into a mutually acceptable operating agreement designating Nearburg as Operator and requiring that if either party elects not to participate in a test well proposed on such acreage that the party electing not to participate will sell, at cost, its entire interest in all of the prospect acreage to the party electing to drill.

2. NEC agrees to advise Santa Fe prior to bidding of NEC bid amounts on each tract set forth above; however, NEC reserves the right to bid any amount on a total or per acre basis, and Santa Fe agrees to hold NEC harmless with no claim against NEC in the event that NEC's bids are not sufficient for acquisition of the tracts.

3. On January 1, 1991, Santa Fe agrees to reimburse NEC for Santa Fe's 40 percent share of the cost to purchase the acreage in the J. R. Prospect, including brokerage or other costs directly chargeable to the acquisition of this tract.

As you have been advised, we intend to drill the Ewing Prospect within ten (10) days which will require Santa Fe to convey the oil and gas leases to NEC immediately so a permit to drill can be filed and approved. I will immediately prepare for your review an operating agreement to be used with respect to both the Ewing and J. R. Prospects.

We desire to receive your assignment and for NEC, Nearburg and Santa Fe to execute said operating agreement prior to Friday, September 21, 1990 which will effectuate closing.

Notwithstanding anything in the operating agreement to be entered into to the contrary, in the event of conflict between this letter agreement and said operating agreement, this letter agreement shall prevail.

If you agree to the terms and conditions set forth above for NEC's acquisition of the above interest, please so evidence your acceptance of these trade terms and your commitment to deliver the required conveyances to NEC by executing one (1) copy of this agreement in the space provided below.

Thank you for your cooperation.

Yours very truly,

Bob Shelton
Land Manager

AGREED TO AND ACCEPTED THIS
18th day of September, 1990

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exp. Co., Mgn. Gen. Partner
By: _____
T. S. Parker
Title: Attorney-in-Fact

APPROVED

CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
WILLIAM P. SLATTERY

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

November 21, 1990

CERTIFIED MAIL-
RETURN RECEIPT REQUESTED

Santa Fe Energy Operating Partners, L.P.
500 West Illinois
Suite 500
Midland, Texas 79701
Attn: Mr. Larry Murphy

Re: Ewing State No. 1 Well
1980 feet from the North and West lines
of Section 16, Township 18 South, Range 25 East,
N.M.P.M., Eddy County, New Mexico

Gentlemen:

Enclosed for your information is a copy of an application filed by Nearburg Producing Company on this date, seeking an order from the New Mexico Oil Conservation Division compulsory pooling the interests of Torch Energy Advisors Inc. in the W/2 of Section 16, Township 18 South, Range 25 East, N.M.P.M., Eddy County, New Mexico.

This application has been filed to assure that all interests in the W/2 of Section 16 are dedicated to the Ewing State No. 1 Well regardless of the outcome of your negotiations with Torch Energy Advisors Inc. concerning your ownership interests in this tract.

Should you not be able to resolve your current conflict with Torch concerning this acreage, Nearburg Producing Company will look to you for any damages they may sustain as a result of this problem.

Very truly yours,

WILLIAM F. CARR
ATTORNEY FOR NEARBURG PRODUCING COMPANY
WFC:mlh
Enclosure

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:

Santa Fe Energy Operating
Partners, L.P.
500 West Illinois, Suite 500
Midland, Texas 79701
Attn: Mr. Larry Murphy

4. Article Number
P 106 679 622

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 — Address
X

6. Signature — Agent
X Wanda Wade

7. Date of Delivery
11-20

8. Addressee's Address *(ONLY if requested and fee paid)*
J-50 w Tapes
#1330

PS Form **3811**, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

P-106 679 622

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

Sent to Attn: Mr. Larry Murphy
Santa Fe Energy Operating Partners, L.P.
Street and No. 500 W Illinois, Suite 500
P.O., State and ZIP Code Midland, TX 79701

Postage	$ .45
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	$ 2.20
Postmark or Date	November 21, 1990

PS Form 3800, June 1985

TORCH OIL & GAS COMPANY
1221 LAMAR, SUITE 1600
HOUSTON, TEXAS 77010

TEL 713 • 650-1246
FAX 713 • 655-1866

December 12, 1990

NEARBURG PRODUCING COMPANY
Exploration and Production
401 E. Illinois, Ste. 300
Midland, Texas 79701

Attention: Mr. Bob Shelton, Land Manager

RE: LETTER AGREEMENT
Ewing State #1
Ewing Prospect
16-T18S-R25E
Eddy County, New Mexico

Dear Mr. Shelton:

Pursuant to a review of the circumstances surrounding the drilling of the Ewing State #1 well, TORCH OIL AND GAS COMPANY ("TOGCO") proposes the acceptance of the following to resolve the current state of affairs regarding the drilling and completion attempt of the captioned well.

1. NEARBURG PRODUCING COMPANY ("NEARBURG") agrees to pay, and TOGCO agrees to accept (Subject to the preferential right to purchase of Santa Fe Operating Partners, L.P. as contained in that certain Exploration Agreement effective May 27, 1983), the sum of Thirty Three Thousand Five Hundred Dollars ($33,500.00) for an assignment of all its right title and interest, insofar and only insofar as it pertains to the wellbore of the captioned well. Said assignment to be made without warranty of title either expressed or implied;

2. NEARBURG further agrees to furnish copies of all well data and completion reports within 24 Hours of conducting same;

3. TORCH further agrees not to exercise any rights that it may have available to protest, prevent or delay the completion of the Ewing State #1 well.

Post-it™ brand fax transmittal memo 7671 | # of pages ▸ 2
To Bill Cook | From Bob Shelton
Co. | Co.
Dept. | Phone #

If you are agreeable to the above, please signify your acceptance in the space provided below and return one original with your company check to my attention.

Very truly yours,

Scott Guy

SCOTT GUY, CPL
Landman

AGREED AND ACCEPTED, this 12 day of December 1990.

TORCH OIL AND GAS COMPANY

by: _____
MATTHEW S. RAMSEY, Vice-President

AGREED AND ACCEPTED, this ____ day of December 1990.

NEARBURG PRODUCING COMPANY

by: _____