CASE 7253: BANDERA ENERGY COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

Case No.

7253

Application

Transcripts

Small Exhibits

ETC

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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September 25, 1981

Mr. Sim Christy
Jennings & Christy
Attorneys at Law
Post Office Box 1180
Roswell, New Mexico 88201

Re: CASE NO. 7253
ORDER NO. R-6768

Applicant:

Bandera Energy Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Paul Cooter, William F. Carr

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7253
Order No. R-6768

APPLICATION OF BANDERA ENERGY
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 20, 1981, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 24th day of September, 1981, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Bandera Energy Company, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 27, Township 16 South, Range 35 East, NMPM, Shoe Bar Field, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon, being approximately 1980 feet from the North line and 660 feet from the East line of said Section 27, and projected not only to the Morrow formation but also to the Devonian formation.

(4) That according to the geological evidence presented at the hearing, a Northwest/Southeast trending fault cuts across the E/2 of the subject Section 27, and there is a greater likelihood of encountering oil production in the Shoe Bar-Devonian Pool at the proposed location than gas production in the Atoka or Morrow formations.

(5) That said Shoe Bar-Devonian Pool is developed on 40-acre spacing, and if the proposed well should be completed in the Devonian formation, the SE/4 NE/4 of Section 27 would be the dedicated proration unit.

(6) That the applicant, Bandera Energy Company, is the owner of the E/2 E/2 of said Section 27.

(7) That should the proposed well be completed in the Devonian formation, it would be located on, and have dedicated to it, only lands belonging to Bandera, although the owners in the W/2 E/2 of the sections are being asked to participate in the well or be pooled into the proposed 320-acre unit.

(8) That the formation of a Morrow proration unit comprising the N/2 and/or the S/2 of Section 27 and the drilling of a well at a standard location thereon would better serve the protection of correlative rights than approval of the subject application.

(9) That even if production from the Morrow formation were obtained in a well drilled at the proposed location, such well would probably not encounter as good a pay section in the Morrow as a well drilled farther west, and probably would not as efficiently and effectively drain the entire E/2 of Section 27, thereby causing waste.

(10) That in the interest of the protection of correlative rights and the prevention of waste, the application should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Bandera Energy Company for an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 27, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, is hereby denied.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

S

dr/

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

SHOE BAR PROSPECT

OPERATING AGREEMENT

DATED

May 15, 1981,

OPERATOR BANDERA ENERGY COMPANY

CONTRACT AREA E/2 Section 27, Township 16 South, Range 35 East of the N.M.P.M. (320 acres, more or less)

COUNTY OR PARISH OF Lea STATE OF New Mexico

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
Bandera EXHIBIT NO. 1
CASE NO. 7253

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between BANDERA ENERGY 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 agreement,
- (2) Restrictions, if any, as to depths or formations,
- (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.

If any provision of any exhibit, except Exhibit "E", 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 unleased oil and gas interest in the Contract Area, that interest shall be~~ treated for the purpose of this agreement and during the term hereof as ~~if it were~~ a leased interest under the form of oil and gas lease attached as Exhibit "B". ~~As~~ to such interest, the owner shall receive royalty on production as ~~prescribed~~ in the form of oil and gas lease attached hereto as Exhibit "B". Such party ~~shall,~~ however, be subject to all of the provisions of this agreement relating to lessees, ~~to the extent that it owns the lessee interest~~.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the Joint Account, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

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 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.~~

☒ XX 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. The 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", 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, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(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; and

(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 interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(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; and

(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 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 not be considered failure of title but 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:

BANDERA ENERGY 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 in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, 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", and not on the number of parties 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. If the Operator that is 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", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of September, 19 81, Operator shall commence the drilling of a well for oil and gas at the following location:

SE/4 of the NE/4 of Section 27, T-16-S, R-35-E
Lea County, New Mexico

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

12,800 feet or to a depth sufficient to test the Morrow formation, whichever is the lesser.

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.

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, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties 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 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 or 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.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. 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 sixty (60) 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 where the drilling rig is on location, as the case may be) actually commence work on 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 (a) the total interest of the parties approving such operation, and (b) 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 or 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' interest. 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 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, 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, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300 % of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

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, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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.

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) when Option 2, Article VII.D.1., has been selected or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

Each party shall 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 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 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 direct 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 and gas 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 and gas 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 and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas 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. Notwithstanding the foregoing, Operator shall not make a sale, XXXXXXXXXXX into interstate commerce, of any other party's share of gas production without XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXX securing approval of said party.

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 Agreement is attached as Exhibit "E", or is a separate Agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole 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 pursuant to Article VI.B.2., any well which has been drilled 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 or 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 of such well. Any party who objects to the 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 which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein 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 such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation 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 to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, 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 year and so long thereafter as oil and or gas is produced from the interval or inter-~~

~~vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "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 percentages 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 interest 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.

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 the Accounting Procedure attached hereto as 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 the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

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

D. Limitation of Expenditures:

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

~~☐ 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, 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.

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, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars---------Dollars ($ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand Dollars-------- Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 18.75% due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any 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 settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. 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 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.

G. 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. Operator shall bill other parties for their proportionate share 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, 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.

H. 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 an amount equivalent to the premium which would have been paid had such insurance been obtained. 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 fully owned 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 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 desiring to surrender it. ~~If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one 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, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production, ~~other than the royalties retained in any lease made under the terms of this Article~~. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned 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 is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. ACREAGE OR CASH CONTRIBUTIONS:

If any party receives, while this agreement is in force, a contribution of cash toward 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 is in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage without warranty of title to all parties in proportion to their interest in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area. When any contribution is contingent upon the completion of any one or more operations in which all of the parties hereto do not participate through the earning of such contribution, the contribution shall belong solely to those parties who participated in all steps of the operation constituting such condition precedent and any party not participating in all steps of such condition precedent shall not recieve any part of such contribution.

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. SUBSEQUENTLY CREATED INTEREST:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary~~, 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 interests 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 hereof.

F. Waiver of Right 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.

~~**G. 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 provisions 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 damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand Dollars and no/100ths Dollars ($ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. 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, the party shall immediately notify Operator, 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 United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party 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 United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof 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 subjected 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.

XX 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, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

☐ 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 or reworking 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 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 committed acreage 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:

The essential validity of this agreement and all matters pertaining thereto, 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 where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

NONE

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 _____ day of _____, 19____.

OPERATOR

BANDERA ENERGY COMPANY

BY: _____

NON-OPERATORS

Marathon Oil Company

BY: _____

J.M. Huber Corporation

BY: _____

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated May 15, 1981, by and between Bandera Energy Company as Operator and J.M. Huber Corporation and Marathon Oil Company as Non-Operators.

Part I CONTRACT AREA

East half (E/2) of Section 27
T-16-S, R-35-E, N.M.P.M.
Lea County, New Mexico

Part II DEPTH OR FORMATION RESTRICTION

Morrow Formation Only

Part III INTEREST AND ADDRESSES OF PARTIES FOR NOTICE PURPOSES

Bandera Energy Company — 50%
602 Gihls Tower West
Midland, Texas 79701
(915) 684-9009

J.M. Huber Corporation — 25%
1900 Wilco Building
Midland, Texas 79701
(915) 682-3794

Marathon Oil Company — 25%
P.O. Box 552
Midland, Texas 79702
(915) 682-1626

Part IV See Attached Schedule

EXHIBIT "A"

LESSOR	LESSEE	DESCRIPTION	LEASE DATE & EXPIRATION	RECORDED BOOK/PAGE	BASIC ROYALTY	OVERRIDING ROYALTY
Robert Boyce Edison	R. C. Jeter and Wife, Hattie Mae Jeter	E/2 E/2 Section 27 T-16-S, R-35-E	10/16/80 10/16/81	331/182	3/16	5% 1.25% (to

(Additional Lease Information from J.M. Huber & ~~Monsanto~~ Marathon)

EXHIBIT "A"

LESSEE	DESCRIPTION	LEASE DATE & EXPIRATION	RECORDED BOOK/PAGE	BASIC ROYALTY	OVERRIDING ROYALTY
R. C. Jeter and Wife, Hattie Mae Jeter	E/2 E/2 Section 27 T-16-S, R-35-E	10/16/80 10/16/81	331/182	3/16	5% 1.25% (to be assigned)

Information ~~Honcoate~~ → Marathon

EXHIBIT "B"

NONE

Kraftbilt.601, BOX 800 TULSA OK 74101

COPAS — 1974

Recommended by the Council of Petroleum Accountants Societies of North America

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated May 15, 1981, by and between Bandera Energy Company as Operator and J. M. Huber Corporation and Marathon Oil Company 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 of North America.

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

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. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

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 rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

A. 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 joint or simultaneous audits 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.

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. Rentals and Royalties

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

2. 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.

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 2A of this Section II. Such costs under this Paragraph 2B 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 2A 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 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. 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 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. 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.

5. 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, recognized barge terminal, or railway receiving point where like material is normally available, 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, recognized barge terminal, or railway receiving point 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, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii 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.

7. 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 investment not to exceed eight per cent (8%) 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 7A 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.

8. 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.

9. Legal Expense

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

10. 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.

11. 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 Workmen'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.

12. 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 incurred by the Operator in the necessary and proper conduct of the Joint Operations.

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:

(XX) 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 2A, 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~~ ( ) shall not (X) 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 $ 4,000.00

Producing Well Rate $ 400.00

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

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive 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, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive 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 may be made for the month in which plugging and abandonment operations are completed on any well.

[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 Fields 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 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 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 crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in ~~Paragraph 2 of this Section III. All other costs shall be considered as Operating.~~

2. Overhead - Major Construction

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

A. * % of total costs if such costs are more than $ 25,000.00 but less than $ 100,000.00 ; plus

B. * % of total costs in excess of $ 100,000.00 but less than $1,000,000; plus

C. * % of total 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 shall be excluded.

3. 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 reason, 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 bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds 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 where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

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

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, 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 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(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 2A of this Section IV. 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

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the 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 and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(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

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with 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 or change of interest 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.

4. Expense of Conducting Periodic Inventories

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

ATTACHED TO AND MADE a part of that certain Agreement dated May 15, 1981 by and between Bandera Energy Company, as Operator, and J.M. Huber Corporation and Marathon Oil Company as Non-Operators.

EXHIBIT "D"

At all times during the conducting (including Pre-drilling and Exploratory Drilling Activity) of operations hereunder, Operator shall maintain in force the following insurance:

A. Workmen's Compensation and/or Employer's Liability Insurance in amounts reasonably sufficient to cover liability for injury to or death of Operator's employees, such insurance, if required by laws of the state in which the leased lands are located, to be in conformity with such laws.

B. Comprehensive General Liability Insurance with limits of not less than $300,000.00 covering injury to or death of more than one person by reason of one accident, and Property Damage Insurance with limits of not less than $100,000.00 for each accident and $100,000.00 in the aggregate, including coverage for the hazards of contractual liability, contractor's protective liability, owners protective liability, products and completed operations. Policy should also extend to cover loss from explosion, blowout and cratering, underground property damage, and pollution without limitation for oil or gas.

C. Comprehensive Automobile Liability Insurance with limits of not less than $100,000.00 covering injury to or death of one person and not less than $300,000.00 covering injury to or death of more than one person by reason of one accident, and not less than $100,000.00 covering property of third persons, including coverage for all owned, hired, and non-owned vehicles.

D. Umbrella Liability Insurance in the amounts not less than $5,000,000.00 excess of all primary limits.

E. Control the Well Insurance covering risks of damage to drilling and production equipment including cleanup and containment coverage, as agreed upon the parties.

EXHIBIT "E"

ATTACHED TO AND MADE A part of that certain Agreement dated May 15, 1981, by and between Bandera Energy Company, as Operator and J.M. Huber Corporation and Marathon Oil Company as Non-Operators.

GAS STORAGE AND BALANCING AGREEMENT

(1) During the period or periods when any party hereto has no market for, or its purchaser is unable to take, or if any party fails to take, its share of gas (such a party or parties called individually or collectively "underproduced party"), the other party or parties (called individually or collectively "overproduced party") shall be entitled to produce each month one hundred percent of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and such overproduced party shall have the right to take all of the share of the underproduced party, subject to the provisions hereof, until such underproduced party shall exercise its rights to take its share of such gas production. All parties hereto shall share in and own all the condensate as actually recovered at the surface in accordance with their respective interests, but the overproduced party taking all such gas may sell and deliver all such gas to its purchaser(s), subject to the provisions hereof. Thereafter each underproduced party shall be credited with gas in storage equal to its share of the gas produced, less its share of gas 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 monthly statements showing the total quantity of gas produced, used in lease operations, vented or lost, and the total quantity of condensate recovered.

(2) After notice to Operator and the overproduced party, an underproduced party may begin taking and/or delivering its share of the gas produced. In addition to its share, each underproduced party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to thirty-seven and one-half percent (37.5%) of the overproduced party's share of gas produced. If "underproduced party" constitutes more than one party entitled to the additional gas produced, such parties shall divide such additional gas in accordance with their shares of Unit participation.

(3) At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interests, and other like payments for which it is responsible (referred to collectively as "royalty") as if each party were actually taking or delivering to a purchaser its share, and its share only, of such gas production; provided that during any period of imbalance, the overproduced party shall remit to the underproduced party, the royalty share of production proceeds of the underproduced party's Unit share of gas being taken by the overproduced party. In lieu of making payment of such royalty share of proceeds to the underproduced party, the overproduced party may, if it so elects, make payment directly to the royalty owners of the underproduced party.

(4) Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

(5) When gas sales from a reservoir in a gas well permanently cease, Operator shall be responsible for determining the final accounting of underproduction and over-production. Each overproduced party shall compensate each underproduced party in accordance with said accounting with a sum of money equal to the amount actually received from the sale of underproduced party's share of gas by such overproduced party during each period of overproduction not theretofore recovered by underproduc party pursuant to Paragraph (2) above, less applicable taxes, on a cumulative basis. Payment for such overproduction shall be in the order of accrual with actual recovery of underproduced gas by underproduced party prior to such cessation of production being accounted for as to storage and withdrawal on a first in - first out basis. If such overproduced party has paid the royalties attributable to such overproduction, the amount of such royalties shall be deducted from such payment.

(6) The provisions of this agreement shall be separately applicable to each well and each reservoir within each well to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs or gas wells.

(7) Nothing herein contained shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in joint operations, as its share thereof is set forth in the above described Operating Agreement.

F. Other insurance which the Operator may feel is reasonably required to protect the property covered under this Agreement from risks, hazards, and perils which are inherent in the exploration development, operation, and maintenance of similar operations.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement by and between LAGUNA PETROLEUM COMPANY, as operator, and the non-operators on the signature pages, dated May 15, 1981

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

I. EQUAL OPPORTUNITY CLAUSE

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

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

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

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

D. The CONTRACTOR will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

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

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

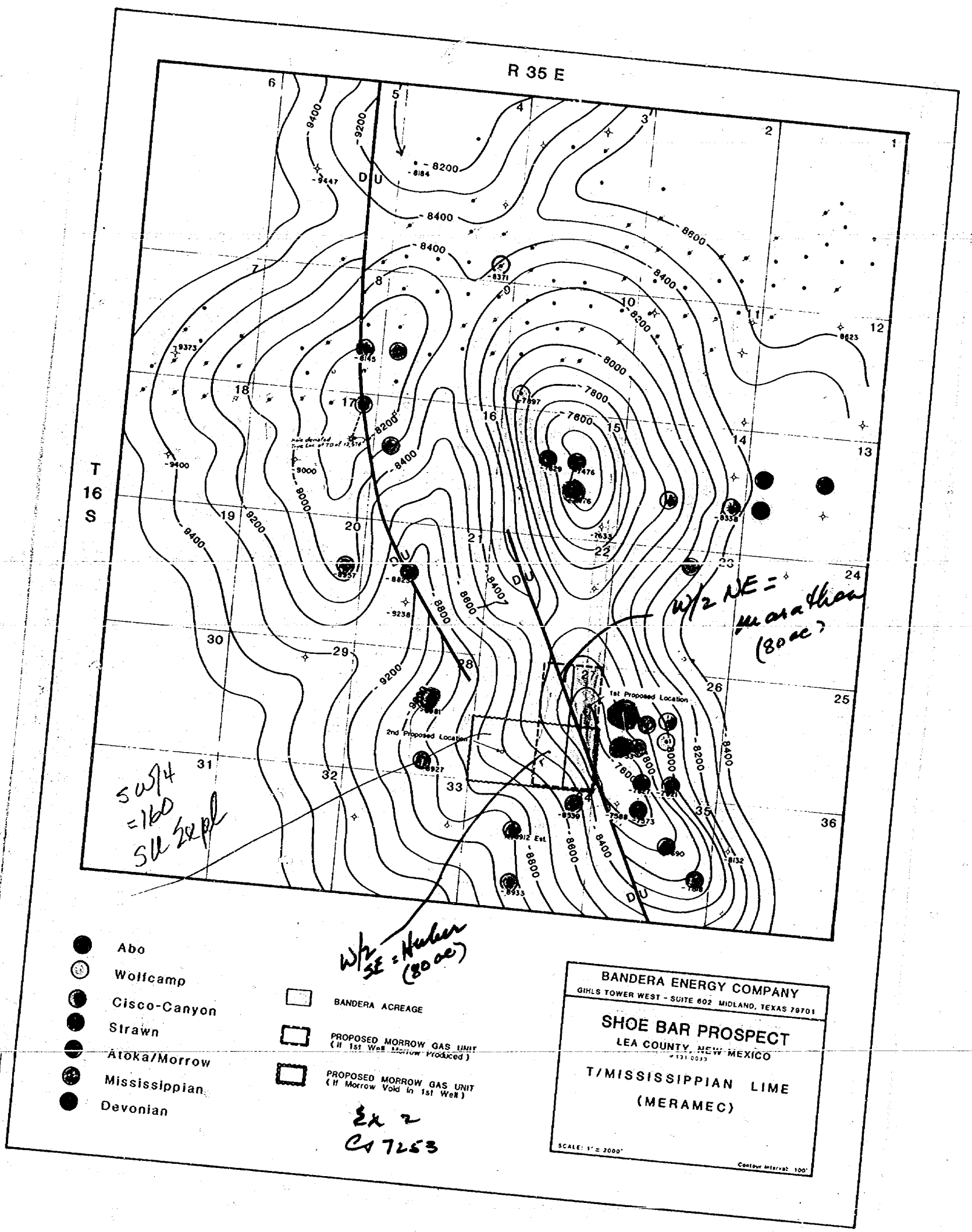
G. The CONTRACTOR will include the provisions of paragraphs A through G in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The CONTRACTOR will take such action with respect to any subcontract or purchase order as to the

contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance; provided, however, that in the event the CONTRACTOR becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the CONTRACTOR may request the United States to enter into such litigation to protect the interests of the United States.

II. CERTIFICATION OF NONSEGREGATED FACILITIES

CONTRACTOR certifies that he does not and will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not nor will not permit his employees to perform his services at any locations, under his control, where segregated facilities are maintained.

As used in this Certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion or national origin, because of habit, local custom or otherwise.



W/2 NE = Marathon (80 ac)

SW/4 = 160 SE 2 pl

W/2 SE = Huber (80 ac)

Ex 2
CA 7253

Authority for Expenditure

BANDERA ENERGY COMPANY
602 Gihls Tower West
Midland, Texas 79701

Original
Supplement No.
Revision No.

AFE No. Lease Name Eidson Ranch Well No. 1-27 (Morrow)

Description ~~SW/4~~ SE NE Sec. 27 T16S R35E County Lea

State New Mexico Area Shoebar Operator Bandera

Project D&E Morrow Gas Well Prepared by C.M. Hartwell

Exploration Development X Recompletion Workover T.D. 12,800 Date 4/7/81

INTANGIBLES		Dry Hole	Completed
Road, Location and Damages		20,000	20,000
Rig Moving Expense		20,000	20,000
Drilling-Footage	FT. @ $ /FT.		
Drilling Daywork	55 days @ $ 7400 /day	407,000	407,000
Completion Rig	10 days @ $ 1506 /day		15,000
Rig Fuel		44,000	45,000
Water		5,000	5,000
Mud & Chemicals		60,000	60,000
Bits & Reams		29,000	30,000
Coring & Coring Analysis			
Drillstem Tests		12,000	12,000
Mud Logger	45 days @ $ 370 /day	16,500	16,500
Electric Logging		27,000	27,000
Cement & Cementing Services		17,000	24,000
Float Equipment, Centralizers		6,000	8,000
Perforating			5,000
Stimulation			6,000
Miscellaneous Rental Equipment		4,000	6,000
Miscellaneous Labor		5,000	8,000
Miscellaneous Hauling		5,000	8,000
Well Control Insurance		8,000	8,000
Abandonment Cost		5,000	
Drilling Supervision		9,000	12,000
Geological Supervision		6,000	6,000
Overhead		6,000	6,000
Miscellaneous Incidentals & Contingencies		106,725	113,175
TOTAL INTANGIBLES		818,225	867,675
TANGIBLES			
Conductor	16 " 30 FT.@$ 30.00 /FT.	900	900
Surface Casing	13 3/8" 450 FT.@$ 23.50 /FT.	10,575	10,575
Intermediate Casing	9 5/8" 4850 FT.@$ 17.49 /Ft.	84,828	84,828
	" FT.@$ /Ft.		
Production Casing	5 1/2" 12800 FT.@$ 11.67 /Ft.		149,341
Tubing	2 7/8" 12700 FT.@$ 7.68 /Ft.		97,536
Wellhead		4,000	26,000
Packers & Holddowns			5,500
Tanks & Accessory Equipment			10,500
Line Pipe			3,000
Heater-Treater & Seperators			25,000
Pumping Unit, Engine/Motor			
Compressors			
Sucker Rods			
Bottom Hole Pump			
Miscellaneous Incidentals & Contingencies		10,031	41,318
TOTAL TANGIBLES		110,334	454,498
TOTAL TANGIBLES & INTANGIBLES		928,559	1,322,173
LEASEHOLD		Total Completed Well Costs	1,332,173
Acreage			
Total Completed Well Cost Including Acreage			

Disapproved
Accepted and Approved

Company/Individual

Date

Interest

2x 3 Ck 7253

No. 0287775

RECEIPT FOR CERTIFIED MAIL

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

SENT TO
Marathon Oil Company

STREET AND NO.
1504 552

P.O. STATE AND ZIP CODE
Midland 79701

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	$

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

POSTMARK OR DATE
4-15-81
Bandera OCC

PS Form 3800, Apr. 1976

☆ GPO: 1976—O-203-436

No. 0287776

RECEIPT FOR CERTIFIED MAIL

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

SENT TO
J. M. Huber Corp.

STREET AND NO.
1900 Wilco Bldg.

P.O. STATE AND ZIP CODE
Midland 79701

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	$

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

POSTMARK OR DATE
4-15-81
Bandera Energy
OCC appl.

PS Form 3800, Apr. 1976

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
Bandera EXHIBIT NO. 4
CASE NO. 7253

PS Form 3811, Mar. 1978

1. The following service is requested (check one).
- ☑ Show to whom and date delivered..... 15¢
- ☐ Show to whom, date, & address of delivery.. 35¢
- ☐ RESTRICTED DELIVERY.
- ☐ Show to whom and date delivered..... 65¢
- ☐ RESTRICTED DELIVERY.
- ☐ Show to whom, date, and address of delivery 85¢

2. ARTICLE ADDRESSED TO:
Pauline Exploration Co.
P.O. Box 1207
Midland, Texas 79701

3. ARTICLE DESCRIPTION:
REGISTERED NO. | CERTIFIED NO. 28 9775 | INSURED NO.

4. RESTRICTED DELIVERY (Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:
CLERK'S INITIALS

DATE OF DELIVERY
APR 16 1981
POSTMARK
MIDLAND, TEXAS

☆ GPO: 1978-O-263-456

STICK POSTAGE STAMPS TO ARTICLE TO COVER FIRST CLASS POSTAGE, CERTIFIED MAIL FEE, AND CHARGES FOR ANY SELECTED OPTIONAL SERVICES. (see front)

If you want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, **leaving the receipt attached**, and present the article at a post office service window or hand it to your rural carrier. (no extra charge)

If you do not want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, date, detach and retain the receipt, and mail the article.

If you want a return receipt, write the certified-mail number and your name and address on a return receipt card, Form 3811, and attach it to the front of the article by means of the gummed ends if space permits. Otherwise, affix to back of article. Endorse front of article **RETURN RECEIPT REQUESTED** adjacent to the number.

If you want delivery restricted to the addressee, or to an authorized agent of the addressee, endorse RESTRICTED DELIVERY on the front of the article.

Enter fees for the services requested in the appropriate spaces on the front of this receipt. If return receipt is requested, check the applicable blocks in Item 1 of Form 3811.

Save this receipt and present it if you make inquiry.

☆ GPO 1978-256-815

PS Form 3811, Mar. 1978

1. The following service is requested (check one).
- ☐ Show to whom and date delivered..... 15¢
- ☐ Show to whom, date, & address of delivery.. 35¢
- ☐ RESTRICTED DELIVERY.
- ☐ Show to whom and date delivered..... 65¢
- ☐ RESTRICTED DELIVERY.
- ☐ Show to whom, date, and address of delivery 85¢

2. ARTICLE ADDRESSED TO:
Jim Ramey Corporation
900 West Wall
Midland, Texas 79701

3. ARTICLE DESCRIPTION:
REGISTERED NO. | CERTIFIED NO. 28 9776 | INSURED NO.

4. RESTRICTED DELIVERY (Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:
CLERK'S INITIALS

DATE OF DELIVERY
4-16-81
POSTMARK
MIDLAND, TEXAS

☆ GPO: 1978-O-263-456

STICK POSTAGE STAMPS TO ARTICLE TO COVER FIRST CLASS POSTAGE, CERTIFIED MAIL FEE, AND CHARGES FOR ANY SELECTED OPTIONAL SERVICES. (see front)

If you want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, **leaving the receipt attached**, and present the article at a post office service window or hand it to your rural carrier. (no extra charge)

If you do not want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, date, detach and retain the receipt, and mail the article.

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☆ GPO 1978-256-815

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
Pauline EXHIBIT NO. 4
CASE NO. 7253

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

SHOE BAR PROSPECT

OPERATING AGREEMENT

DATED

May 15, 19 81,

OPERATOR BANDERA ENERGY COMPANY

CONTRACT AREA E/2 Section 27, Township 16 South, Range 35 East

of the N.M.P.M. (320 acres, more or less)

COUNTY OR PARISH OF Lea STATE OF New Mexico

Exh 1

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between BANDERA ENERGY 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 agreement,
- (2) Restrictions, if any, as to depths or formations,
- (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.

If any provision of any exhibit, except Exhibit "E", 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 unleased oil and gas interest in the Contract Area, that interest shall be~~ treated for the purpose of this agreement and during the term hereof as ~~if it were~~ a leased interest under the form of oil and gas lease attached as Exhibit "B". ~~As~~ to such interest, the owner shall receive royalty on production as ~~prescribed in~~ the form of oil and gas lease attached hereto as Exhibit "B". Such ~~party shall,~~ however, be subject to all of the provisions of this agreement relating to lessees, ~~to the extent that it owns the lessee interest~~.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the Joint Account, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

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 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.~~

☒ XX 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. The 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", 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, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(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; and

(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 interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(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; and

(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 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 not be considered failure of title but 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:

BANDERA ENERGY 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 in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, 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", and not on the number of parties 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. If the Operator that is 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", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of September, 19 81, Operator shall commence the drilling of a well for oil and gas at the following location:

SE/4 of the NE/4 of Section 27, T-16-S, R-35-E
Lea County, New Mexico

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

12,800 feet or to a depth sufficient to test the Morrow formation, whichever is the lesser.

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.

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, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

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 pa.ties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties 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 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 or 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.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. 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 sixty (60) 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 where the drilling rig is on location, as the case may be) actually commence work on 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 (a) the total interest of the parties approving such operation, and (b) 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 or 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' interest. 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 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, 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, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300 % of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300 % of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

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, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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.

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) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

Each party shall 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 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 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 direct 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 and gas 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 and gas 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 and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas 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. Notwithstanding the foregoing, Operator shall not make a sale, XXXXXXXXXX into interstate commerce, of any other party's share of gas production without XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXX securing approval of said party.

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 Agreement is attached as Exhibit "E", or is a separate Agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole 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 pursuant to Article VI.B.2., any well which has been drilled 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 or 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 of such well. Any party who objects to the 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 which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein 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 such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation 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 to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, 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 year and so long thereafter as oil and/or gas is produced from the interval or inter-~~

~~rule of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "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 percentages 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 interest 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.

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 the Accounting Procedure attached hereto as 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 the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

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

D. Limitation of Expenditures:

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

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

[X] Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, 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.

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, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars---------Dollars ($ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand Dollars--------- Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 18.75% due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any 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 settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. 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 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.

G. 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. Operator shall bill other parties for their proportionate share 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, 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.

H. 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 an amount equivalent to the premium which would have been paid had such insurance been obtained. 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 fully owned 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 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 desiring to surrender it. ~~If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one 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, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production, ~~other than the royalties retained in any lease made under the terms of this Article~~. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned 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 is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. ACREAGE OR CASH CONTRIBUTIONS:

If any party receives, while this agreement is in force, a contribution of cash toward 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 is in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage without warranty of title to all parties in proportion to their interest in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area. When any contribution is contingent upon the completion of any one or more operations in which all of the parties hereto do not participate through the earning of such contribution, the contribution shall belong solely to those parties who participated in all steps of the operation constituting such condition precedent and any party not participating in all steps of such condition precedent shall not recieve any part of such contribution.

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. SUBSEQUENTLY CREATED INTEREST:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary,~~ 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 interests 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 hereof.

F. Waiver of Right 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.

~~**G. 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 provisions 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 damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand Dollars and no/100ths Dollars ($ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. 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, the party shall immediately notify Operator, 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 United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party 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 United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof 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 subjected 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, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

~~☐ 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 or reworking 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 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 committed acreage 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:

The essential validity of this agreement and all matters pertaining thereto, 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 where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

NONE

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 _____ day of _____, 19____.

OPERATOR

BANDERA ENERGY COMPANY

BY: _____

NON-OPERATORS

Marathon Oil Company

BY: _____

J.M. Huber Corporation

BY: _____

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated May 15, 1981, by and between Bandera Energy Company as Operator and J.M. Huber Corporation and Marathon Oil Company as Non-Operators.

Part I CONTRACT AREA

East half (E/2) of Section 27
T-16-S, R-35-E, N.M.P.M.
Lea County, New Mexico

Part II DEPTH OR FORMATION RESTRICTION

Morrow Formation Only

Part III INTEREST AND ADDRESSES OF PARTIES FOR NOTICE PURPOSES

Bandera Energy Company — 50%
602 Gihls Tower West
Midland, Texas 79701
(915) 684-9009

J.M. Huber Corporation — 25%
1900 Wilco Building
Midland, Texas 79701
(915) 682-3794

Marathon Oil Company — 25%
P.O. Box 552
Midland, Texas 79702
(915) 682-1626

Part IV See Attached Schedule

EXHIBIT "A"

LESSOR	LESSEE	DESCRIPTION	LEASE DATE & EXPIRATION	RECORDED BOOK/PAGE	BASIC ROYALTY	OVERRIDING ROYALTY
Robert Boyce Edison	R. C. Jeter and Wife, Hattie Mae Jeter	E/2 E/2 Section 27 T-16-S, R-35-E	10/16/80 10/16/81	331/182	3/16	5% 1.25% (to

(Additional Lease Information from J.M. Huber & Monsanto.)

EXHIBIT "A"

DESCRIPTION	LEASE DATE & EXPIRATION	RECORDED BOOK/PAGE	BASIC ROYALTY	OVERRIDING ROYALTY
E/2 E/2 Section 27 T-16-S, R-35-E	10/16/80 10/16/81	331/182	3/16	5% 1.25% (to be assigned)

EXHIBIT "B"

NONE

. Kraftbill 601, BOX 800 TULSA OK 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies of North America

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated May 15, 1981, by and between Bandera Energy Company as Operator and J.M. Huber Corporation and Marathon Oil Company 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 of North America.

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

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. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

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 rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

A. 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 joint or simultaneous audits 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.

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. Rentals and Royalties

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

2. 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.

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 2A of this Section II. Such costs under this Paragraph 2B 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 2A 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 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. 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 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. 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.

5. 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, recognized barge terminal, or railway receiving point where like material is normally available, 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, recognized barge terminal, or railway receiving point 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, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii 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.

7. 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 investment not to exceed eight per cent (8%) 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 7A 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.

8. 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.

9. Legal Expense

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

10. 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.

11. 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 Workmen'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.

12. 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 incurred by the Operator in the necessary and proper conduct of the Joint Operations.

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:

(XX) 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 2A, 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~~ ( ) shall not (X) 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 $ 4,000.00
Producing Well Rate $ 400.00

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

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive 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, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive 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 may be made for the month in which plugging and abandonment operations are completed on any well.

[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 Fields 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 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 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 crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in ~~Paragraph 2 of this Section III. All other costs shall be considered as Operating.~~

2. Overhead - Major Construction

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

A. * % of total costs if such costs are more than $ 25,000.00 but less than $ 100,000.00 ; plus

B. * % of total costs in excess of $ 100,000.00 but less than $1,000,000; plus

C. * % of total 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 shall be excluded.

3. 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 reason, 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 bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds 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 where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

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

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, 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 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(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 2A of this Section IV. 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

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the 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 and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(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

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with 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 or change of interest 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.

4. Expense of Conducting Periodic Inventories

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

ATTACHED TO AND MADE a part of that certain Agreement dated May 15, 1981 by and between Bandera Energy Company, as Operator, and J.M. Huber Corporation and Marathon Oil Company as Non-Operators.

EXHIBIT "D"

At all times during the conducting (including Pre-drilling and Exploratory Drilling Activity) of operations hereunder, Operator shall maintain in force the following insurance:

A. Workmen's Compensation and/or Employer's Liability Insurance in amounts reasonably sufficient to cover liability for injury to or death of Operator's employees, such insurance, if required by laws of the state in which the leased lands are located, to be in conformity with such laws.

B. Comprehensive General Liability Insurance with limits of not less than $300,000.00 covering injury to or death of more than one person by reason of one accident, and Property Damage Insurance with limits of not less than $100,000.00 for each accident and $100,000.00 in the aggregate, including coverage for the hazards of contractual liability, contractor's protective liability, owners protective liability, products and completed operations. Policy should also extend to cover loss from explosion, blowout and cratering, underground property damage, and pollution without limitation for oil or gas.

C. Comprehensive Automobile Liability Insurance with limits of not less than $100,000.00 covering injury to or death of one person and not less than $300,000.00 covering injury to or death of more than one person by reason of one accident, and not less than $100,000.00 covering property of third persons, including coverage for all owned, hired, and non-owned vehicles.

D. Umbrella Liability Insurance in the amounts not less than $5,000,000.00 excess of all primary limits.

E. Control the Well Insurance covering risks of damage to drilling and production equipment including cleanup and containment coverage, as agreed upon the parties.

EXHIBIT "E"

ATTACHED TO AND MADE A part of that certain Agreement dated May 15, 1981, by and between Bandera Energy Company, as Operator and J.M. Huber Corporation and Marathon Oil Company as Non-Operators.

GAS STORAGE AND BALANCING AGREEMENT

(1) During the period or periods when any party hereto has no market for, or its purchaser is unable to take, or if any party fails to take, its share of gas (such a party or parties called individually or collectively "underproduced party"), the other party or parties (called individually or collectively "overproduced party") shall be entitled to produce each month one hundred percent of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and such overproduced party shall have the right to take all of the share of the underproduced party, subject to the provisions hereof, until such underproduced party shall exercise its rights to take its share of such gas production. All parties hereto shall share in and own all the condensate as actually recovered at the surface in accordance with their respective interests, but the overproduced party taking all such gas may sell and deliver all such gas to its purchaser(s), subject to the provisions hereof. Thereafter each underproduced party shall be credited with gas in storage equal to its share of the gas produced, less its share of gas 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 monthly statements showing the total quantity of gas produced, used in lease operations, vented or lost, and the total quantity of condensate recovered.

(2) After notice to Operator and the overproduced party, an underproduced party may begin taking and/or delivering its share of the gas produced. In addition to its share, each underproduced party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to thirty-seven and one-half percent (37.5%) of the overproduced party's share of gas produced. If "underproduced party" constitutes more than one party entitled to the additional gas produced, such parties shall divide such additional gas in accordance with their shares of Unit participation.

(3) At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interests, and other like payments for which it is responsible (referred to collectively as "royalty") as if each party were actually taking or delivering to a purchaser its share, and its share only, of such gas production; provided that during any period of imbalance, the overproduced party shall remit to the underproduced party, the royalty share of production proceeds of the underproduced party's Unit share of gas being taken by the overproduced party. In lieu of making payment of such royalty share of proceeds to the underproduced party, the overproduced party may, if it so elects, make payment directly to the royalty owners of the underproduced party.

(4) Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

(5) When gas sales from a reservoir in a gas well permanently cease, Operator shall be responsible for determining the final accounting of underproduction and over-production. Each overproduced party shall compensate each underproduced party in accordance with said accounting with a sum of money equal to the amount actually received from the sale of underproduced party's share of gas by such overproduced party during each period of overproduction not theretofore recovered by underproduc party pursuant to Paragraph (2) above, less applicable taxes, on a cumulative basis. Payment for such overproduction shall be in the order of accrual with actual recovery of underproduced gas by underproduced party prior to such cessation of production being accounted for as to storage and withdrawal on a first in - first out basis. If such overproduced party has paid the royalties attributable to such overproduction, the amount of such royalties shall be deducted from such payment.

(6) The provisions of this agreement shall be separately applicable to each well and each reservoir within each well to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs or gas wells.

(7) Nothing herein contained shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in joint operations, as its share thereof is set forth in the above described Operating Agreement.

F. Other insurance which the Operator may feel is reasonably required to protect the property covered under this Agreement from risks, hazards, and perils which are inherent in the exploration development, operation, and maintenance of similar operations.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement by and between LAGUNA PETROLEUM COMPANY, as operator, and the non-operators on the signature pages, dated May 15, 1981

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

I. EQUAL OPPORTUNITY CLAUSE

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

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

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

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

D. The CONTRACTOR will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

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

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

G. The CONTRACTOR will include the provisions of paragraphs A through G in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The CONTRACTOR will take such action with respect to any subcontract or purchase order as to the

contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance; provided, however, that in the event the CONTRACTOR becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the CONTRACTOR may request the United States to enter into such litigation to protect the interests of the United States.

II. CERTIFICATION OF NONSEGREGATED FACILITIES

CONTRACTOR certifies that he does not and will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not nor will not permit his employees to perform his services at any locations, under his control, where segregated facilities are maintained.

As used in this Certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion or national origin, because of habit, local custom or otherwise.

R 35 E

T 16 S

1st Proposed Location

2nd Proposed Location

1st Proposed Location

DIU

CIU

- Abo
- Wolfcamp
- Cisco-Canyon
- Strawn
- Atoka/Morrow
- Mississippian
- Devonian

BANDERA ACREAGE

PROPOSED MORROW GAS UNIT (If 1st Well Morrow Produced)

PROPOSED MORROW GAS UNIT (If Morrow Void in 1st Well)

BANDERA ENERGY COMPANY

GIHLS TOWER WEST - SUITE 602 MIDLAND, TEXAS 79701

SHOE BAR PROSPECT

LEA COUNTY, NEW MEXICO

T/MISSISSIPPIAN LIME

(MERAMEC)

SCALE: 1" = 2000'

Contour Interval 100'

Ex 2

Project Shoe Bar - West

BANDERA ENERGY COMPANY
602 Gihls Tower West
Midland, Texas 79701

____ Original
____ Supplement No. ____
____ Revision No. ____

AFE No. ____ Lease Name Eidson Ranch Well No. 1-27 (Morrow)

Description SW/4 Sec. 27 T16S R35E County Lea

State New Mexico Area Shoebar Operator Bandera

Project D&E Morrow Gas Well Prepared by C.M. Hartwell

Exploration __ Development X Recompletion __ Workover __ T.D. 12,800 Date 4/7/81

INTANGIBLES		Dry Hole	Completed
Road, Location and Damages		20,000	20,000
Rig Moving Expense		20,000	20,000
Drilling-Footage	FT. @ $ /FT.		
Drilling Daywork	55 days @ $ 7400 /day	407,000	407,000
Completion Rig	10 days @ $ 1506 /day		15,000
Rig Fuel		44,000	45,000
Water		5,000	5,000
Mud & Chemicals		60,000	60,000
Bits & Reams		29,000	30,000
Coring & Coring Analysis			
Drillstem Tests		12,000	12,000
Mud Logger	45 days @ $ 370 /day	16,500	16,500
Electric Logging		27,000	27,000
Cement & Cementing Services		17,000	24,000
Float Equipment, Centralizers		6,000	8,000
Perforating			5,000
Stimulation			6,000
Miscellaneous Rental Equipment		4,000	6,000
Miscellaneous Labor		5,000	8,000
Miscellaneous Hauling		5,000	8,000
Well Control Insurance		8,000	8,000
Abandonment Cost		5,000	
Drilling Supervision		9,000	12,000
Geological Supervision		6,000	6,000
Overhead		6,000	6,000
Miscellaneous Incidentals & Contingencies		106,725	113,175
TOTAL INTANGIBLES		818,225	867,675
TANGIBLES			
Conductor	16 " 30 FT.@$ 30.00 /FT.	900	900
Surface Casing	13 3/8" 450 FT.@$ 23.50 /FT.	10,575	10,575
Intermediate Casing	9 5/8" 4850 FT.@$ 17.49 /Ft.	84,828	84,828
	" FT.@$ /Ft.		
Production Casing	5 1/2" 12800 FT.@$ 11.67 /Ft.		149,341
Tubing	2 7/8" 12700 FT.@$ 7.68 /Ft.		97,536
Wellhead		4,000	26,000
Packers & Holddowns			5,500
Tanks & Accessory Equipment			10,500
Line Pipe			3,000
Heater-Treater & Seperators			25,000
Pumping Unit, Engine/Motor			
Compressors			
Sucker Rods			
Bottom Hole Pump			
Miscellaneous Incidentals & Contingencies		10,031	41,318
TOTAL TANGIBLES		110,334	454,498
TOTAL TANGIBLES & INTANGIBLES		928,559	1,322,173

LEASEHOLD — Total Completed Well Costs 1,332,173
Acreage
Total Completed Well Cost Including Acreage

____ Disapproved
____ Accepted and Approved

Company/Individual — Date

Signature — Interest ____ BCP ____ ACP

Ex 3

Dockets Nos. 17-81 and 18-81 are tentatively set for June 3 and 17, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 20, 1981

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for June, 1981, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for June, 1981, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7242: (Readvertised)

Application of Harvey E. Yates Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Wolfcamp-Mississippian location of its McDonald Well No. 1 to be drilled 660 feet from the South line and 990 feet from the East line of Section 33, Township 13 South, Range 36 East, the S/2 of said Section 33 to be dedicated to the well.

CASE 7243: (Readvertised)

Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests in the Pennsylvanian-Devonian formations underlying the SE/4 SE/4 of said Section 33 for an oil completion. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7253: Application of Bandera Energy Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 27, Township 16 South, Range 35 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7254: Application of Mesa Petroleum Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde formation underlying the W/2 of Section 15, Township 30 North, Range 11 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7255: Application of Gulf Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the W/2 of Section 28, Township 18 South, Range 32 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7256: Application of Petro-Lewis Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blinebry, Drinkard, and Abo production in the wellbore of its Gulf Sarkeys Well No. 2 located in Unit F of Section 25, Township 21 South, Range 37 East.

CASE 7257: (This case will be dismissed and a different well will be docketed for hearing later.)

Application of Cities Service Company for a salt water disposal well, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Entrada formation at approximately 5300 feet in its Federal "M" Well No. 1 in Unit P of Section 21, Township 19 North, Range 5 West.

(e) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the McMillan-Wolfcamp Gas Pool. The discovery well is Marbob Energy Corporation State CJ Com Well No. 1 located in Unit G of Section 24, Township 20 South, Range 26 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 26 EAST, NMPM
Section 24: N/2

(f) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Bone Spring production and designated as the North Osudo-Bone Spring Pool. The discovery well is Jake L. Hamon Hamon-Samedan-Petty Well No. 1 located in Unit N of Section 8, Township 20 South, Range 36 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 36 EAST, NMPM
Section 8: SW/4

(g) CREATE a new pool in Eddy County, New Mexico, classified as an oil pool for Wolfcamp production and designated as the West Palmillo-Wolfcamp Pool. The discovery well is Bass Enterprises Production Company Palmillo State Well No. 1 located in Unit J of Section 1, Township 19 South, Range 28 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 1: NW/4 SE/4

(h) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Atoka production and designated as the Scoggin Draw-Atoka Gas Pool. The discovery well is Amoco Production Company Federal F Gas Com Well No. 1 located in Unit G of Section 3, Township 18 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 18 SOUTH, RANGE 27 EAST, NMPM
Section 3: E/2

(i) CREATE a new pool in Roosevelt County, New Mexico, classified as an oil pool for Cisco production and designated as the East Tanneyhill-Cisco Pool. The discovery well is Energy Reserves Group, Inc. El Paso State Well No. 1 located in Unit P of Section 8, Township 6 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 6 SOUTH, RANGE 34 EAST, NMPM
Section 8: SE/4

(j) ABOLISH the Carlsbad-Canyon Gas Pool in Eddy County, New Mexico, described as: (acreage to be added to East Carlsbad-Wolfcamp Gas Pool)

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 21: S/2

(k) ABOLISH the Carlsbad Permo-Pennsylvanian Gas Pool in Eddy County, New Mexico, described as: (acreage to be added to East Carlsbad-Wolfcamp Gas Pool)

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 15: All

(l) EXTEND the Baldridge Canyon-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 24 EAST, NMPM
Section 36: S/2

TOWNSHIP 23 SOUTH, RANGE 25 EAST, NMPM
Section 31: S/2

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPM
Section 1: E/2
Section 12: E/2

TOWNSHIP 24 SOUTH, RANGE 25 EAST, NMPM
Section 6: W/2
Section 7: N/2

(y) EXTEND the Maljamar-Strawn Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 32 EAST, NMPM
Section 28: W/2

(z) EXTEND the Malaga-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM
Section 10: S/2
Section 23: N/2

(aa) EXTEND the North Peterson-Pennsylvanian Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM
Section 17: SE/4

(bb) EXTEND the South Salt Lake-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 32 EAST, NMPM
Section 5: Lots 1, 2, 3, 4, 5, 6, 7, and 8

(cc) CONTRACT the vertical limits of the Shugart-Pennsylvanian Gas Pool to include the Morrow formation only and redesignate said pool as Shugart-Morrow Gas Pool, and extend the horizontal limits of said pool to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM
Section 26: N/2

(dd) EXTEND the North Shugart-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM
Section 7: E/2
Section 18: All

(ee) EXTEND the East Weir-Blinebry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 7: N/2 N/2
Section 8: N/2 N/2
Section 9: W/2 NW/4

JAMES T. JENNINGS
SIM B. CHRISTY IV
DEAN G. CONSTANTINE

LAW OFFICES OF
JENNINGS & CHRISTY
1012 SECURITY NATIONAL BANK BUILDING
P. O. BOX 1180
ROSWELL, NEW MEXICO 88201

TELEPHONE 622-8432
AREA CODE 505

May 21, 1981

Mr. Daniel S. Nutter
Chief Examiner
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: NMOCD Case 7253
Application of Bandera Energy
Company for compulsory pooling
Lea County, New Mexico

Dear Mr. Nutter:

We believe that there may be some confusion as to exactly when payments from Marathon and Huber would be due in the event that the captioned application is granted and Marathon and/or Huber agree to join in drilling the well pursuant to the compulsory pooling order and following presentation of an AFE. It is the intent of Bandera that an election to participate must be made within 30 days after submittal of an AFE or the non-consenting party is deemed to have agreed to any risk factor contained in the Commission's order.

As to any party who does consent within the above time limits, then actual payment with respect thereto is deferred until Bandera has adequately tested, to the satisfaction of the Commission, the Morrow formation encountered in the drilling operation, and payment is due whether or not the test results in a well producing or capable of producing from the Morrow formation; provided, however, that if Bandera elects to complete the well in any other formation and not to complete it in the Morrow formation, then no payment is due.

Bandera has no objection to the Commission requiring a further hearing as to the adequacy of the Morrow test if performed.

We trust that the foregoing may be of some benefit to the Commission, and we ask that this letter be included in the record. By carbon copy hereof we are notifying opposing counsel of the above, and if they wish to submit a letter to you in reply we have no objection to it being included in the record.

Respectfully,

JENNINGS & CHRISTY

By S. B. Christy IV

SBC/jy

cc: Bandera Energy Company
cc: Atwood, Malone, Mann & Cooter (Mr. Cooter)
cc: Campbell, Bingaman & Black

CONSENTED AND AGREED:

BANDERA ENERGY COMPANY

By
W. C. C. Barnes,
General Partner

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE

JEFFERSON PLACE
SUITE I - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

June 9, 1981

Rec'd June 9, '81

Mr. Daniel S. Nutter
Chief Engineer
New Mexico Oil Conservation
Division
Post Office Box 2088
Santa Fe, New Mexico 87501

HAND DELIVERED

Re: Case 7253: Application of Bandera Energy Company for Compulsory Pooling, Lea County, New Mexico

Dear Mr. Nutter:

This letter is written in response to the letter of Sim B. Christy, IV, dated May 21, 1981, in which Mr. Christy outlined Bandera's payment proposal in the above-referenced matter. We have reviewed this proposal with Marathon and request that the following comments be included in the record.

At the time of the hearing, Bandera admitted that its primary objective in drilling the subject well was the Devonian formation. It was also admitted that there are better locations on Section 27, Township 16 South, Range 35 East, for a well to test the Morrow formation.

It is Marathon's recommendation that no risk factor be imposed upon those who do not voluntarily participate in the drilling of the well. This recommendation is based on the fact that the proposed well will not be drilled at the most desirable location for a Morrow well on Section 27. We submit that it is unreasonable to ask other operators to pay more than their proportionate share of the well costs when the risk involved is to a large degree a result of the fact that the operator has elected to drill at a poor location because the primary objective of the well is not the formation which is the subject of the pooling application. Under Bandera's proposal, Marathon will be expected to pay a share of the well costs if the proposed well is dry in both the Morrow and the Devonian or if the well is capable of only

marginal production from the Morrow. It simply appears to us that Marathon is being asked to pay a portion of the costs of Bandera's well if they are unable to make a successful completion in the Devonian.

We cannot recall any requests similar to that of Bandera having ever been presented to the Division. We believe that granting it would establish an unhealthy precedent. If this application is granted, in the future, any operator who drills a well could seek an order from the Division pooling all zones shallower than its primary objective. If the well was dry, such an order would enable the operator to obtain contribution for the cost of drilling the well from all those mineral interest owners in the shallower zones.

Your consideration of these comments is appreciated.

Very truly yours,

William F. Carr

WFC:lr

cc: Sim B. Christy, IV, Esq.
Paul Cooter, Esq.
Robert J. Pickens, Esq.
Mr. Willie Legg

JAMES T. JENNINGS
SIM B. CHRISTY IV
DEAN G. CONSTANTINE

LAW OFFICES OF
JENNINGS & CHRISTY
1012 SECURITY NATIONAL BANK BUILDING
P. O. BOX 1180
ROSWELL, NEW MEXICO 88201

TELEPHONE 622-8432
AREA CODE 505

May 21, 1981

Mr. Daniel S. Nutter
Chief Examiner
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: NMOCD Case 7253
Application of Bandera Energy
Company for compulsory pooling
Lea County, New Mexico

Dear Mr. Nutter:

We believe that there may be some confusion as to exactly when payments from Marathon and Huber would be due in the event that the captioned application is granted and Marathon and/or Huber agree to join in drilling the well pursuant to the compulsory pooling order and following presentation of an AFE. It is the intent of Bandera that an election to participate must be made within 30 days after submittal of an AFE or the non-consenting party is deemed to have agreed to any risk factor contained in the Commission's order.

As to any party who does consent within the above time limits, then actual payment with respect thereto is deferred until Bandera has adequately tested, to the satisfaction of the Commission, the Morrow formation encountered in the drilling operation, and payment is due whether or not the test results in a well producing or capable of producing from the Morrow formation; provided, however, that if Bandera elects to complete the well in any other formation and not to complete it in the Morrow formation, then no payment is due.

Bandera has no objection to the Commission requiring a further hearing as to the adequacy of the Morrow test if performed.

We trust that the foregoing may be of some benefit to the Commission, and we ask that this letter be included in the record. By carbon copy hereof we are notifying opposing counsel of the above, and if they wish to submit a letter to you in reply we have no objection to it being included in the record.

Respectfully,

JENNINGS & CHRISTY

By _____
S. B. Christy IV

SBC/jy

cc: Bandera Energy Company
cc: Atwood, Malone, Mann & Cooter (Mr. Cooter)
cc: Campbell, Bingaman & Black

CONSENTED AND AGREED:

BANDERA ENERGY COMPANY

By _____
W. C. C. Barnes,
General Partner

JAMES T. JENNINGS
SIM B. CHRISTY IV
DEAN G. CONSTANTINE

LAW OFFICES OF
JENNINGS & CHRISTY
1012 SECURITY NATIONAL BANK BUILDING
P. O. BOX 1180
ROSWELL, NEW MEXICO 88201

TELEPHONE 622-8432
AREA CODE 505

August 20, 1981

Mr. Daniel S. Nutter
Chief Engineer
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Case 7253: Application of Bandera Energy Company for Compulsory Pooling, Lea County, New Mexico

Dear Mr. Nutter:

You may remember the captioned case was heard before you on May 20, 1981, and both we and attorney Carr supplemented the testimony by written letters to you.

We are writing to inquire if you wish any further presentation or information prior to rendering an Order.

Respectfully,

JENNINGS & CHRISTY

By S. B. Christy IV

SBC/jy

cc: William F. Carr, Esq.
cc: Paul Cooter, Esq.
cc: Bandera Energy Company (Mr. Barnes)

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
20 May 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Bandera Energy Company for compulsory pooling, Lea County, New Mexico.

CASE 7253

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

APPEARANCES

For the Oil Conservation Division:	Ernest L. Padilla, Esq. Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501
For the Applicant:	Sim B. Christy, IV, Esq. JENNINGS & CHRISTY P. O. Box 1180 Roswell, New Mexico 88201
For Marathon:	William F. Carr, Esq. CAMPBELL, BYRD, AND BLACK Jefferson Place Santa Fe, New Mexico 87501

I N D E X

E X H I B I T S

A P P E A R A N C E S

For J. M. Huber:

Paul Cooter, Esq.
ATWOOD, MALONE, MANN & COOTER
Roswell, New Mexico 88201

MR. NUTTER: We'll call next Case Number 7253.

MR. PADILLA: Application of Bandera Energy Company for compulsory pooling, Lea County, New Mexico.

MR. CHRISTY: Sim Christy, Jennings and Christy, Roswell, New Mexico, for the applicant.

We have three witnesses, Mr. Examiner.

(Witnesses sworn.)

MR. CHRISTY: Mr. Barnes, please.

MR. COOTER: Paul Cooter from Roswell putting in an appearances in that case on behalf of J. M. Huber Corporation.

MR. CARR: William F. Carr, with Campbell, Byrd, and Black, entering an appearance on behalf of Marathon.

MR. CHRISTY: Who?

MR. CARR: Marathon.

WILLIAM C. C. BARNES

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CHRISTY:

Q. Would you state your name and address, and by whom you're employed, and in what capacity?

A. William C. C. Barnes. I'm employed by Bandera Energy Company. I'm a general partner and land manager.

Q. Mr. Barnes, do you know what is sought by Case 7253?

A. Yes, I do.

Q. Would you please briefly tell the Examiner what is sought?

A. Yes, sir. What we would like to do is seek an order pooling all the Morrow formation under the east half of Section 27, of Township 16 South, 35 East, Lea County, New Mexico.

Q. What is the working interest ownership in the east half of Section 27?

A. The east half of the east half is owned by Bandera Energy Company. The west half of the northeast

quarter is owned by Marathon, and the west half of the southeast quarter is owned by J. M. Huber.

Q. Have you sought agreement to obtain an operating agreement, or agreement, with these working interest owners to drill a well?

A. Yes, sir, I have.

Q. And what was the response?

A. We have failed to make an agreement.

Q. Now, let's take Marathon first. Has Marathon said no, or what?

A. They haven't answered either way.

Q. When did you start trying to put this together?

A. Back in, I believe it was April of this year.

Q. Could it have been March?

A. It may have been March, I'm sorry. March 18.

Q. March 18?

A. March 18.

Q. And how about Huber?

A. March 18, also.

Q. And you've been unable to reach agreement?

A. That is correct.

Q. Do you have a suggested form of operating agreement for the Commission's consideration?

A. Yes, I do.

Q. Please refer to Exhibit One and tell me if that is your proposed form of operating agreement?

A. That is our proposed form of operating agreement.

Q. And this is for the Morrow only?

A. That is correct.

Q. Now, with respect to drilling and producing rates, what do you propose on that?

A. For drilling well we used $4000; producing well would be $400.

Q. Do you feel that is reasonable and fair?

A. That is reasonable and fair.

Q. And you're willing to pay your proportionate part of that?

A. That is true.

Q. Now I notice there is one typographical error in the exhibit at page two of Exhibit A thereto. It speaks about additional lease information from J. M. Huber and Monsanto. That should be Marathon, should --

A. That should be Marathon.

Q. Do you wish to amend the exhibit?

A. I wish to amend that.

Q. All right. Is this a type of operating agreement that's standard in the industry in southeast New Mexico?

A. That is correct.

Q. All right. What would you suggest with respect to any type of penalty for risk in drilling?

A. Recover our cost plus a 200 percent penalty.

Q. If they don't belong to it?

A. If they do not wish to join.

Q. Now you understand that if this application is granted, they still have the right to join after you submit them an AFE?

A. That is correct.

Q. You understand that?

A. I understand.

Q. You agree with it?

A. I agree, yes.

MR. CHRISTY: No further questions.

MR. NUTTER: Mr. Christy, I haven't found that change on page two.

MR. CHRISTY: It's page two, Exhibit A.

MR. NUTTER: Okay, and this should be

corrected to what, now?

MR. CHRISTY: Marathon.

MR. NUTTER: Oh, instead of Monsanto.

MR. CHRISTY: Correct. Just a typographical error.

MR. NUTTER: Are there any questions of Mr. Barnes?

MR. COOTER: Mr. Examiner, I have a few on behalf of Huber.

MR. NUTTER: Mr. Cooter.

CROSS EXAMINATION

BY MR. COOTER:

Q. Mr. Barnes, your original proposal to Huber, and I'm assuming similarly to Marathon, as set forth in your letter of March 18, 1981, you propose to drill your well in the southeast quarter of the northeast quarter of Section 27 as a Devonian test, did you not?

A. The Devonian, yes, sir.

Q. And in that you ask Huber to farm out, whether or not it would be interested in farming out its acreage to you.

A. That is correct. I -- that is correct.

Q. And in reply to your letter of March 18

you received, did you not, Huber's letter of March 27, wherein they advised you that they were not interested in the east half unit but proposed as an alternative a possible south half unit?

A. That was on which day?

Q. Their letter of March 27.

A. Yes.

Q. Did Bandera reply by letter to that counter proposal?

A. I don't believe we did. We did not reply to that. We replied telephonically.

Q. And then Bandera received on or about May 5 from Huber Corporation a proposal whereby Huber would farm out its acreage to Bandera for your east half test on the basis of reserving a 1/16th override prior to payout and back in for 50 percent working interest proportionally reduced after payout of your proposed test.

A. That is correct. It was unacceptable to us.

Q. Did you reply by letter to that?

A. We replied telephonically.

Q. Were the -- those terms standard, pretty well accepted farm out terms for this area?

A. Not to us, no.

MR. COOTER: That's all. Thank you, sir.

MR. NUTTER: Are there any other questions of the witness?

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Barnes, now Bandera owns the east half of the east half of Section 27, is that correct?

A. That is correct.

Q. Now, does Marathon and Huber jointly own the west half of the east half or do they have a divided interest?

A. They have a divided interest, like I said. Marathon's interest is the west half of the northeast quarter and Huber's interest is the west half of the southeast quarter.

Q. Okay, so each one has its own individual 50-acre tract, then.

A. 80-acre tract, yes.

Q. 80-acre tract.

Okay, now on this Exhibit Number Two, I guess you haven't really come to that yet.

MR. CHRISTY: We haven't come to that

yet.

MR. NUTTER: Okay.

MR. CHRISTY: He's familiar with it, though, I feel sure.

MR. NUTTER: Well, I might just ask him now.

MR. CHRISTY: Sure.

Q. You've got your second proposed location with the south half dedicated here. We're not even talking about the south half --

A. No, we are not.

Q. -- only the east half.

A. This is an exhibit for your own information that we submit to our people.

Q. Okay, now, in the examination by Mr. Cooter, he mentioned the proposal to drill a Devonian well and you talked to them about a farm out on their land. What is the spacing for a Devonian well in this area?

A. 80 acres.

Q. So, actually, if you would propose a well at the location you're talking about now, you wouldn't need any farm out from anyone to drill a Devonian well, would you?

A. That is correct.

Q. You've got your own 80-acre tract.

A. That is correct.

Q. Matter of fact, two of them. But now you're thinking in terms of a Morrow gas well?

A. Yes, sir. In the drilling of the Devonian you go through the -- the Devonian is deeper than the Morrow.

Q. No. Yes, yes, sure, so you're just talking about a Morrow gas well at this time.

A. That's all we're talking about, yes.

Q. Uh-huh.

MR. NUTTER: Are there any further questions of Mr. Barnes? He may be excused.

MR. CHRISTY: Call Mr. Hollis Brice.

HOLLIS BRICE

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CHRISTY:

Q. You've previously been sworn?

A. Yes.

Q. Would you please state your name, your

address, by whom you're employed, and in what capacity?

A. Hollis Brice; employed by Bandera Energy Company as a partner and geologist, from Midland, Texas.

Q. Mr. Brice, have you previously testified before this regulatory body as a geologist and had your qualifications accepted?

A. No, I have not.

Q. Would you briefly tell the Examiner what schools of higher learning you went to and what degrees, if any, received?

A. I attended Sul Ross University in Alpine, Texas, and received a BS of geology in 1951.

Q. And what have you done in the geology field since 1951, very briefly?

A. Briefly, I was employed by Phillips in 1954 and went through various geological capacities in both domestic, international.

Returned to the States in 1961 and was employed as a district geologist in New Mexico from '61 through '77 with Phillips Petroleum Company.

Q. Does your expertise in geology include the area in Township 16 South, Range 35 East, Lea County, New Mexico?

A. It does.

MR. CHRISTY: Qualifications acceptable, Mr. Examiner?

MR. NUTTER: Yes, they are.

MR. CHRISTY: Thank you.

Q. Mr. Brice, you are familiar with what is sought in Case 7253, are you not?

A. I am.

Q. All right, sir. Let me hand you what's been marked as Applicant's Exhibit Two, and would you please explain to the Examiner what this is and what it depicts?

A. This is a subsurface map atop the Mississippian lime marker in the area of the Shoebar Field. It's based on subsurface data only. It depicts what we think might be the structural conditions present around our leases west of the Shoebar Field.

The information is somewhat limited, as we have only one good west well control, which is in the northeast of the northeast of 34, which indicates to us there is a possible fault bounding the west side of the Shoebar Field.

The Shoebar Field is a field that has produced from Devonian, Pennsylvanian, and Abo. West of the fault there is Morrow production present in several sections running north/south. We feel that the strike of this fault

may be some degree of northwest/southeast, but we do not have extremely close control across our leases.

In addition, the plat indicates what wells are productive from which horizons at this time.

Q. So if you get northeast of the fault you get into Devonian?

A. If you get northeast of the fault you should have Devonian in an optimum structural position.

Q. All right, supposing you get southwest of the fault?

A. If you go across the fault you might very well have a poorer structural position for the Devonian, but you might very well have a depositional feature in the Morrow that would tend to make you feel that you could possibly complete a Morrow well on that side.

Q. We just don't know where the fault is going to fall.

A. We just do not know exactly the position of the fault but we feel like we're extremely close to it.

Q. Does -- so you're going to drill through, if there's any Morrow, through the Morrow to the Devonian.

A. Right.

Q. And depending on where the fault is, try for either Devonian or Morrow.

A. Or Morrow, depending on the position of the fault.

Q. I see. What's a well going to cost, let's talk about just to the Morrow?

A. Our completed producer cost on the Morrow well is $1,332,173.

Q. Is that broken out for you -- for the Examiner on your Exhibit Three?

A. It is.

Q. All right, sir.

Is there anything I haven't asked you that you think would be of information to the Examiner in connection with this hearing?

A. I feel like we've pretty well covered the conditions.

MR. CHRISTY: That's all from this witness.

MR. NUTTER: Are there any questions of the witness?

MR. COOTER: Yes, sir.

MR. NUTTER: Mr. Cooter.

CROSS EXAMINATION

BY MR. COOTER:

MR. COOTER: Mr. Christy, have you offered Exhibits Two and Three?

MR. CHRISTY: I haven't offered any exhibits.

Q. Mr. Brice, from the Exhibit Two, which is your --

A. Plat.

Q. -- plat, you show the proposed location in the southeast quarter of the northeast quarter as being on the upthrust side of the fault, do you not?

A. Correct.

Q. And if that be correct, what you're looking at is, hopefully, a Devonian completion.

A. Yes, sir, that is correct.

Q. And if it's a Devonian completion, then there would be no Morrow unit on -- formed as a result of that well.

A. That is correct.

Q. If you are correct in your -- your plat, and the information there as depicted by you is correct, the other Devonian wells to the east of this proposed well have encountered no Morrow production or no Morrow formation, or

if there is, it's not productive.

A. Correct.

Q. Now let me turn to your AFE, which you've been questioned about by Mr. Christy, and you've testified about the well cost. That's an AFE for a well proposed, I guess by Bandera, in the southwest quarter of Section 27, is it not?

A. No, sir, that is proposed for a well that would test in the southeast quarter of the northeast of 27.

Q. Well, I was looking at the description at the top and it says southwest quarter, Section 27, Township 16 South, Range 35 East.

MR. CHRISTY: Same cost.

A. Same cost.

Q. The AFE that you have -- that you've testified about, though, does cover a proposed well in the southwest quarter.

A. That is correct, sir, it does.

Q. And that is the second proposed location on the plat which you've also testified about which shows the south half of the unit?

A. That is correct, sir.

Q. Offsetting that second proposed location

in the southwest quarter of Section 27 there's a good Morrow well over there in the southeast quarter of Section 28, is that not --

A. That is correct. That's the HNG well. It is a good Morrow well.

Q. And it is also offset by a good Morrow well to the south of it in the northwest quarter of Section 34, is it not?

A. I don't have my figures on the cumulative production on that well. I do not think that it is as good a well as the one that offsets in the southwest quarter of 28.

Q. I would concur with you, and if I suggested that the production from -- from the HNG well in the northwest quarter of Section 34 is approximately one million cubic feet per day, would you --

A. That would --

Q. -- agree?

A. That would sound about as I remember.

Q. All right, let me go on a little bit further to the east and -- and point out the well in the northeast quarter of the northeast quarter of Section 34, as shown by your plat.

That was a Morrow well, was it not?

A. It was.

Q. Drilled to the Morrow but -- but not productive.

A. It produced approximately -- now we're talking about the well in the northeast northeast 34?

Q. Yes, sir.

A. It produced approximately 880 million cubic feet of gas and 16,000 barrels of oil before it was depleted.

It is now a depleted well.

Q. The Morrow formation over that close to the fault line, it was on the down side of the fault.

A. It was on the downthrown side of the fault, with the fault, apparently -- appears to have a displacement of approximately 80 -- about 800 feet between the eastern wells as opposed to the well in the northeast northeast 34. The fault is -- this is our best indication of the faulted structure.

Q. But from that well it appeared that -- that the Morrow formation pinched out as it approached the -- the fault line.

A. Well, yes. Well, Morrow on top of the fault may not be present. It's -- it's one of these things that hasn't been tested. It appears that it may be absent

completely.

Q. Let me ask you what Bandera proposes to do if it -- if the well that it proposes to drill in the northeast quarter of Section 27 is as -- as expected on the upthrust side of the fault and a Devonian well be encountered? Let me further assume that -- that J. M. Huber Corporation elects to participate in the drilling of that well.

Would Huber Corporation then own an interest in your Devonian well?

A. I don't think so at this time.

Q. Even though it elected to participate in the drilling?

A. I'm -- I don't feel qualified to answer that. I think you'd best --

MR. CHRISTY: I have another witness on that question.

Q. Would you believe that -- that if it were a Morrow test, that based on the geological data which you have, that a laydown unit comprised of the south half of Section 27 would be much more attractive than the standup unit proposed by Bandera here?

A. Well, geologically -- I don't feel qualified to answer that just yet. We -- we have -- if, as pictured, we would have a situation where we would have no

Morrow problems. If the fault is positioned whereby we do go into the Morrow on the downthrown side, we would be in a position to go either way, actually, except I'll have to let the land people answer what kind of situation would exist there.

Q. But you would agree with me, if -- let's suppose that it's on the down side of the fault, and it's going to be very close to the fault, and from the other well, particularly the well in the northeast of the northeast of 34, that close to the fault the Morrow is -- is probably going to not be as productive as the wells further to the west, such as the offsetting well in -- in Section 28 and the other well in Section -- in the north half of Section 34.

A. I can't say that. The Morrow is a very erratic formation. Predicting porosities and the permeabilities in the Morrow is very difficult to do. You might very well encounter a better well. You might very well encounter a worse well. This would depend upon depositional features of the Morrow sand as it is at that location.

Q. Well, Mr. Brice, if there were no acreage problems and Bandera had all of Section 27, and Bandera were truly interested in a Morrow test, based upon your geological experience, where would -- in Section 27 would you recommend that Bandera drill?

A. In the southwest quarter.

Q. Thank you, sir.

MR. COOTER: Thank you, that's all.

MR. NUTTER: Are there any other questions?

MR. CHRISTY: I have just one or two.

MR. NUTTER: Mr. Christy.

MR. CHRISTY: Go ahead, sir.

MR. NUTTER: No, you can go ahead.

MR. CHRISTY: Fine.

REDIRECT EXAMINATION

BY MR. CHRISTY:

Q. Mr. Brice, turning to Exhibit Three again, Mr. Cooter correctly noted that the description says southwest quarter Section 27.

I think your statement was that the cost was the same?

A. The same.

Q. Would you like to amend this exhibit to call for a different location?

A. Yes. I'd like to amend this to call for the southeast of the northeast.

Q. All right. Now, Mr. Cooter asked you

questions concerning where you -- your ideal location was for the Morrow. What is your first objective in -- in drilling where you're proposing?

A. Our first objective is the Devonian at this time.

MR. CHRISTY: That's all.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Brice, if this fault is correct, I see 1000 foot throw here from the downthrown side to the upthrown side.

A. Let's see, 85 -- yes, sir, that is correct, from the easterly -- most easterly -- westerly east well and --

Q. Well now, these contours are drawn on top of the Mississippian lime and the fault exists here in the Mississippian. Would this fault extend up through the Morrow also?

A. Probably not. It -- this is -- this is -- I had quite a bit of problem with this, dating this fault.

There could very well have been movement in early Penn but then again we cannot verify this geologi-

cally from -- from actually saying, yes, it is faulted. We might have a draping effect. We might have had nondeposition due to the structure, the Shcebar structure, being extremely high structure in Morrow time.

Also it is possible that it's -- it's erosional nondeposition.

This is one of these things that I don't feel that I can answer at this time.

Q. But in other words you're saying that under any circumstances you wouldn't expect for the Morrow to experience 1000 foot --

A. No, sir.

Q. -- thrust, and the depths in the wells on the east side of the fault and the west side of the fault, of the Morrow would be similar.

A. They would be similar. The -- the west side of the fault depth to the Morrow would be similar to the east side of the fault depth to the Devonian.

Q. Well, would the depth to the Morrow on the west side of the fault be the same as the depth to the Morrow on the east side --

A. Yes --

Q. -- of the fault?

A. Yes, sir, it just so happens that when

you cross section this thing, this is the case. 12 -- approximately 12,800 will get you the Morrow on the downthrown side and the Devonian on the upthrown side.

A depth of 12,800.

Q. And how deep is the Morrow on the upthrown side, then?

A. Well, the Morrow would be -- I don't remember my figures in the section there, Your Honor. It would be in the range about 900 feet above the Devonian, I believe.

Q. Well now, if 12,800 gets you to the Morrow on the west side, 12,800 gets you to the Devonian on the east side, and the Morrow is 900 feet above that, then how can the cost estimate for the well in the southwest quarter be the same as the cost estimate for the well in the southeast of the northeast?

Because you're talking about another 900 feet and 900 feet at that depth costs a lot of money.

A. Well, I'm thinking, I'm talking about the 12,800 depth as such would be the same cost -- the cost -- the depth of 12,800 on the west side will get you -- penetrate the Morrow for you and will not get you to the Devonian.

Q. But it will go through the Morrow.

A. But it will go through the Morrow. In

fact --

Q. Well, how many feet would you have to drill to go through the Morrow on the east side?

A. I don't have an answer to that because no wells over there have penetrated the -- to the Devonian.

Q. Well, didn't you say, though, that you expected the Morrow to be some 900 feet above the Devonian?

A. On the east side. Excuse me, did you say east side or west side?

Q. On the east side.

A. East side, excuse me, I thought you said west side.

If the Morrow is present, that should -- I don't really think I should answer this because I don't have my data with me on that, depth of that.

Q. Well then I'm wondering how you can take a cost estimate that was prepared for the southwest quarter and say it's the same for the northeast quarter if you don't what the depth is you're going to have to drill, because you knew what the depth was going to be when you prepared this AFE for your location in the southwest quarter, and now you've amended it, or propose to amend it to the southeast of the northeast without any adjustment, the cost for a hole to 12,800 feet.

A. Yes, sir.

Q. And 12,800 feet, you said, would get you to the Devonian on the east side of the fault.

A. I would like to request help from my engineer who prepared the AFE.

MR. CHRISTY: Just tell him you don't know the answer.

A. I don't know the answer to that.

Q. In other words, we don't have a cost estimate here today for the well in the proposed location.

A. Again I have to defer that to the engineer.

MR. NUTTER: Will your other witness go into this a little more? Okay.

Q. Now, Mr. Brice, geologically speaking here, Mr. Cooter delved into this somewhat, but geologically speaking, the chances for a Morrow well are much slimmer, according to this structure map that you've got, on the east side of the fault than they are on the west side of the fault, are they not?

A. That is true, sir.

Q. And I think you stated that if Bandera owned all the acreage, you'd propose that the location for the Morrow well be in the southwest quarter.

A. That's true, sir.

Q. Now in its application here Bandera is seeking to bring Marathon and Huber into the drilling of a well to test the -- for the Morrow formation, but you say it's your intent to go to the Devonian.

Now the terms of any order that the Division would enter in a compulsory pooling case would be that it would provide -- you would provide a cost estimate for the well; that Marathon and Huber would have thirty days in which they could come up with their share of that cost estimate.

A. Yes, sir.

Q. Now if they came up with their share of the cost estimate and provided those funds for the drilling of the well and you didn't get any Morrow but went on to the Devonian, what would happen to the -- what did you do for -- prove for them? Did you prove that their Morrow was nonproductive for them on a -- on a well that the chances as seen right here as of now are pretty nil? Is that what you're going to do for them for coming up with their share of the well cost?

A. Well, sir, if the pooling was limited to the Morrow and with no cost to Huber if the well is completed in any zone and the Morrow is not present, if we

limited it to the Morrow formation on the east side on the acreage.

In other words, what I'm saying, we are extremely close to that fault. I can see and visualize how we might be across that fault into the Morrow where the chances of the Morrow are much better.

If we do cut the fault on the upthrown side, we may not have any Morrow present, and some way in the agreement, which I feel like could be worked out, that we would limit this thing to the position of the Morrow if we cut it and could produce it.

Q. But if you didn't encounter the Morrow you'd go on down to the Devonian.

A. The Devonian, yes, sir.

Q. And you'd have a Devonian well. They would have come up with their share of the cost to the Morrow and wouldn't have any participation in the Devonian, and all you've done for them is show -- is prove what you're saying here today, that the Morrow is almost non-existent on the east side of the fault. That's what you've done for them for their share of the well costs.

MR. CHRISTY: I think the other witness can help you a little bit, Mr. Examiner.

To answer you, though, we do not propose

to bill them at all until we've gotten the well through. In other words, if it turns out to be a Devonian well, we'll just never bill them and the unit operating agreement covers the Morrow only, so it does not apply.

MR. NUTTER: Well now, you propose not to bill them, but what would you do if they got a well, bill them for their share of cost plus the 200 percent?

A. Yes.

MR. CHRISTY: No, if they put up their money.

MR. NUTTER: Well, you're not going to bill them so how can they put up their money?

MR. CHRISTY: We're perfectly willing for the order to provide that the payment will be made after the well is down and it's contingent on it being -- testing the Morrow.

MR. NUTTER: And they could put up their share of the money without penalty after the well is down?

MR. CHRISTY: Yeah.

MR. NUTTER: And you're willing for the order to prescribe that. Okay.

Are there any further questions?

MR. CHRISTY: I'll go into this with the next witness.

MR. NUTTER: Okay.

MR. CHRISTY: I think he's a little more qualified than the geologist.

MR. NUTTER: Okay. Are there any further questions of Mr. Brice?

He may be excused.

MR. CHRISTY: Call Mr. Hartwell, please.

CHARLES M. HARTWELL

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CHRISTY:

Q. Have you previously been sworn?

A. No. Yes, I've been sworn.

Q. Would you please state your name, your address, by whom you're employed and in what capacity?

A. Charles M. Hartwell. My address is Midland, Texas, and I'm employed by Bandera Energy as general partner and manager of operations.

Q. Mr. Hartwell, you heard the Examiner's questions concerning costs just a minute ago?

A. Yes.

Q. Would you please explain to the Examiner exactly what the answer to the question is that he obviously wants to know?

A. Okay. I think the general thrust here is that we're so close to that fault that it could be this is as much a Morrow test as it a Devonian test. If we cross the fault we'll get the Morrow at the same depth.

So the depth is the same here to the Morrow as it would be to the location I have stated on there, and it has been amended to the northeast quarter.

Q. All right. Now, what about this cost? You heard me make some statements to the Examiner. Does Bandera subscribe to those statements? With respect to when they pay if they elect to participate.

A. Yes. If -- if we drill the well, and -- we're drilling this well and even if we're on the upthrown side, we're going to be testing the Morrow zone. It may be absent and it may be there, too, but -- well, we will not -- we won't bill them until we're down, and --

Q. If it turns out to be a Devonian well you'll never bill them.

A. That's right.

Q. And as I understand you from Exhibit Three, the cost is the same whether it's in the southwest

quarter of 27 or in the southeast northeast of 27, as to the Morrow?

A. As far as the Morrow is concerned, that is correct, and that assumes that we've got a 50-50 chance that we're going to cross the fault and go into the Morrow, and it will be the same depth.

Q. I see, same depth?

A. Same depth and the same cost.

Q. Same cost.

And 12,800 is correct on the depth?

A. That's right.

MR. CHRISTY: That's all.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Well, Mr. Hartwell, you're saying that you'd cross the fault. What you're saying is that if you drill the well at the proposed location in the southeast of the northeast, and the fault were deflected northward rather than northwest, and you ended up on the west side of the fault, that it would be the same depth as the location that's in the southwest quarter.

A. That's right. If we cross -- cross the fault and got on the west side of it, the Morrow would be the

same depth there as it would be --

Q. Right.

A. -- over where --

Q. Right. Now if the fault is where it is, would you encounter the Morrow or will it be gone? Will you get a Morrow well if the fault's where it is at this location?

A. It's quite possible and I don't think anybody knows what's down there. It could be absent but it could be present, too.

Q. Now if it were present would it be the same depth?

A. No, not if it's present.

Q. It would be at a shallower depth, then, would it not?

A. That is -- that is correct. It would be at a shallower depth but you model these things and you have to model them one way. You can't say, take all conditions into consideration.

Q. All right.

A. But in my view, you have just as much chance of being across the fault and getting the Morrow as you do not being across the fault at this location. This is an optimum location that we can test more zones and know what's there. If we don't drill this well at this location, why the

Devonian and other will never be tested.

Q. Well, now, with respect to this statement that you made about the billing. Bandera proposes to drill the well. They're seeking a forced pooling order here for the east half to go to the Morrow.

Now, you'll go on down, you'll drill, you'll see if the Morrow is present or not, and if it's not present, or maybe even if it is present, you'll drill on to the Devonian.

A. To the Devonian, correct.

Q. And then you would -- if you had no Morrow, then you wouldn't submit any bills at all.

A. That's right. That's assuming they join us for a Morrow test.

Q. Now, when they join you, are they going to have to put any money up?

A. Not until we get down.

Q. Not until you send them the bill.

A. Till we send them the bill.

Q. But they have to make an election?

A. Yes.

Q. And their election would be to participate in the --

A. Morrow test.

Q. -- in the Morrow only.

A. Morrow only, that's right. That's the only question here.

Q. And then if you got a Devonian well you wouldn't bill them anything.

A. That's right, they would never be billed.

Q. Okay.

MR. CHRISTY: We're perfectly willing for the order to provide that. Our main objective is Devonian. We're trying to cover ourselves if it turns out to be Morrow.

Q. I see the main objective is Devonian but the thrust of the order is to the Morrow, because that's the case.

A. Well, I'm not quite in agreement with that. I think our objective here is as much for the Morrow as it is for the Devonian.

Q. Well, if you were really going for Morrow, you'd be on definitely the west side of the fault, however, though, wouldn't you?

I appreciate the fault may be meandering some place in --

A. Yes. If we moved it over there, there is possible Devonian and other horizons on the east side of that thing that will never get touched.

Q. Right, I see that.

MR. STAMETS: Are there any questions of Mr. Hartwell?

MR. COOTER: Please, Mr. Examiner.

MR. NUTTER: Mr. Cooter.

CROSS EXAMINATION

BY MR. COOTER:

Q. It's been covered that what was originally proposed here by Bandera, as evidenced by their first proposal, was a Devonian test.

A. Well, we state Devonian because that's the deepest horizon. We've always intended that we test the Morrow on the way down.

Q. If your Devonian well is successful, though, that the -- the well is on the east side of the fault, or the upthrust side of the fault, the Morrow has not been present, or if it has been present it's certainly not productive.

A. Not necessarily, but that's a -- I mean that -- that -- there's some thoughts in that direction, but I'm --

Q. Well --

A. I'm not going to guess what's down there.

Q. Okay.

A. I've been fooled too many times.

Q. But from the wells that were drilled Mr. Hartwell, over there in Section 26 and 35, that were on the east side, or the upthrust side of the fault, those are all Devonian wells.

A. Well, not all Devonian, there's other pays in there, too, but I'd rather refer those for -- I mean I didn't make this map, so I'm not going to get too much into detail on that. Mr. Brice made the map. But it's my understanding that most of those wells over there, I don't believe they had Morrow in them. But that's 1000 feet away there, so a lot of things can change in 1000 feet.

Q. If you're on the west side, or the down side of the fault, you believe, though, that you would be barely on the west side of it by this proposed location.

A. Well, that's just like saying it just being a little bit pregnant. Yes, you'd be across the fault and you'd have just as much chance of -- the depositional nature of the Morrow is -- is hard to guess.

Q. Would you concur with me, however, that the well in the northeast quarter of the northeast quarter of Section 34, which is the closest to the fault line as shown, is a poor, or was a poor Morrow well before it was depleted,

whereas the wells to the west of that are good wells, good Morrow wells?

A. I'll agree with that statement. It has absolutely no bearing, because from experience in the Morrow in this area, the worst thing you can do is offset a good well. You're more likely to get a good well offsetting a poor well, has been my experience.

Q. Would you concur with Mr. Brice that if Bandera had no acreage problems in Section 27 and were truly interested in drilling a Morrow test, that you propose a south half or a laydown 320-acre unit and drill your Morrow test in the southwest quarter?

A. I would say that would be a good location, probably a better location for the Morrow than the one we propose; however, our idea here is to test all the zones we can, and as I said, these other zones will never be tested if that well isn't drilled. And I still, my own personal belief is that this well we're talking about is just as much a Morrow test as it is a Devonian test.

Q. Now, I don't quite understand your -- let me turn to your AFE, and you would propose that -- that Huber and Marathon commit themselves one way or the other prior to the commencement of your drilling operations.

A. That's right.

Q. But that they would not be billed until you took a look at the hole.

A. Until we got down, that's right.

Q. And if -- you asked for a 200 percent risk factor?

A. That's right. This is a high risk well, in my view.

Q. Particularly for a Morrow well in the location as indicated.

A. As all Morrow wells, yes.

Q. But it's a higher --

A. It's a high risk for a Devonian location, too.

Q. But the risk for the Morrow is -- is greater at your proposed location than it would be in the southwest quarter, in your opinion?

A. That's right. I mean, obviously, from our exhibit here, we had been looking at that location, and if the Morrow is missing here, we may drill down there.

Q. Do you have any agreement on -- on -- who owns the lease in the southwest quarter?

A. I have no idea. I mean you'd have to ask our land people. I'm not familiar.

MR. NUTTER: Mr. Barnes, could you

answer that?

MR. BARNES: Yes, I could.

MR. NUTTER: Please do.

MR. BARNES: It would be Southern Union, let me get it exact, Southern Union Exploration Company of Texas.

MR. NUTTER: The whole 160?

MR. BARNES: Yes, sir.

Q. All right, let me ask you or Mr. Barnes, do you have a farm out agreement with Southern Union?

MR. BARNES: Of sorts.

MR. COOTER: Thank you. That's all.

RECROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Hartwell, I'm still confused as to this billing and the election that Huber and Marathon would be asked to make.

Now, you'd submit your AFE for a Morrow well and ask them to make an election as to whether they were going to participate or not.

A. That's correct.

Q. And they would have to make that election but they wouldn't have to put up any money in advance.

A. That's correct.

Q. And then if you got down and you had no well in the Morrow, you'd take it on down to the Devonian, and you wouldn't send any bill to them despite the fact that they had made an election.

A. That's right. They'd never be billed.

Q. But if you got a very, very small well in the Morrow, just a puff of gas, wouldn't you send them a bill then?

A. I believe we would, yes. I mean that's the chance you take when you're in the oil business.

Now, I mean we'd have to make a completion in the zone. Now, wait a minute, I believe --

Q. I'm wondering what kind of a well it would take before you'd decide to send them a bill.

A. If they're -- if they're -- if we're testing the Morrow, yes, we would -- it's only if we would complete it in the Devonian that we would never bill them.

Q. Supposing you get a dry hole in the Devonian? Would you bill them if you got a dry hole in the Morrow, would you bill them? If they had made the election to participate?

A. Yes.

Q. If you got a dry hole -- if you got a

dry hole in all zones.

A. Yes, we'd bill them. I mean we can't guarantee Morrow production or Devonian production.

Q. No, I know that.

A. This is a wildcatter chance.

Q. Seems like it's really wild for the Morrow, however.

A. Well, I'm -- I'm not -- I don't think it's that wild for Morrow. We don't know where that fault is. And we'd certainly be testing the Morrow for them, by drilling the well.

MR. NUTTER: Are there any other questions of Mr. Hartwell? He may be excused.

MR. CHRISTY: We offer in evidence Applicant's Exhibits One, Two, Three, inclusive, I believe.

MR. NUTTER: Exhibits One, Two, Three, will be admitted in evidence.

MR. CHRISTY: Mr. Examiner, I have here Exhibit Four, which is the certified receipts of mailing of the application to Marathon and Huber, but I believe they've now both entered their appearance.

MR. NUTTER: I believe they got these.

MR. CHRISTY: That's all for the applicant.

MR. NUTTER: I would like another set of exhibits, Mr. Christy.

MR. CHRISTY: Yes, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case Number 7253?

MR. COOTER: We have one witness who was not sworn before. Cecil Ellis on behalf of J. M. Huber Corporation.

(Mr. Ellis Sworn.)

CECIL ELLIS

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. COOTER:

Q. Would you state your name for the record, please, sir?

A. Cecil Ellis.

Q. And by whom are you employed, Mr. Ellis?

A. J. M. Huber Corporation.

Q. In what capacity?

A. As District Landman.

Q. Would you very briefly relate your experience in the industry?

A. Yes, sir. I've been employed as a landman by various companies starting in February of '56 down to date, just about in all phases of land work.

Q. By whom were you employed?

A. Humble for about twenty years; Pennzoil for two years; Monsanto for two and a half years; now J. M. Huber.

Q. In your present position are you acquainted with the application of Bandera and its proposed well in the northeast quarter of Section 27?

A. Yes.

Q. Has your company reviewed the Atoka-Morrow formation and where it lays in this immediate area as referenced Bandera's Exhibit Two, I believe?

A. Yes, sir, we've -- the company has conducted rather extensive investigation into the Morrow here. We farmed out, as a matter of fact, Huber farmed out to HNG for the drilling of the well in Section 34 in the northwest quarter of 34, and we have actually been contemplating proposing a well in the southwest quarter of 27, but we have not done so at this time to any of the other possible participants.

Q. You advised Bandera, though, did you

not, in reply to their original letter to you of March 18?

A. Yes, we did. We suggested that we didn't desire the east half of that section as a Morrow unit but we did in writing propose that we would seriously consider joining in a well in the southwest quarter for a south half proration unit.

Q. The Atoka-Morrow formation as determined or believed to be in existance by your company is on the down-thrust side or the west side of that fault --

A. That's correct.

Q. -- is it not? And runs generally in a northwest/southeast direction as does the fault itself?

A. That's our best interpretation, based on, of course, largely the existing producing wells.

Q. Let's turn to your farm out of the acreage to HNG in the north half of Section 34.

First, what were the terms of that farm out?

A. We committed the 80-acre tract to the 320-acre unit and farmed out our interest, reserved 1/16th override until payout. At payout we backed in for a half interest.

Q. Proportionately reduced?

A. Proportionately reduced to the unit.

Q. And those are the same terms and provisions, are they not, as what you proposed to Bandera?

A. That's correct.

Q. You would farm out your acreage, being the west half of the southeast quarter, on the same terms and provisions as what you farmed out your -- your 80-acre tract, being the east half of the northwest quarter of Section 34?

A. Tht is correct.

Q. What type of well is that HNG well in the northwest quarter of Section 34?

A. I only have, I believe, as of about November of 1980. It was producing right at one million a day, 900-something, and I don't have the exact figure.

Q. Has that well paid out?

A. Oh, yes, it paid out in about ten months.

Q. And that is producing in the Atoka-Morrow?

A. That's -- that's correct.

Q. How about the well offsetting a proposed south half unit in Section 27? Let's go over to the Section 28. Is there a well over there in Section 28?

A. Yes, in the south -- looks like about in the south, pretty near the center of southeast of 28.

Q. What type of well is it?

A. Again with some production figures for the month of, I believe it was for the month of November, 1980, that well was producing less than three million a day, but I don't recall the exact figure, two million seven, in that range.

Q. It was a better well than even the well, HNG well to the south in Section 34.

A. Based on those production figures, I'd have to say yes to that.

Q. Who owns the minerals in the -- on which you have a lease in the west half of the southeast quarter of Section 27? From who is that --

A. That is the State of New Mexico lease. I don't know what, what institute owns the royalties, but it is a State of New Mexico lease that is held by our production from the well down in 34.

Q. Would you concur with the testimony presented here by Bandera, Mr. Brice and Mr. Hartwell, that a south half unit, or a laydown unit comprising the south half of Section 27 for a Morrow test, would be much more attractive than an east half unit?

A. Let me say, I'm not a geologist, but based on what I have seen of the work that's been done by

Huber employees, certainly, and this is obvious by our comments to Bandera that we would much prefer a location in the southwest quarter for the Morrow, Atoka-Morrow test.

Q. You would concur that their second proposed location as shown on their Exhibit Two is for a Morrow test much more attractive than -- than the one in the northeast quarter?

A. For Huber it's much more attractive, right.

Q. And do you believe that the chances of success would be better or worse by that location?

A. Well again, based on the data that I've seen, and I think is probably depicted with this exhibit, yes.

Q. And do you concur with the proposal as set forth in Huber's letter to Bandera that were a south half unit to be formed to drill a Morrow test, that Huber would join in that?

A. Our intent at this time would be to actually join and participate in the drilling of a Morrow test there.

MR. COOTER: That's all I have.

CROSS EXAMINATION

BY MR. CHRISTY:

Q. Mr. Ellis, if the order is not granted for forced pooling and you don't join in this well we're proposing in the present location, and we get a Morrow well, would Huber expect any of the production?

A. The order is not granted?

Q. Right, and you don't join?

A. No.

Q. You don't expect any of the production, even if the proration unit is the east half of 27?

A. Oh, when are you -- when are you going to form this unit?

Q. We can't form it agreeably. The question -- if we don't form it by force pooling and we drill it and it turns out to be a Morrow and it's the east half of 27 as a proration unit, do you expect any of the production?

MR. COOTER: I believe the question -- I'm a little bit confused by it assumes facts which cannot come into existence. There's either got to be an order force pooling the east half of Section 27 for Morrow production, or a voluntary agreement between the parties to form that proration unit.

Mr. Christy's question eliminates both

alternatives and I don't understand how that could come about. If the --

MR. CHRISTY: Let me rephrase the question.

Q. What -- what's the acreage that Huber owns?

A. We own the west half of the southeast quarter.

Q. All right. Now, a standard proration is 320, is it not?

A. I believe that's correct.

Q. All right. Now, --

A. For a Morrow.

Q. If the proration unit is the east half of Section 27 for the Morrow and we do obtain a Morrow well, does Huber expect any portion of that production?

MR. COOTER: I'm still --

A. Well, I don't think I can answer your question. We've either got to have a proration unit or an agreement.

There's nothing wrong with your making application for a north half unit, is there?

MR. NUTTER: Let me interject here, I think that, Mr. Christy, what would happen if this proration

unit you're seeking today was not approved and Bandera was intent on drilling the well, they would project it as a Devonian well and dedicate just the east half of the northeast quarter.

Then if they did get a Morrow well, the people in the northwest quarter might want to bring a forced pooling action to create a north half proration unit, or Huber might want to bring a forced pooling action to create an east half unit and get in the well.

MR. CHRISTY: Get in the well.

MR. NUTTER: Yeah.

MR. CHRISTY: After the fact.

MR. NUTTER: After the fact.

MR. CHRISTY: I don't blame them.

Q. Now, did Huber --

MR. NUTTER: Or Bandera could ask for a nonstandard 80-acre gas proration unit, too.

MR. CHRISTY: Got a lot of them.

MR. NUTTER: And keep everybody out of it.

Q. Now, I think Bandera offered to you a 1/16th override until payout and back in for 25 percent, is that correct?

A. Yes, sir, I believe that's right.

Q. And you proposed 1/16th override and back in for half.

A. That's correct.

Q. So the quarrel seems to be not on location but on how much you back in for, is that correct?

A. I'm not sure whether they're proposal was limited to the Morrow formation or from top to the bottom. Our proposed farm out to them would be our rights from surface to, let's say, TD or 100 feet below TD.

Q. But looking at the Morrow.

A. No, they proposed a Devonian test.

Q. I see. Now, the Devonian is 80-acre spacing, is that correct?

A. I -- I believe that's correct.

Q. All right. If you're proportionately reduced, how do you have anything if it's Devonian?

A. Because we're going to propose that all rights, not just the Morrow, but all rights from the surface down to TD, would be a working interest unit.

Q. A working interest unit.

A. A working interest unit, right.

Q. On the east half of 27.

A. Right.

Q. Oh, it's the east half of 27 that you're

proposing 1/16th and 50 percent back in, is that correct?

A. Right. We'll farm out our interest to a working interest unit on that basis, for the drilling of a Devonian test.

Q. Do you concur with Mr. Hartwell that unless the well is drilled on its proposed location, that the Devonian will never be tested?

A. Frankly I'm -- it's not much concern of mine in the first place. There's been numerous Devonian wells over there very close to the fault as you have it drawn here on your exhibit.

I'm afraid I can't answer that.

Q. Guess. Thank you, that's all.

MR. NUTTER: Any questions further of Mr. Ellis?

MR. COOTER: No, sir.

MR. NUTTER: He may be excused.

MR. COOTER: We have nothing further.

MR. NUTTER: Did you have anything, Mr. Carr?

MR. CARR: Nothing, Mr. Nutter.

MR. NUTTER: I'll call for closing statements at this time. Mr. Christy, you may go last.

MR. COOTER: Mr. Nutter, it is Huber's

position that what Bandera proposed here, or proposes by this, is as they set forth in their original letter of March 18, that they want to drill a Devonian test.

Being close to the fault, they have come up with a proposal to form or to pool the east half of Section 27 as a Morrow test, but -- or as a Morrow unit, but that that Morrow unit may or may not ever come into existence; hopefully not, because if they encounter a Devonian well, as depicted on their exhibit, that will be it.

They concur that if it were truly a Morrow test, that they would prefer a south half or a laydown unit and drill their Morrow test in the southwest quarter of the section.

This presents, I believe, an unusual fact situation, and one certainly I'm not familiar with before, of really a little insurance which -- for the drilling of the well, and as they said, if it's -- if it's dry they'll -- they'll bill those that elect to participate in -- in the Morrow test.

They apparently have some kind of an agreement with Southern Union which owns the lease covering the southwest quarter, so I question their -- their motives if it -- if it really is a Morrow well, everyone is in complete accord that the preferred location would be the southwest

quarter. If that be so, I think that Bandera should -- should so state, but then in effect they have when they say that what they're really seeking up here is to test the Devonian and take a look at it.

If that's a Devonian well all well and good. The chances are if they're across the fault line on the west side, or the -- where the Morrow may be encountered, or encountered in productive quantity, the -- it's going to be so close to the fault line that it probably will not be as productive as the offsetting wells in 28 and 34.

I'd point out that the -- that the closest well to that fault line which tested the Morrow is that one in the northeast quarter of the northeast quarter of Section 34, and there the Morrow production was minimal.

For these reasons we respectfully request that Bandera's application to form this type of Morrow unit be denied.

If it is granted we respectfully request since they are going to take a look at the Devonian, that any election on the part of the other participants in that well be delayed until such time as Bandera sees what they're going to have. Let them drill their Devonian test and if they want a Morrow formation at that time, permit Marathon and Huber to elect whether or not to participate in it, and at that time

the risk factor is nil. They'll either know or not know, and at that time Huber and Marathon may or may not pay. Let them recover their working -- or let them recover their complete costs and at that time go forward.

That's all I have.

MR. NUTTER: Mr. Carr? Mr. Christy?

MR. CHRISTY: Thanks. Mr. Nutter, I think it's pretty obvious from Mr. Ellis' testimony that despite the, shall I say smokescreen of my eminent colleague that there is not an objection to the east half of 27 in the present location.

The objection is how much you get in back in, and Mr. Ellis testified to that. They both agreed to 1/16th override until payout. The issue is, and it's a monetary issue, do I get 25 percent working interest after payout or do I get 50 percent, and without all the rest of this, whether it's better to lay it down or stand up or anything, they're not quarreling about that because they're willing to agree, Mr. Ellis just testified he's willing to agree to a 1/16th with a 50 percent backin right where I told him, in the east half of 27. He said oh, yes, but I want a 50 percent backin.

Now, if we -- in answer to Mr. Cooter's testimony -- excuse me, statement, let's drill the well and

you go right ahead, Bandera, you take all the risk and everything else, and then if it turns out to be a Morrow well, then we'll make an election. Well, if it turns out to be a decent Morrow well, of course they're going to elect it, and no risk factor.

We take all the risk, a million three, and they just stand back and let us take the whole burden on the Morrow.

All right. Our objective, as Mr. Hartwell testified, is to test everything up and down. We're going to give them a test in the Morrow if there's any Morrow there. If there's no Morrow there, we haven't got an operating agreement that we submitted to you, because it's limited to the Morrow.

We are not asking to force pool the Devonian or anything else. It's simply to look at the Morrow, and we think it's fair to give us a risk factor and to grant this application in the event -- we don't know where that fault line is. If we -- it could be anywhere, as far as we know.

What we're asking to do is to protect the -- the possibility that we will get a Morrow or we will test the Morrow, and that's the only thing we've asked a risk factor. Now we -- if we just go down and drill all the way

to the Devonian, complete it as a Devonian well, the order won't -- won't apply because it's limited to the Morrow.

That's all we're asking for. That's all.

MR. NUTTER: Does anyone else have anything they wish to offer in Case 7253?

We'll take the case under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.
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I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7253 heard by me on 5/20 19 81.

_____, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
20 May 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Bandera Energy Company for compulsory pooling, Lea County, New Mexico.

CASE 7253

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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I N D E X

E X H I B I T S

A P P E A R A N C E S

For J. M. Huber:

Paul Cooter, Esq.
ATWOOD, MALONE, MANN & COOTER
Roswell, New Mexico 88201

MR. NUTTER: We'll call next Case Number 7253.

MR. PADILLA: Application of Bandera Energy Company for compulsory pooling, Lea County, New Mexico.

MR. CHRISTY: Sim Christy, Jennings and Christy, Roswell, New Mexico, for the applicant.

We have three witnesses, Mr. Examiner.

(Witnesses sworn.)

MR. CHRISTY: Mr. Barnes, please.

MR. COOTER: Paul Cooter from Roswell putting in an appearances in that case on behalf of J. M. Huber Corporation.

MR. CARR: William F. Carr, with Campbell, Byrd, and Black, entering an appearance on behalf of Marathon.

MR. CHRISTY: Who?

MR. CARR: Marathon.

WILLIAM C. C. BARNES

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CHRISTY:

Q. Would you state your name and address, and by whom you're employed, and in what capacity?

A. William C. C. Barnes. I'm employed by Bandera Energy Company. I'm a general partner and land manager.

Q. Mr. Barnes, do you know what is sought by Case 7253?

A. Yes, I do.

Q. Would you please briefly tell the Examiner what is sought?

A. Yes, sir. What we would like to do is seek an order pooling all the Morrow formation under the east half of Section 27, of Township 16 South, 35 East, Lea County, New Mexico.

Q. What is the working interest ownership in the east half of Section 27?

A. The east half of the east half is owned by Bandera Energy Company. The west half of the northeast

quarter is owned by Marathon, and the west half of the southeast quarter is owned by J. M. Huber.

Q. Have you sought agreement to obtain an operating agreement, or agreement, with these working interest owners to drill a well?

A. Yes, sir, I have.

Q. And what was the response?

A. We have failed to make an agreement.

Q. Now, let's take Marathon first. Has Marathon said no, or what?

A. They haven't answered either way.

Q. When did you start trying to put this together?

A. Back in, I believe it was April of this year.

Q. Could it have been March?

A. It may have been March, I'm sorry. March 18.

Q. March 18?

A. March 18.

Q. And how about Huber?

A. March 18, also.

Q. And you've been unable to reach agreement?

A. That is correct.

Q. Do you have a suggested form of operating agreement for the Commission's consideration?

A. Yes, I do.

Q. Please refer to Exhibit One and tell me if that is your proposed form of operating agreement?

A. That is our proposed form of operating agreement.

Q. And this is for the Morrow only?

A. That is correct.

Q. Now, with respect to drilling and producing rates, what do you propose on that?

A. For drilling well we used $4000; producing well would be $400.

Q. Do you feel that is reasonable and fair?

A. That is reasonable and fair.

Q. And you're willing to pay your proportionate part of that?

A. That is true.

Q. Now I notice there is one typographical error in the exhibit at page two of Exhibit A thereto. It speaks about additional lease information from J. M. Huber and Monsanto. That should be Marathon, should --

A. That should be Marathon.

Q. Do you wish to amend the exhibit?

A. I wish to amend that.

Q. All right. Is this a type of operating agreement that's standard in the industry in southeast New Mexico?

A. That is correct.

Q. All right. What would you suggest with respect to any type of penalty for risk in drilling?

A. Recover our cost plus a 200 percent penalty.

Q. If they don't belong to it?

A. If they do not wish to join.

Q. Now you understand that if this application is granted, they still have the right to join after you submit them an AFE?

A. That is correct.

Q. You understand that?

A. I understand.

Q. You agree with it?

A. I agree, yes.

MR. CHRISTY: No further questions.

MR. NUTTER: Mr. Christy, I haven't found that change on page two.

MR. CHRISTY: It's page two, Exhibit A.

MR. NUTTER: Okay, and this should be

corrected to what, now?

MR. CHRISTY: Marathon.

MR. NUTTER: Oh, instead of Monsanto.

MR. CHRISTY: Correct. Just a typographical error.

MR. NUTTER: Are there any questions of Mr. Barnes?

MR. COOTER: Mr. Examiner, I have a few on behalf of Huber.

MR. NUTTER: Mr. Cooter.

CROSS EXAMINATION

BY MR. COOTER:

Q. Mr. Barnes, your original proposal to Huber, and I'm assuming similarly to Marathon, as set forth in your letter of March 18, 1981, you propose to drill your well in the southeast quarter of the northeast quarter of Section 27 as a Devonian test, did you not?

A. The Devonian, yes, sir.

Q. And in that you ask Huber to farm out, whether or not it would be interested in farming out its acreage to you.

A. That is correct. I -- that is correct.

Q. And in reply to your letter of March 18

you received, did you not, Huber's letter of March 27, wherein they advised you that they were not interested in the east half unit but proposed as an alternative a possible south half unit?

A. That was on which day?

Q. Their letter of March 27.

A. Yes.

Q. Did Bandera reply by letter to that counter proposal?

A. I don't believe we did. We did not reply to that. We replied telephonically.

Q. And then Bandera received on or about May 5 from Huber Corporation a proposal whereby Huber would farm out its acreage to Bandera for your east half test on the basis of reserving a 1/16th override prior to payout and back in for 50 percent working interest proportionally reduced after payout of your proposed test.

A. That is correct. It was unacceptable to us.

Q. Did you reply by letter to that?

A. We replied telephonically.

Q. Were the -- those terms standard, pretty well accepted farm out terms for this area?

A. Not to us, no.

MR. COOTER: That's all. Thank you, sir.

MR. NUTTER: Are there any other questions of the witness?

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Barnes, now Bandera owns the east half of the east half of Section 27, is that correct?

A. That is correct.

Q. Now, does Marathon and Huber jointly own the west half of the east half or do they have a divided interest?

A. They have a divided interest, like I said. Marathon's interest is the west half of the northeast quarter and Huber's interest is the west half of the southeast quarter.

Q. Okay, so each one has its own individual 50-acre tract, then.

A. 80-acre tract, yes.

Q. 80-acre tract.

Okay, now on this Exhibit Number Two, I guess you haven't really come to that yet.

MR. CHRISTY: We haven't come to that

yet.

MR. NUTTER: Okay.

MR. CHRISTY: He's familiar with it, though, I feel sure.

MR. NUTTER: Well, I might just ask him now.

MR. CHRISTY: Sure.

Q. You've got your second proposed location with the south half dedicated here. We're not even talking about the south half --

A. No, we are not.

Q. -- only the east half.

A. This is an exhibit for your own information that we submit to our people.

Q. Okay, now, in the examination by Mr. Cooter, he mentioned the proposal to drill a Devonian well and you talked to them about a farm out on their land. What is the spacing for a Devonian well in this area?

A. 80 acres.

Q. So, actually, if you would propose a well at the location you're talking about now, you wouldn't need any farm out from anyone to drill a Devonian well, would you?

A. That is correct.

Q. You've got your own 80-acre tract.

A. That is correct.

Q. Matter of fact, two of them. But now you're thinking in terms of a Morrow gas well?

A. Yes, sir. In the drilling of the Devonian you go through the -- the Devonian is deeper than the Morrow.

Q. No. Yes, yes, sure, so you're just talking about a Morrow gas well at this time.

A. That's all we're talking about yes.

Q. Uh-huh.

MR. NUTTER: Are there any further questions of Mr. Barnes? He may be excused.

MR. CHRISTY: Call Mr. Hollis Brice.

HOLLIS BRICE

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit

DIRECT EXAMINATION

BY MR. CHRISTY:

Q. You've previously been sworn?

A. Yes.

Q. Would you please state your name, your

address, by whom you're employed, and in what capacity?

A. Hollis Brice; employed by Bandera Energy Company as a partner and geologist, from Midland, Texas.

Q. Mr. Brice, have you previously testified before this regulatory body as a geologist and had your qualifications accepted?

A. No, I have not.

Q. Would you briefly tell the Examiner what schools of higher learning you went to and what degrees, if any, received?

A. I attended Sul Ross University in Alpine, Texas, and received a BS of geology in 1951.

Q. And what have you done in the geology field since 1951, very briefly?

A. Briefly, I was employed by Phillips in 1954 and went through various geological capacities in both domestic, international.

Returned to the States in 1961 and was employed as a district geologist in New Mexico from '61 through '77 with Phillips Petroleum Company.

Q. Does your expertise in geology include the area in Township 16 South, Range 35 East, Lea County, New Mexico?

A. It does.

MR. CHRISTY: Qualifications acceptable, Mr. Examiner?

MR. NUTTER: Yes, they are.

MR. CHRISTY: Thank you.

Q. Mr. Brice, you are familiar with what is sought in Case 7253, are you not?

A. I am.

Q. All right, sir. Let me hand you what's been marked as Applicant's Exhibit Two, and would you please explain to the Examiner what this is and what it depicts?

A. This is a subsurface map atop the Mississippian lime marker in the area of the Shoebar Field. It's based on subsurface data only. It depicts what we think might be the structural conditions present around our leases west of the Shoebar Field.

The information is somewhat limited, as we have only one good west well control, which is in the northeast of the northeast of 34, which indicates to us there is a possible fault bounding the west side of the Shoebar Field.

The Shoebar Field is a field that has produced from Devonian, Pennsylvanian, and Abo. West of the fault there is Morrow production present in several sections running north/south. We feel that the strike of this fault

may be some degree of northwest/southeast, but we do not have extremely close control across our leases.

In addition, the plat indicates what wells are productive from which horizons at this time.

Q. So if you get northeast of the fault you get into Devonian?

A. If you get northeast of the fault you should have Devonian in an optimum structural position.

Q. All right, supposing you get southwest of the fault?

A. If you go across the fault you might very well have a poorer structural position for the Devonian, but you might very well have a depositional feature in the Morrow that would tend to make you feel that you could possibly complete a Morrow well on that side.

Q. We just don't know where the fault is going to fall.

A. We just do not know exactly the position of the fault but we feel like we're extremely close to it.

Q. Does -- so you're going to drill through, if there's any Morrow, through the Morrow to the Devonian.

A. Right.

Q. And depending on where the fault is, try for either Devonian or Morrow.

A. Or Morrow, depending on the position of the fault.

Q. I see. What's a well going to cost, let's talk about just to the Morrow?

A. Our completed producer cost on the Morrow well is $1,332,173.

Q. Is that broken out for you -- for the Examiner on your Exhibit Three?

A. It is.

Q. All right, sir.

Is there anything I haven't asked you that you think would be of information to the Examiner in connection with this hearing?

A. I feel like we've pretty well covered the conditions.

MR. CHRISTY: That's all from this witness.

MR. NUTTER: Are there any questions of the witness?

MR. COOTER: Yes, sir.

MR. NUTTER: Mr. Cooter.

CROSS EXAMINATION

BY MR. COOTER:

MR. COOTER: Mr. Christy, have you offered Exhibits Two and Three?

MR. CHRISTY: I haven't offered any exhibits.

Q. Mr. Brice, from the Exhibit Two, which is your --

A. Plat.

Q. -- plat, you show the proposed location in the southeast quarter of the northeast quarter as being on the upthrust side of the fault, do you not?

A. Correct.

Q. And if that be correct, what you're looking at is, hopefully, a Devonian completion.

A. Yes, sir, that is correct.

Q. And if it's a Devonian completion, then there would be no Morrow unit on -- formed as a result of that well.

A. That is correct.

Q. If you are correct in your -- your plat, and the information there as depicted by you is correct, the other Devonian wells to the east of this proposed well have encountered no Morrow production or no Morrow formation, or

if there is, it's not productive.

A. Correct.

Q. Now let me turn to your AFE, which you've been questioned about by Mr. Christy, and you've testified about the well cost. That's an AFE for a well proposed, I guess by Bandera, in the southwest quarter of Section 27, is it not?

A. No, sir, that is proposed for a well that would test in the southeast quarter of the northeast of 27.

Q. Well, I was looking at the description at the top and it says southwest quarter, Section 27, Township 16 South, Range 35 East.

MR. CHRISTY: Same cost.

A. Same cost.

Q. The AFE that you have -- that you've testified about, though, does cover a proposed well in the southwest quarter.

A. That is correct, sir, it does.

Q. And that is the second proposed location on the plat which you've also testified about which shows the south half of the unit?

A. That is correct, sir.

Q. Offsetting that second proposed location

in the southwest quarter of Section 27 there's a good Morrow well over there in the southeast quarter of Section 28, is that not --

A. That is correct. That's the HNG well. It is a good Morrow well.

Q. And it is also offset by a good Morrow well to the south of it in the northwest quarter of Section 34, is it not?

A. I don't have my figures on the cumulative production on that well. I do not think that it is as good a well as the one that offsets in the southwest quarter of 28.

Q. I would concur with you, and if I suggested that the production from -- from the HNG well in the northwest quarter of Section 34 is approximately one million cubic feet per day, would you --

A. That would --

Q. -- agree?

A. That would sound about as I remember.

Q. All right, let me go on a little bit further to the east and -- and point out the well in the northeast quarter of the northeast quarter of Section 34, as shown by your plat.

That was a Morrow well, was it not?

A. It was.

Q. Drilled to the Morrow but -- but not productive.

A. It produced approximately -- now we're talking about the well in the northeast northeast 34?

Q. Yes, sir.

A. It produced approximately 880 million cubic feet of gas and 16,000 barrels of oil before it was depleted.

It is now a depleted well.

Q. The Morrow formation over that close to the fault line, it was on the down side of the fault.

A. It was on the downthrown side of the fault, with the fault, apparently -- appears to have a displacement of approximately 80 -- about 800 feet between the eastern wells as opposed to the well in the northeast northeast 34. The fault is -- this is our best indication of the faulted structure.

Q. But from that well it appeared that -- that the Morrow formation pinched out as it approached the -- the fault line.

A. Well, yes. Well, Morrow on top of the fault may not be present. It's -- it's one of these things that hasn't been tested. It appears that it may be absent

completely.

Q. Let me ask you what Bandera proposes to do if it -- if the well that it proposes to drill in the northeast quarter of Section 27 is as -- as expected on the upthrust side of the fault and a Devonian well be encountered? Let me further assume that -- that J. M. Huber Corporation elects to participate in the drilling of that well.

Would Huber Corporation then own an interest in your Devonian well?

A. I don't think so at this time.

Q. Even though it elected to participate in the drilling?

A. I'm -- I don't feel qualified to answer that. I think you'd best --

MR. CHRISTY: I have another witness on that question.

Q. Would you believe that -- that if it were a Morrow test, that based on the geological data which you have, that a laydown unit comprised of the south half of Section 27 would be much more attractive than the standup unit proposed by Bandera here?

A. Well, geologically -- I don't feel qualified to answer that just yet. We -- we have -- if, as pictured, we would have a situation where we would have no

Morrow problems. If the fault is positioned whereby we do go into the Morrow on the downthrown side, we would be in a position to go either way, actually, except I'll have to let the land people answer what kind of situation would exist there.

Q. But you would agree with me, if -- let's suppose that it's on the down side of the fault, and it's going to be very close to the fault, and from the other well, particularly the well in the northeast of the northeast of 34, that close to the fault the Morrow is -- is probably going to not be as productive as the wells further to the west, such as the offsetting well in -- in Section 28 and the other well in Section -- in the north half of Section 34.

A. I can't say that. The Morrow is a very erratic formation. Predicting porosities and the permeabilities in the Morrow is very difficult to do. You might very well encounter a better well. You might very well encounter a worse well. This would depend upon depositional features of the Morrow sand as it is at that location.

Q. Well, Mr. Brice, if there were no acreage problems and Bandera had all of Section 27, and Bandera were truly interested in a Morrow test, based upon your geological experience, where would -- in Section 27 would you recommend that Bandera drill?

A. In the southwest quarter.

Q. Thank you, sir.

MR. COOTER: Thank you, that's all.

MR. NUTTER: Are there any other questions?

MR. CHRISTY: I have just one or two.

MR. NUTTER: Mr. Christy.

MR. CHRISTY: Go ahead, sir.

MR. NUTTER: No, you can go ahead.

MR. CHRISTY: Fine.

REDIRECT EXAMINATION

BY MR. CHRISTY:

Q. Mr. Brice, turning to Exhibit Three again, Mr. Cooter correctly noted that the description says southwest quarter Section 27.

I think your statement was that the cost was the same?

A. The same.

Q. Would you like to amend this exhibit to call for a different location?

A. Yes. I'd like to amend this to call for the southeast of the northeast.

Q. All right. Now, Mr. Cooter asked you

questions concerning where you -- your ideal location was for the Morrow. What is your first objective in -- in drilling where you're proposing?

A. Our first objective is the Devonian at this time.

MR. CHRISTY: That's all.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Brice, if this fault is correct, I see 1000 foot throw here from the downthrown side to the upthrown side.

A. Let's see, 85 -- yes, sir, that is correct, from the easterly -- most easterly -- westerly east well and --

Q. Well now, these contours are drawn on top of the Mississippian lime and the fault exists here in the Mississippian. Would this fault extend up through the Morrow also?

A. Probably not. It -- this is -- this is -- I had quite a bit of problem with this, dating this fault.

There could very well have been movement in early Penn but then again we cannot verify this geologi-

cally from -- from actually saying, yes, it is faulted. We might have a draping effect. We might have had nondeposition due to the structure, the Shoebar structure, being extremely high structure in Morrow time.

Also it is possible that it's -- it's erosional nondeposition.

This is one of these things that I don't feel that I can answer at this time.

Q. But in other words you're saying that under any circumstances you wouldn't expect for the Morrow to experience 1000 foot --

A. No, sir.

Q. -- thrust, and the depths in the wells on the east side of the fault and the west side of the fault, of the Morrow would be similar.

A. They would be similar. The -- the west side of the fault depth to the Morrow would be similar to the east side of the fault depth to the Devonian.

Q. Well, would the depth to the Morrow on the west side of the fault be the same as the depth to the Morrow on the east side --

A. Yes --

Q. -- of the fault?

A. Yes, sir, it just so happens that when

you cross section this thing, this is the case. 12 -- approximately 12,800 will get you the Morrow on the downthrown side and the Devonian on the upthrown side.

A depth of 12,800.

Q. And how deep is the Morrow on the upthrown side, then?

A. Well, the Morrow would be -- I don't remember my figures in the section there, Your Honor. It would be in the range about 900 feet above the Devonian, I believe.

Q. Well now, if 12,800 gets you to the Morrow on the west side, 12,800 gets you to the Devonian on the east side, and the Morrow is 900 feet above that, then how can the cost estimate for the well in the southwest quarter be the same as the cost estimate for the well in the southeast of the northeast?

Because you're talking about another 900 feet and 900 feet at that depth costs a lot of money.

A. Well, I'm thinking, I'm talking about the 12,800 depth as such would be the same cost -- the cost -- the depth of 12,800 on the west side will get you -- penetrate the Morrow for you and will not get you to the Devonian.

Q. But it will go through the Morrow.

A. But it will go through the Morrow. In

fact --

Q. Well, how many feet would you have to drill to go through the Morrow on the east side?

A. I don't have an answer to that because no wells over there have penetrated the -- to the Devonian.

Q. Well, didn't you say, though, that you expected the Morrow to be some 900 feet above the Devonian?

A. On the east side. Excuse me, did you say east side or west side?

Q. On the east side.

A. East side, excuse me, I thought you said west side.

If the Morrow is present, that should -- I don't really think I should answer this because I don't have my data with me on that, depth of that.

Q. Well then I'm wondering how you can take a cost estimate that was prepared for the southwest quarter and say it's the same for the northeast quarter if you don't what the depth is you're going to have to drill, because you knew what the depth was going to be when you prepared this AFE for your location in the southwest quarter, and now you've amended it, or propose to amend it to the southeast of the northeast without any adjustment, the cost for a hole to 12,800 feet.

A. Yes, sir.

Q. And 12,800 feet, you said, would get you to the Devonian on the east side of the fault.

A. I would like to request help from my engineer who prepared the AFE.

MR. CHRISTY: Just tell him you don't know the answer.

A. I don't know the answer to that.

Q. In other words, we don't have a cost estimate here today for the well in the proposed location.

A. Again I have to defer that to the engineer.

MR. NUTTER: Will your other witness go into this a little more? Okay.

Q. Now, Mr. Brice, geologically speaking here, Mr. Cooter delved into this somewhat, but geologically speaking, the chances for a Morrow well are much slimmer, according to this structure map that you've got, on the east side of the fault than they are on the west side of the fault, are they not?

A. That is true, sir.

Q. And I think you stated that if Bandera owned all the acreage, you'd propose that the location for the Morrow well be in the southwest quarter.

A. That's true, sir.

Q. Now in its application here Bandera is seeking to bring Marathon and Huber into the drilling of a well to test the -- for the Morrow formation, but you say it's your intent to go to the Devonian.

Now the terms of any order that the Division would enter in a compulsory pooling case would be that it would provide -- you would provide a cost estimate for the well; that Marathon and Huber would have thirty days in which they could come up with their share of that cost estimate.

A. Yes, sir.

Q. Now if they came up with their share of the cost estimate and provided those funds for the drilling of the well and you didn't get any Morrow but went on to the Devonian, what would happen to the -- what did you do for -- prove for them? Did you prove that their Morrow was nonproductive for them on a -- on a well that the chances as seen right here as of now are pretty nil? Is that what you're going to do for them for coming up with their share of the well cost?

A. Well, sir, if the pooling was limited to the Morrow and with no cost to Huber if the well is completed in any zone and the Morrow is not present, if we

limited it to the Morrow formation on the east side on the acreage.

In other words, what I'm saying, we are extremely close to that fault. I can see and visualize how we might be across that fault into the Morrow where the chances of the Morrow are much better.

If we do cut the fault on the upthrown side, we may not have any Morrow present, and some way in the agreement, which I feel like could be worked out, that we would limit this thing to the position of the Morrow if we cut it and could produce it.

Q. But if you didn't encounter the Morrow you'd go on down to the Devonian.

A. The Devonian, yes, sir.

Q. And you'd have a Devonian well. They would have come up with their share of the cost to the Morrow and wouldn't have any participation in the Devonian, and all you've done for them is show -- is prove what you're saying here today, that the Morrow is almost non-existent on the east side of the fault. That's what you've done for them for their share of the well costs.

MR. CHRISTY: I think the other witness can help you a little bit, Mr. Examiner.

To answer you, though, we do not propose

to bill them at all until we've gotten the well through. In other words, if it turns out to be a Devonian well, we'll just never bill them and the unit operating agreement covers the Morrow only, so it does not apply.

MR. NUTTER: Well now, you propose not to bill them, but what would you do if they got a well, bill them for their share of cost plus the 200 percent?

A. Yes.

MR. CHRISTY: No, if they put up their money.

MR. NUTTER: Well, you're not going to bill them so how can they put up their money?

MR. CHRISTY: We're perfectly willing for the order to provide that the payment will be made after the well is down and it's contingent on it being -- testing the Morrow.

MR. NUTTER: And they could put up their share of the money without penalty after the well is down?

MR. CHRISTY: Yeah.

MR. NUTTER: And you're willing for the order to prescribe that. Okay.

Are there any further questions?

MR. CHRISTY: I'll go into this with the next witness.

MR. NUTTER: Okay.

MR. CHRISTY: I think he's a little more qualified than the geologist.

MR. NUTTER: Okay. Are there any further questions of Mr. Brice?

He may be excused.

MR. CHRISTY: Call Mr. Hartwell, please.

CHARLES M. HARTWELL

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CHRISTY:

Q. Have you previously been sworn?

A. No. Yes, I've been sworn.

Q. Would you please state your name, your address, by whom you're employed and in what capacity?

A. Charles M. Hartwell. My address is Midland, Texas, and I'm employed by Bandera Energy as general partner and manager of operations.

Q. Mr. Hartwell, you heard the Examiner's questions concerning costs just a minute ago?

A. Yes.

Q. Would you please explain to the Examiner exactly what the answer to the question is that he obviously wants to know?

A. Okay. I think the general thrust here is that we're so close to that fault that it could be this is as much a Morrow test as it a Devonian test. If we cross the fault we'll get the Morrow at the same depth.

So the depth is the same here to the Morrow as it would be to the location I have stated on there, and it has been amended to the northeast quarter.

Q. All right. Now, what about this cost? You heard me make some statements to the Examiner. Does Bandera subscribe to those statements? With respect to when they pay if they elect to participate.

A. Yes. If -- if we drill the well, and -- we're drilling this well and even if we're on the upthrown side, we're going to be testing the Morrow zone. It may be absent and it may be there, too, but -- well, we will not -- we won't bill them until we're down, and --

Q. If it turns out to be a Devonian well you'll never bill them.

A. That's right.

Q. And as I understand you from Exhibit Three, the cost is the same whether it's in the southwest

quarter of 27 or in the southeast northeast of 27, as to the Morrow?

A. As far as the Morrow is concerned, that is correct, and that assumes that we've got a 50-50 chance that we're going to cross the fault and go into the Morrow, and it will be the same depth.

Q. I see, same depth?

A. Same depth and the same cost.

Q. Same cost.

And 12,800 is correct on the depth?

A. That's right.

MR. CHRISTY: That's all.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Well, Mr. Hartwell, you're saying that you'd cross the fault. What you're saying is that if you drill the well at the proposed location in the southeast of the northeast, and the fault were deflected northward rather than northwest, and you ended up on the west side of the fault, that it would be the same depth as the location that's in the southwest quarter.

A. That's right. If we cross -- cross the fault and got on the west side of it, the Morrow would be the

same depth there as it would be --

Q. Right.

A. -- over where --

Q. Right. Now if the fault is where it is, would you encounter the Morrow or will it be gone? Will you get a Morrow well if the fault's where it is at this location?

A. It's quite possible and I don't think anybody knows what's down there. It could be absent but it could be present, too.

Q. Now if it were present would it be the same depth?

A. No, not if it's present.

Q. It would be at a shallower depth, then, would it not?

A. That is -- that is correct. It would be at a shallower depth but you model these things and you have to model them one way. You can't say, take all conditions into consideration.

Q. All right.

A. But in my view, you have just as much chance of being across the fault and getting the Morrow as you do not being across the fault at this location. This is an optimum location that we can test more zones and know what's there. If we don't drill this well at this location, why the

Devonian and other will never be tested.

Q. Well, now, with respect to this statement that you made about the billing. Bandera proposes to drill the well. They're seeking a forced pooling order here for the east half to go to the Morrow.

Now, you'll go on down, you'll drill, you'll see if the Morrow is present or not, and if it's not present, or maybe even if it is present, you'll drill on to the Devonian.

A. To the Devonian, correct.

Q. And then you would -- if you had no Morrow, then you wouldn't submit any bills at all.

A. That's right. That's assuming they join us for a Morrow test.

Q. Now, when they join you, are they going to have to put any money up?

A. Not until we get down.

Q. Not until you send them the bill.

A. Till we send them the bill.

Q. But they have to make an election?

A. Yes.

Q. And their election would be to participate in the --

A. Morrow test.

Q. -- in the Morrow only.

A. Morrow only, that's right. That's the only question here.

Q. And then if you got a Devonian well you wouldn't bill them anything.

A. That's right, they would never be billed.

Q. Okay.

MR. CHRISTY: We're perfectly willing for the order to provide that. Our main objective is Devonian. We're trying to cover ourselves if it turns out to be Morrow.

Q. I see the main objective is Devonian but the thrust of the order is to the Morrow, because that's the case.

A. Well, I'm not quite in agreement with that. I think our objective here is as much for the Morrow as it is for the Devonian.

Q. Well, if you were really going for Morrow, you'd be on definitely the west side of the fault, however, though, wouldn't you?

I appreciate the fault may be meandering some place in --

A. Yes. If we moved it over there, there is possible Devonian and other horizons on the east side of that thing that will never get touched.

Q. Right, I see that.

MR. STAMETS: Are there any questions of Mr. Hartwell?

MR. COOTER: Please, Mr. Examiner.

MR. NUTTER: Mr. Cooter.

CROSS EXAMINATION

BY MR. COOTER:

Q. It's been covered that what was originally proposed here by Bandera, as evidenced by their first proposal, was a Devonian test.

A. Well, we state Devonian because that's the deepest horizon. We've always intended that we test the Morrow on the way down.

Q. If your Devonian well is successful, though, that the -- the well is on the east side of the fault, or the upthrust side of the fault, the Morrow has not been present, or if it has been present it's certainly not productive.

A. Not necessarily, but that's a -- I mean that -- that -- there's some thoughts in that direction, but I'm --

Q. Well --

A. I'm not going to guess what's down there

Q. Okay.

A. I've been fooled too many times.

Q. But from the wells that were drilled Mr. Hartwell, over there in Section 26 and 35, that were on the east side, or the upthrust side of the fault, those are all Devonian wells.

A. Well, not all Devonian, there's other pays in there, too, but I'd rather refer those for -- I mean I didn't make this map, so I'm not going to get too much into detail on that. Mr. Brice made the map. But it's my understanding that most of those wells over there, I don't believe they had Morrow in them. But that's 1000 feet away there, so a lot of things can change in 1000 feet.

Q. If you're on the west side, or the down side of the fault, you believe, though, that you would be barely on the west side of it by this proposed location.

A. Well, that's just like saying it just being a little bit pregnant. Yes, you'd be across the fault and you'd have just as much chance of -- the depositional nature of the Morrow is -- is hard to guess.

Q. Would you concur with me, however, that the well in the northeast quarter of the northeast quarter of Section 34, which is the closest to the fault line as shown, is a poor, or was a poor Morrow well before it was depleted,

whereas the wells to the west of that are good wells, good Morrow wells?

A. I'll agree with that statement. It has absolutely no bearing, because from experience in the Morrow in this area, the worst thing you can do is offset a good well. You're more likely to get a good well offsetting a poor well, has been my experience.

Q. Would you concur with Mr. Brice that if Bandera had no acreage problems in Section 27 and were truly interested in drilling a Morrow test, that you propose a south half or a laydown 320-acre unit and drill your Morrow test in the southwest quarter?

A. I would say that would be a good location, probably a better location for the Morrow than the one we propose; however, our idea here is to test all the zones we can, and as I said, these other zones will never be tested if that well isn't drilled. And I still, my own personal belief is that this well we're talking about is just as much a Morrow test as it is a Devonian test.

Q. Now, I don't quite understand your -- let me turn to your AFE, and you would propose that -- that Huber and Marathon commit themselves one way or the other prior to the commencement of your drilling operations.

A. That's right.

Q. But that they would not be billed until you took a look at the hole.

A. Until we got down, that's right.

Q. And if -- you asked for a 200 percent risk factor?

A. That's right. This is a high risk well, in my view.

Q. Particularly for a Morrow well in the location as indicated.

A. As all Morrow wells, yes.

Q. But it's a higher --

A. It's a high risk for a Devonian location too.

Q. But the risk for the Morrow is -- is greater at your proposed location than it would be in the southwest quarter, in your opinion?

A. That's right. I mean, obviously, from our exhibit here, we had been looking at that location, and if the Morrow is missing here, we may drill down there.

Q. Do you have any agreement on -- on -- who owns the lease in the southwest quarter?

A. I have no idea. I mean you'd have to ask our land people. I'm not familiar.

MR. NUTTER: Mr. Barnes, could you

answer that?

MR. BARNES: Yes, I could.

MR. NUTTER: Please do.

MR. BARNES: It would be Southern Union, let me get it exact, Southern Union Exploration Company of Texas.

MR. NUTTER: The whole 160?

MR. BARNES: Yes, sir.

Q. All right, let me ask you or Mr. Barnes, do you have a farm out agreement with Southern Union?

MR. BARNES: Of sorts.

MR. COOTER: Thank you. That's all.

RECROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Hartwell, I'm still confused as to this billing and the election that Huber and Marathon would be asked to make.

Now, you'd submit your AFE for a Morrow well and ask them to make an election as to whether they were going to participate or not.

A. That's correct.

Q. And they would have to make that election but they wouldn't have to put up any money in advance.

A. That's correct.

Q. And then if you got down and you had no well in the Morrow, you'd take it on down to the Devonian, and you wouldn't send any bill to them despite the fact that they had made an election.

A. That's right. They'd never be billed.

Q. But if you got a very, very small well in the Morrow, just a puff of gas, wouldn't you send them a bill then?

A. I believe we would, yes. I mean that's the chance you take when you're in the oil business.

Now, I mean we'd have to make a completion in the zone. Now, wait a minute, I believe --

Q. I'm wondering what kind of a well it would take before you'd decide to send them a bill.

A. If they're -- if they're -- if we're testing the Morrow, yes, we would -- it's only if we would complete it in the Devonian that we would never bill them.

Q. Supposing you get a dry hole in the Devonian? Would you bill them if you got a dry hole in the Morrow, would you bill them? If they had made the election to participate?

A. Yes.

Q. If you got a dry hole -- if you got a

dry hole in all zones.

A. Yes, we'd bill them. I mean we can't guarantee Morrow production or Devonian production.

Q. No, I know that.

A. This is a wildcatter chance.

Q. Seems like it's really wild for the Morrow, however.

A. Well, I'm -- I'm not -- I don't think it's that wild for Morrow. We don't know where that fault is. And we'd certainly be testing the Morrow for them, by drilling the well.

MR. NUTTER: Are there any other questions of Mr. Hartwell? He may be excused.

MR. CHRISTY: We offer in evidence Applicant's Exhibits One, Two, Three, inclusive, I believe.

MR. NUTTER: Exhibits One, Two, Three, will be admitted in evidence.

MR. CHRISTY: Mr. Examiner, I have here Exhibit Four, which is the certified receipts of mailing of the application to Marathon and Huber, but I believe they've now both entered their appearance.

MR. NUTTER: I believe they got these.

MR. CHRISTY: That's all for the applicant.

MR. NUTTER: I would like another set of exhibits, Mr. Christy.

MR. CHRISTY: Yes, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case Number 7253?

MR. COOTER: We have one witness who was not sworn before. Cecil Ellis on behalf of J. M. Huber Corporation.

(Mr. Ellis Sworn.)

CECIL ELLIS

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. COOTER:

Q. Would you state your name for the record, please, sir?

A. Cecil Ellis.

Q. And by whom are you employed, Mr. Ellis?

A. J. M. Huber Corporation.

Q. In what capacity?

A. As District Landman.

Q. Would you very briefly relate your experience in the industry?

A. Yes, sir. I've been employed as a landman by various companies starting in February of '56 down to date, just about in all phases of land work.

Q. By whom were you employed?

A. Humble for about twenty years; Pennzoil for two years; Monsanto for two and a half years; now J. M. Huber.

Q. In your present position are you acquainted with the application of Bandera and its proposed well in the northeast quarter of Section 27?

A. Yes.

Q. Has your company reviewed the Atoka-Morrow formation and where it lays in this immediate area as referenced Bandera's Exhibit Two, I believe?

A. Yes, sir, we've -- the company has conducted rather extensive investigation into the Morrow here. We farmed out, as a matter of fact, Huber farmed out to HNG for the drilling of the well in Section 34 in the northwest quarter of 34, and we have actually been contemplating proposing a well in the southwest quarter of 27, but we have not done so at this time to any of the other possible participants.

Q. You so advised Bandera, though, did you

not, in reply to their original letter to you of March 18?

A. Yes, we did. We suggested that we didn't desire the east half of that section as a Morrow unit but we did in writing propose that we would seriously consider joining in a well in the southwest quarter for a south half proration unit.

Q. The Atoka-Morrow formation as determined or believed to be in existance by your company is on the down-thrust side or the west side of that fault --

A. That's correct.

Q. -- is it not? And runs generally in a northwest/southeast direction as does the fault itself?

A. That's our best interpretation, based on, of course, largely the existing producing wells.

Q. Let's turn to your farm out of the acreage to HNG in the north half of Section 34.

First, what were the terms of that farm out?

A. We committed the 80-acre tract to the 320-acre unit and farmed out our interest, reserved 1/16th override until payout. At payout we backed in for a half interest.

Q. Proportionately reduced?

A. Proportionately reduced to the unit.

Q. And those are the same terms and provisions, are they not, as what you proposed to Bandera?

A. That's correct.

Q. You would farm out your acreage, being the west half of the southeast quarter, on the same terms and provisions as what you farmed out your -- your 80-acre tract, being the east half of the northwest quarter of Section 34?

A. That is correct.

Q. What type of well is that HNG well in the northwest quarter of Section 34?

A. I only have, I believe, as of about November of 1980. It was producing right at one million a day, 900-something, and I don't have the exact figure.

Q. Has that well paid out?

A. Oh, yes, it paid out in about ten months.

Q. And that is producing in the Atoka-Morrow?

A. That's -- that's correct.

Q. How about the well offsetting a proposed south half unit in Section 27? Let's go over to the Section 28. Is there a well over there in Section 28?

A. Yes, in the south -- looks like about in the south, pretty near the center of southeast of 28.

Q. What type of well is it?

A. Again with some production figures for the month of, I believe it was for the month of November, 1980 that well was producing less than three million a day, but I don't recall the exact figure, two million seven, in that range.

Q. It was a better well than even the well, HNG well to the south in Section 34.

A. Based on those production figures, I'd have to say yes to that.

Q. Who owns the minerals in the -- on which you have a lease in the west half of the southeast quarter of Section 27? From who is that --

A. That is the State of New Mexico lease. I don't know what, what institute owns the royalties, but it is a State of New Mexico lease that is held by our production from the well down in 34.

Q. Would you concur with the testimony presented here by Bandera, Mr. Brice and Mr. Hartwell, that a south half unit, or a laydown unit comprising the south half of Section 27 for a Morrow test, would be much more attractive than an east half unit?

A. Let me say, I'm not a geologist, but based on what I have seen of the work that's been done by

Huber employees, certainly, and this is obvious by our comments to Bandera that we would much prefer a location in the southwest quarter for the Morrow, Atoka-Morrow test.

Q. You would concur that their second proposed location as shown on their Exhibit Two is for a Morrow test much more attractive than -- than the one in the northeast quarter?

A. For Huber it's much more attractive, right.

Q. And do you believe that the chances of success would be better or worse by that location?

A. Well again, based on the data that I've seen, and I think is probably depicted with this exhibit, yes.

Q. And do you concur with the proposal as set forth in Huber's letter to Bandera that were a south half unit to be formed to drill a Morrow test, that Huber would join in that?

A. Our intent at this time would be to actually join and participate in the drilling of a Morrow test there.

MR. COOTER: That's all I have.

CROSS EXAMINATION

BY MR. CHRISTY:

Q. Mr. Ellis, if the order is not granted for forced pooling and you don't join in this well we're proposing in the present location, and we get a Morrow well, would Huber expect any of the production?

A. The order is not granted?

Q. Right, and you don't join?

A. No.

Q. You don't expect any of the production, even if the proration unit is the east half of 27?

A. Oh, when are you -- when are you going to form this unit?

Q. We can't form it agreeably. The question -- if we don't form it by force pooling and we drill it and it turns out to be a Morrow and it's the east half of 27 as a proration unit, do you expect any of the production?

MR. COOTER: I believe the question -- I'm a little bit confused by it assumes facts which cannot come into existence. There's either got to be an order force pooling the east half of Section 27 for Morrow production, or a voluntary agreement between the parties to form that proration unit.

Mr. Christy's question eliminates both

alternatives and I don't understand how that could come about. If the --

MR. CHRISTY: Let me rephrase the question.

Q. What -- what's the acreage that Huber owns?

A. We own the west half of the southeast quarter.

Q. All right. Now, a standard proration is 320, is it not?

A. I believe that's correct.

Q. All right. Now, --

A. For a Morrow.

Q. If the proration unit is the east half of Section 27 for the Morrow and we do obtain a Morrow well, does Huber expect any portion of that production?

MR. COOTER: I'm still --

A. Well, I don't think I can answer your question. We've either got to have a proration unit or an agreement.

There's nothing wrong with your making application for a north half unit, is there?

MR. NUTTER: Let me interject here, I think that, Mr. Christy, what would happen if this proration

unit you're seeking today was not approved and Bandera was intent on drilling the well, they would project it as a Devonian well and dedicate just the east half of the northeast quarter.

Then if they did get a Morrow well, the people in the northwest quarter might want to bring a forced pooling action to create a north half proration unit, or Huber might want to bring a forced pooling action to create an east half unit and get in the well.

MR. CHRISTY: Get in the well.

MR. NUTTER: Yeah.

MR. CHRISTY: After the fact.

MR. NUTTER: After the fact.

MR. CHRISTY: I don't blame them.

Q. Now, did Huber --

MR. NUTTER: Or Bandera could ask for a nonstandard 80-acre gas proration unit, too.

MR. CHRISTY: Got a lot of them.

MR. NUTTER: And keep everybody out of it.

Q. Now, I think Bandera offered to you a 1/16th override until payout and back in for 25 percent, is that correct?

A. Yes, sir, I believe that's right.

Q. And you proposed 1/16th override and back in for half.

A. That's correct.

Q. So the quarrel seems to be not on location but on how much you back in for, is that correct?

A. I'm not sure whether they're proposal was limited to the Morrow formation or from top to the bottom. Our proposed farm out to them would be our rights from surface to, let's say, TD or 100 feet below TD.

Q. But looking at the Morrow.

A. No, they proposed a Devonian test.

Q. I see. Now, the Devonian is 80-acre spacing, is that correct?

A. I -- I believe that's correct.

Q. All right. If you're proportionately reduced, how do you have anything if it's Devonian?

A. Because we're going to propose that all rights, not just the Morrow, but all rights from the surface down to TD, would be a working interest unit.

Q. A working interest unit.

A. A working interest unit, right.

Q. On the east half of 27.

A. Right.

Q. Oh, it's the east half of 27 that you're

proposing 1/16th and 50 percent back in, is that correct?

A. Right. We'll farm out our interest to a working interest unit on that basis, for the drilling of a Devonian test.

Q. Do you concur with Mr. Hartwell that unless the well is drilled on its proposed location, that the Devonian will never be tested?

A. Frankly I'm -- it's not much concern of mine in the first place. There's been numerous Devonian wells over there very close to the fault as you have it drawn here on your exhibit.

I'm afraid I can't answer that.

Q. Guess. Thank you, that's all.

MR. NUTTER: Any questions further of Mr. Ellis?

MR. COOTER: No, sir.

MR. NUTTER: He may be excused.

MR. COOTER: We have nothing further.

MR. NUTTER: Did you have anything, Mr. Carr?

MR. CARR: Nothing, Mr. Nutter.

MR. NUTTER: I'll call for closing statements at this time. Mr. Christy, you may go last.

MR. COOTER: Mr. Nutter, it is Huber's

position that what Bandera proposed here, or proposes by this, is as they set forth in their original letter of March 18, that they want to drill a Devonian test.

Being close to the fault, they have come up with a proposal to form or to pool the east half of Section 27 as a Morrow test, but -- or as a Morrow unit, but that that Morrow unit may or may not ever come into existence; hopefully not, because if they encounter a Devonian well, as depicted on their exhibit, that will be it.

They concur that if it were truly a Morrow test, that they would prefer a south half or a laydown unit and drill their Morrow test in the southwest quarter of the section.

This presents, I believe, an unusual fact situation, and one certainly I'm not familiar with before, of really a little insurance which -- for the drilling of the well, and as they said, if it's -- if it's dry they'll -- they'll bill those that elect to participate in -- in the Morrow test.

They apparently have some kind of an agreement with Southern Union which owns the lease covering the southwest quarter, so I question their -- their motives if it -- if it really is a Morrow well, everyone is in complete accord that the preferred location would be the southwest

quarter. If that be so, I think that Bandera should -- should so state, but then in effect they have when they say that what they're really seeking up here is to test the Devonian and take a look at it.

If that's a Devonian well all well and good. The chances are if they're across the fault line on the west side, or the -- where the Morrow may be encountered, or encountered in productive quantity, the -- it's going to be so close to the fault line that it probably will not be as productive as the offsetting wells in 28 and 34.

I'd point out that the -- that the closest well to that fault line which tested the Morrow is that one in the northeast quarter of the northeast quarter of Section 34, and there the Morrow production was minimal.

For these reasons we respectfully request that Bandera's application to form this type of Morrow unit be denied.

If it is granted we respectfully request since they are going to take a look at the Devonian, that any election on the part of the other participants in that well be delayed until such time as Bandera sees what they're going to have. Let them drill their Devonian test and if they want a Morrow formation at that time, permit Marathon and Huber to elect whether or not to participate in it, and at that time

the risk factor is nil. They'll either know or not know, and at that time Huber and Marathon may or may not pay. Let them recover their working -- or let them recover their complete costs and at that time go forward.

That's all I have.

MR. NUTTER: Mr. Carr? Mr. Christy?

MR. CHRISTY: Thanks. Mr. Nutter, I think it's pretty obvious from Mr. Ellis' testimony that despite the, shall I say smokescreen of my eminent colleague that there is not an objection to the east half of 27 in the present location.

The objection is how much you get in back in, and Mr. Ellis testified to that. They both agreed to 1/16th override until payout. The issue is, and it's a monetary issue, do I get 25 percent working interest after payout or do I get 50 percent, and without all the rest of this, whether it's better to lay it down or stand up or anything, they're not quarreling about that because they're willing to agree, Mr. Ellis just testified he's willing to agree to a 1/16th with a 50 percent backin right where I told him, in the east half of 27. He said oh, yes, but I want a 50 percent backin.

Now, if we -- in answer to Mr. Cooter's testimony -- excuse me, statement, let's drill the well and

you go right ahead, Bandera, you take all the risk and everything else, and then if it turns out to be a Morrow well, then we'll make an election. Well, if it turns out to be a decent Morrow well, of course they're going to elect it, and no risk factor.

We take all the risk, a million three, and they just stand back and let us take the whole burden on the Morrow.

All right. Our objective, as Mr. Hartwell testified, is to test everything up and down. We're going to give them a test in the Morrow if there's any Morrow there. If there's no Morrow there, we haven't got an operating agreement that we submitted to you, because it's limited to the Morrow.

We are not asking to force pool the Devonian or anything else. It's simply to look at the Morrow, and we think it's fair to give us a risk factor and to grant this application in the event -- we don't know where that fault line is. If we -- it could be anywhere, as far as we know.

What we're asking to do is to protect the -- the possibility that we will get a Morrow or we will test the Morrow, and that's the only thing we've asked a risk factor. Now we -- if we just go down and drill all the way

to the Devonian, complete it as a Devonian well, the order won't -- won't apply because it's limited to the Morrow.

That's all we're asking for. That's all.

MR. NUTTER: Does anyone else have anything they wish to offer in Case 7253?

We'll take the case under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7253 heard by me on 5/20 19 81.

_____, Examiner
Oil Conservation Division

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April 15, 1981

Case 7253

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

We enclose herewith in triplicate Application for compulsory pooling, Lea County, New Mexico, filed in behalf of our client Bandera Energy Company.

Please advise when the matter has been set for examiner hearing.

Respectfully,

JENNINGS & CHRISTY

By S. B. Christy IV

SBC;pv
Encl.
cc: Bandera Energy Company

STATE OF NEW MEXICO

DEPARTMENT OF NATURAL RESOURCES

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF BANDERA ENERGY COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

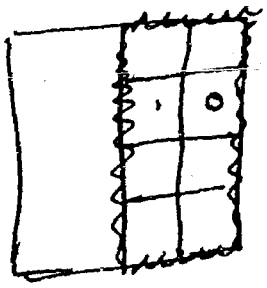
Case No. 7253

APPLICATION

COMES NOW Bandera Energy Company and hereby makes application for compulsory pooling of all mineral interest in the Morrow formation underlying the E½ Section 27, Township 16 South, Range 35 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less, and for grounds thereof states:

1. Applicant has been diligent in its efforts to form a proration unit for the drilling of a well, to be located in the SE¼NE¼ of said Section 27, but there remains non-consenting interest owners in the subject proration unit who have not agreed to the pooling of their interest.

2. That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in said proration unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas and associated hydrocarbons producible from the Morrow formation, this regulatory body should approve the pooling of all mineral interest, whatever they may be, within said unit.



3. Applicant proposes to dedicate the subject proration unit to the well to be located as aforesaid.

4. Applicant seeks permission to withhold the proceeds from production attributable to each non-consenting working interest until such time as each interest's share of the cost of said well has been recovered plus 200% thereof as a charge for the risk involved in the drilling of the well.

5. That after due public notice, this regulatory body should enter its order granting compulsory pooling in accordance with this Application, fixing a charge for risk, fixing a per month cost for operating the well, and granting to each non-consenting working interest owner the privilege to join in the payment of drilling the well in accordance with law. That such order should further provide that Applicant be appointed as Operator of the well.

Respectfully,

BANDERA ENERGY COMPANY

By _____
S. B. Christy IV
Attorney at Law
P. O. Box 1180
Roswell, New Mexico 88201

cc: CERTIFIED MAIL

Marathon Oil Company
P. O. Box 552
Midland, Texas 79701

Attention: Mr. Willie Legg

cc: CERTIFIED MAIL

J. M. Huber Corporation
1900 Wilco Building
Midland, Texas 79701

cc: Uncertified

Bandera Energy Company
Gihls Tower West, Suite 602
Midland, Texas 79701

STATE OF NEW MEXICO

DEPARTMENT OF NATURAL RESOURCES

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF BANDERA ENERGY COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

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COMES NOW Bandera Energy Company and hereby makes application for compulsory pooling of all mineral interest in the Morrow formation underlying the E½ Section 27, Township 16 South, Range 35 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less, and for grounds thereof states:

1. Applicant has been diligent in its efforts to form a proration unit for the drilling of a well, to be located in the SE¼NE¼ of said Section 27, but there remains non-consenting interest owners in the subject proration unit who have not agreed to the pooling of their interest.

2. That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in said proration unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas and associated hydrocarbons producible from the Morrow formation, this regulatory body should approve the pooling of all mineral interest, whatever they may be, within said unit.

3. Applicant proposes to dedicate the subject proration unit to the well to be located as aforesaid.

4. Applicant seeks permission to withhold the proceeds from production attributable to each non-consenting working interest until such time as each interest's share of the cost of said well has been recovered plus 200% thereof as a charge for the risk involved in the drilling of the well.

5. That after due public notice, this regulatory body should enter its order granting compulsory pooling in accordance with this Application, fixing a charge for risk, fixing a per month cost for operating the well, and granting to each non-consenting working interest owner the privilege to join in the payment of drilling the well in accordance with law. That such order should further provide that Applicant be appointed as Operator of the well.

Respectfully,

BANDERA ENERGY COMPANY

By _____
S. B. Christy IV
Attorney at Law
P. O. Box 1180
Roswell, New Mexico 88201

cc: CERTIFIED MAIL

Marathon Oil Company
P. O. Box 552
Midland, Texas 79701

Attention: Mr. Willie Legg

cc: CERTIFIED MAIL

J. M. Huber Corporation
1900 Wilco Building
Midland, Texas 79701

cc: Uncertified

Bandera Energy Company
Gihls Tower West, Suite 602
Midland, Texas 79701

STATE OF NEW MEXICO

DEPARTMENT OF NATURAL RESOURCES

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF BANDERA ENERGY COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

Case No. 7253

APPLICATION

COMES NOW Bandera Energy Company and hereby makes application for compulsory pooling of all mineral interest in the Morrow formation underlying the E½ Section 27, Township 16 South, Range 35 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less, and for grounds thereof states:

1. Applicant has been diligent in its efforts to form a proration unit for the drilling of a well, to be located in the SE¼NE¼ of said Section 27, but there remains non-consenting interest owners in the subject proration unit who have not agreed to the pooling of their interest.

2. That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in said proration unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas and associated hydrocarbons producible from the Morrow formation, this regulatory body should approve the pooling of all mineral interest, whatever they may be, within said unit.

3. Applicant proposes to dedicate the subject proration unit to the well to be located as aforesaid.

4. Applicant seeks permission to withhold the proceeds from production attributable to each non-consenting working interest until such time as each interest's share of the cost of said well has been recovered plus 200% thereof as a charge for the risk involved in the drilling of the well.

5. That after due public notice, this regulatory body should enter its order granting compulsory pooling in accordance with this Application, fixing a charge for risk, fixing a per month cost for operating the well, and granting to each non-consenting working interest owner the privilege to join in the payment of drilling the well in accordance with law. That such order should further provide that Applicant be appointed as Operator of the well.

Respectfully,

BANDERA ENERGY COMPANY

By S. B. Christy IV

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Bandera Energy Company
Gihls Tower West, Suite 602
Midland, Texas 79701

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

CASE NO. 7253

Order No. R- 6768

APPLICATION OF BANDERA ENERGY COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 20, 19 81, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of ~~May~~ September, 19 81, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Bandera Energy Company, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 27, Township 16 South, Range 35 East NMPM, Shoe Bar Field, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon, being approximately 1980 feet from the North line and 660 feet from the East line of said Section 27, and projected not only to the Morrow formation but also to the Devonian formation.

(4) That according to the geological evidence presented at the hearing, a Northwest/Southeast trending fault cuts across the E/2 of the subject Section 27, and there is a greater likelihood of encountering oil production in the Shoe Bar-Devonian Pool at the proposed location than gas production in the Atoka or Morrow formations.

(5) That said Shoe Bar-Devonian Pool is developed on 40-acre spacing, and if the proposed well should be completed in the Devonian formation, the SE/4 NE/4 of Section 27 would be the dedicated proration unit.

(6) That the applicant, Bandera Energy Company, is the owner of the E/2 E/2 of said Section 27.

(7) That should the proposed well be completed in the Devonian formation, it would be located on, and have dedicated to it, only lands belonging to Bandera, although the owners in the W/2 E/2 of the sections are being asked to participate in the well or be pooled into the proposed 320-acre unit.

(8) That the formation of a Morrow proration unit comprising the N/2 and/or the S/2 of Section 27 and the drilling of a well at a standard location thereon would better serve the protection of correlative rights than approval of the subject application.

(9) That even if production from the Morrow formation were obtained in a well drilled at the proposed location, such well would probably not encounter as good a pay section in the Morrow as a well drilled farther west, and probably would not as efficiently and effectively drain the entire E/2 of Section 27, thereby causing waste.

(10) That in the interest of the protection of correlative rights and the prevention of waste, the application should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Bandera Energy Company for an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 27, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, is hereby denied.

(2) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.