CASE 7345: BASS ENTERPRISES PRODUCTION COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

Case No.

7345

Application

Transcripts.

Small Exhibits

ETC

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

October 28, 1981

RECEIVED
NOV 02 1981
OIL CONSERVATION DIVISION
SANTA FE

OIL CONSERVATION DIVISION
New Mexico Department of Energy & Minerals
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Case #7345-Order No. R6808
Bass State #13-1
660' FNL-510' FEL
Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Enclosed for your files, please find my letter dated October 26, 1981, with attached Application and AFE covering the above referenced Well. The aforementioned was transmitted by registered mail to all Working Interest Owners not yet a party to that certain Operating Agreement dated August 10, 1981.

If you should have any questions regarding this matter, please do not hesitate to contact me at (817) 335-4591.

Sincerely,

Michael L. Joseph

MICHAEL L. JOSEPH
Landman

MLJ:ep
Enclosures

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

October 26, 1981

RECEIVED
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OIL CONSERVATION DIVISION
SANTA FE

TO: WORKING INTEREST OWNERS

Re: Bass State #13-1
660' FNL-510' FEL
Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

As I am sure you are aware, Bass Enterprises Production Co. appeared before the New Mexico Oil Conservation Commission on October 16, 1981, for Compulsory Pooling in the San Andreas, Bone Springs and Pennsylvanian Formations underlying the above referenced Well. As evidenced by the attached Case No. 7345-Order No. R6808, Bass was designated the Operator of the subject Well.

Thereby, in compliance with the Order No. R6808, Bass hereby respectfully submits for your review, an AFE covering estimated well costs. As outlined in said Order, any Non-Consenting Working Interest Owner, within 20 days from the date the scheduled estimated well costs are furnished to him, shall have the right to pay his share of estimated well cost to the Operator in lieu of paying his share of reasonable well cost out of production, and that any such Owner who pays his share of estimated well cost as provided above, shall remain liable for operating cost, but shall be liable for risk charges. For your information, a 200% risk penalty was assessed.

Again, please review the attached AFE and if same should meet with your approval, please indicate so by signing one (1) copy and returning to the attention of the undersigned within the election period.

If you should have any questions concerning the above matter, please do not hesitate to contact me at (817) 335-4591.

Sincerely,

MICHAEL L. JOSEPH
Landman

MLJ:ep

Heritage Resources
P. O. Box 777
Davis, Oklahoma 73030

Petroleum Corporation of Texas
P. O. Box 911
Breckenridge, Texas 76024

Sunmark Exploration Company
Suite 824
C & K Building
Midland, Texas 79701

Bank of America National Trust and Savings Association,
Trustee for the Benefit of Faith McAdoo Merrick
P. O. Drawer EE
Santa Barbara, California 93102

American Crude, Inc.
1700 West Loop South
Suite 1110
Houston, Texas 77027

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

RECEIVED
NOV 02 1981
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION OF NEW MEXICO FOR THE PURPOSE OF CONSIDERING:

CASE NO. 7345
Order No. R-6808

APPLICATION OF BASS ENTERPRISES PRODUCTION COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 16, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 20th day of October, 1981, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Bass Enterprises Production Company, seeks an order pooling all mineral interests in the San Andres, Bone Springs and Pennsylvanian formations underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 East, NMPM, Northeast Lovington-Pennsylvanian Pool, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas

in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3500.00 per month while drilling and $350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is

dedicated on or before February 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the San Andres, Bone Springs and Pennsylvanian formations underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 East, NMPM, Northeast Lovington-Pennsylvanian Pool, Lea County, New Mexico, are hereby pooled to form a standard 80-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of February, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Bass Enterprises Production Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 20 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $3500.00 per month while drilling and $350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the

proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EMERY C. ARNOLD, Chairman

ALEX J. ARMIJO, Member

JOE D. RAMEY, Member & Secretary

S E A L

fd/

RB Form 476

PRB 25% BEPCO 75%
(Company)

AUTHORITY FOR EXPENDITURE-
PRODUCTION AND EXPLORATION

RECEIVED
NOV 02 1981
OIL CONSERVATION DIVISION
SANTA FE

Division	Department	District	Outside Operator AFE No.
WEST TEXAS	PRODUCTION	WEST TEXAS	AFE #

AFE TYPE CODE

- [X] Drilling
- [ ] Wildcat
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sale
- [ ] Construction
- [ ] Workover
- [ ] Leasehold Purchase
- [ ] Farm-in
- [ ] Geophysical
- [ ] DHC or BHC

API CLASSIFICATION 6

Co. Land Lease No. 11463-04 Lease Name BASS STATE 13 Well No. 1

State NEW MEXICO County LEA

Location 660'FNL & 510' FEL, SEC 13, T16S, R36E Area or Field NE LOVINGTON PENN

Proj. Well Type OIL Est. Total Depth 11,400' Pac. No.

Formation STRAWN

Reason for Expenditure DEVELOP PROVEN ACREAGE Type Well (Oil/Gas) or Activity OIL

Obligations

Location Meets: [X] Statewide Rules [ ] Field Rules

If Joint Interest, Project Subject to: [ ] Carried Int. Field Spacing Pattern ____ Acres This Well 80 Acres [ ] Net Profit Int. [ ] Right to Convert to W.I.

Operating Owner & W.I. BASS 27.1660%

Other Joint Owners & W.I. 72.8340%

Company Working Interest 27.1660% Revenue Interest 21.7328% Joint Owners' Agreement No.

Company Cost In U.S. Funds (outside USA only)

COMPLETED COST	Total	Joint Owners	Co. Net
Intangible.....	578,500	421,345	157,155
Tangible.....	268,500	195,559	72,941
Lse. Equip & Inst'l	13,000	9,468	3,532
TOTAL	860,000	626,372	233,628

EXPLORATION, ETC. COST			

DRY HOLE COST	Total	Joint Owners	Co. Net
Intangible.....	510,100	371,526	138,574
Tangible.....	43,000	31,319	11,681
TOTAL	553,100	402,845	150,255
Less: Dry Hole Contribution			
TOTAL	553,100	402,845	150,255

RETIREMENT COST			
Cost of Removal			
Salvage/Recovery			
Total Net Cost or (Recovery)...			

Proposed Starting Date

Lease Expiration Date Estimated Completion Date

Drilling Obligation Date

Net Reserves: ____ BBLS ____ MMCF

Economic Parameters (Risk ADJ. AFIT): P.W. Profit @ 8% $ ____ NEB. Avg. Price: $ ____ /BBL $ ____ /MMCF

Payout (YRS) ____ Project Life (YRS): ____ Success Prob. (%) ____ % ROR(%) ____

Avg. Net Producing Rate During Payout: ____ B/D Investment: $/NEB ____ MCF/C

REMARKS

JOINT OWNER'S APPROVAL

COMPANY

BY

DATE

APPROVALS

	DATE
DISTRICT	
DIVISION	
LAND	8-17-81
ACCOUNTING	
PRODUCTION	
EXPLORATION	
FORT WORTH OFFICE	

AFE DRILLING COST ESTIMATE

WELL BASS STATE 13-1

INTANGIBLE DRILLING COST ESTIMATE

	ESTIMATED	
LOCATION		
Surface Damages		
Surveyors & Equipment	300	
Location Construction	15,000	
Road Construction/Easements		
Rathole, Mousehole, Conductor	2,500	
Liner	2,000	
ABANDONMENT		
Recover Casing		
Cement		
RIG		
MIRU-RD-MO	40,000	
Footage ____ ft. @ $ ____ /ft.		
W/WD 35 days @ 6,900 /day	241,500	
W/O DP ____ days @ ____ /day		
SURFACE CASING SERVICES		
Inspection of pipe		
Casing Crew/Equipment	1,000	
Tong Operator/Equipment		
Float Equipment	300	
Centralizers/Scratchers	300	
Cement (Equipment & Services)	5,500	
FIRST INTERMEDIATE CASING SERVICES		
Inspection of pipe	2,500	
Casing Crew/Equipment	2,000	
~~Tong Operator/Equipment~~ Caliper	1,800	
Float Equipment Includes 8-5/8" DV Tool	7,000	
Centralizers/Scratchers	200	
Cement (Equipment & Services)	15,000	
SECOND INTERMEDIATE CASING/LINER SERVICES		
Inspection of pipe		
Casing Crew/Equipment		
Tong Operator/Equipment		
Float Equipment		
Centralizers/Scratchers		
Cement (Equipment & Services)		
BITS		
1 x 15" milltooth RT	500	
1 x 11" Insert @ 4,600	4,600	
7 x 7-7/8" Insert @ 3,600	25,200	
BHA		
1 x 15" blade reamer	600	
1 x 11" shock sub	1,000	
3 x 11" blade stabilizers @ 700	2,100	
6 x 7-7/8" blade stabilizers @ 500	3,000	
DRILLING FLUIDS		
Water	20,000	
Trucking & Pumping	5,000	
Mud Materials	25,000	
Corrosion Control	5,000	
TRANSPORTATION 11-3/4" csg., 8-5/8" csg.	3,500	
FUEL 35 days @ 700 /day	24,500	
LABOR & SUPPLIES	2,000	
COMPANY SUPERVISION 35 days @ 250 /day	8,750	
RENTALS		
2 x BOP yellow jacket tests	1,500	
500 bbl. tank	700	
PVT	2,500	
Flowshoe	2,500	
I.D Machine	3,000	
OTHER		
TOTAL	477,100	

INTANGIBLE FORMATION EVALUATION COST ESTIMATE

WIRELINE LOGS		
FDC-CNL	24,000	
DLL-Rxo-SP		
DRILL STEM TESTS		
CORES/SIDEWALL CORES		
Wireline Service		
Core Barrel and Head Rental		
Analysis		
MUD LOGGING 20 days @ 350 /day	7,000	
CONSULTING GEOLOGIST		
COMPANY SUPERVISION 5 days @ 250 /day	1,250	
RENTALS		
Test Sep. 20 days @ 50	1,000	
OTHER		
TOTAL	33,000	

INTANGIBLE COMPLETION COST ESTIMATE

RIG/WELL SERVICE UNIT		
5 days @ 1,000 /day	5,000	
RENTALS		
Work String		
Drill Collars		
BOP's & Adapter Flange	1,500	
Tanks 2 x 500 bbl.	1,500	
Reverse Unit		
Power Tongs		
Catwalk	400	
Anchors	400	
Pipe Rack	400	
Accumulator	1,500	
PRODUCTION CASING/LINER SERVICES		
Inspection of pipe	4,500	
Casing Crew/Equipment	3,500	
Tong Operator/Equipment		
Liner/Float Equipment	500	
Centralizers/Scratchers	500	
Cement (Equipment & Services)	10,000	
PRODUCTION TUBING SERVICES		
Inspection		
~~Internal Coating~~ Ruff cote 5-1/2" @ 2.35/ft.	1,200	
Pressure Testing	2,500	
MUD/COMPLETION FLUID		
KCl wtr.	2,000	
BITS		
TRANSPORTATION 5-1/2" csg., 2-3/8" tbg.	3,500	
FUEL days @ /day		
LABOR AND SUPPLIES Misc.	1,000	
~~RIGHT OF WAY~~ Misc. lease work	2,500	

CCL-GR	,500	
PERFORATING 10 shots select fire	2,500	
SQUEEZE CEMENTING	2,500	
WIRELINE WORK Set Packer Misc. wireline work	1,500	
TREATING 1 x 10,000 gal. 7-1/2% HCl acid N_2 & CO_2	2,500 7,500	
PRODUCTION TESTING 10 days test sep. @ 50 each	500	
OTHER 4 pt. BHP	2,500	
TOTAL	68,400	

TANGIBLE DRILLING COST ESTIMATE

CONDUCTOR CASING		
SURFACE CASING 30' x 16" X-42 line pipe @ 360' x 11-3/4" 42 #/ft., H-40 csg.	400	
FIRST INTERMEDIATE CASING 4,900 x 8-5/8", 24 #/ft., S-80, ST&C	7,400 36,000	
SECOND INTERMEDIATE CASING OR LINER		
INTERMEDIATE LINER HANGER		
SURFACE CASING HEAD		
INTERMEDIATE CASING HEAD	1,200	
OTHER		
TOTAL	64,100	

TANGIBLE COMPLETION COST ESTIMATE

PRODUCTION CASING/LINER 11,300 x 5-1/2", 17 #/ft., N-80, LT&C	125,500	

PRODUCTION TUBING		
11,300" x 2-3/8", 4.7 #/ft., N-80	55,000	
ABC modified couplings @ 8.10 each	3,100	
TUBING HEAD W/VALVES	7,000	
CHRISTMAS TREE	7,500	
PRODUCTION EQUIPMENT		
Rods and Sinker Bars		
Bottom Hole Pump		
Tubing Anchor		
Packer & Seal Assembly	3,500	
Polish Rod		
Other		
2-3/8" pups	1,000	
Wellhead safety valve W/controller	1,800	
TOTAL	204,400	

LEASE EQUIPMENT

Pump Jack		
Engine/Motor		
Transformer & Switch Gear		
Electric Line		
Jack Base & Set		
Well Head Connections	300	
Flow Lines	2,000	
Water Disposal Equipment 1 x 200 bbl. fiberglass	3,500	
Tanks 1 x 500 bbl. welded steel	4,500	
Heater w/sep.		
Separator		
Dehydrator		
Fittings	2,000	
Other		
TOTAL	13,000	

AFE COST ESTIMATE SUMMARY

	(ESTIMATED)			
	DRY HOLE	COMPLETED	DRY HOLE	COMPLETED
INTANGIBLE				
Drilling	477,100	477,100		
Formation Evaluation	33,000	33,000		
Completion		68,400		
SUBTOTAL	510,100	578,500		
TANGIBLE				
Drilling	43,000	64,100		
Completion		204,400		
SUBTOTAL	43,000	268,500		
Lease Equipment Total		13,000		
TOTAL	553,100	860,000		

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

COMMISSION HEARING

IN THE MATTER OF:

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico. CASE 7345

BEFORE: Commissioner Ramey
Commissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William F. Carr, Esq.
CAMPBELL, BYRD, & BLACK P.A.
Jefferson Place
Santa Fe, New Mexico 87501

I N D E X

KARL JENS HANSEN

Direct Examination by Mr. Carr 4

GEORGE ANDREW HILLIS

Direct Examination by Mr. Carr 11

E X H I B I T S

Applicant Exhibit One, Plat 5

Applicant Exhibit Two, Correspondence 6

Applicant Exhibit Three, Correspondence 8

Applicant Exhibit Four, Cross Section 12

MR. RAMEY: The hearing will come to order.

We'll call first Case 7345.

MR. PEARCE: Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.

MR. RAMEY: Are there any appearances in the case?

MR. CARR: May it please the Commission, my name is William F. Carr, with the law firm Campbell, Byrd, and Black, P. A., of Santa Fe, New Mexico, appearing on behalf of Bass Enterprises Production Company.

I have two witnesses who need to be sworn.

MR. RAMEY: Any other appearances?

(Witnesses sworn.)

MR. CARR: First, we'll call Mr. Hansen.

KARL JENS HANSEN

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your full name and place of residence?

A. Karl Jens Hansen, J-E-N-S H-A-N-S-E-N. First name is K-A-R-L.

My address is 1104 Purdue, Arlington, Texas.

Q. Mr. Hansen, by whom are you employed and in what capacity?

A. I'm employed by Bass Enterprises Production Company. I'm the Division Land Manager.

Q. Have you previously testified before this Commission or one of its examiners and had your credentials accepted and made a matter of record?

A. Yes, that's correct.

Q. Are you familiar with the application of Bass in this case?

A. Yes.

Q. Are you familiar with the subject acreage?

A. Yes.

MR. CARR: Are the witness' qualifications acceptable?

MR. RAMEY: They are acceptable, Mr. Carr.

Q. Mr. Hansen, will you briefly state what Bass seeks with this application?

A. Bass seeks to be named as operator for the drilling of the Bass State 13-1 Well, and to pool the uncommitted interests which have not agreed to participate by signing an AFE or an operating agreement.

Q. And what is the spacing unit that you're desiring to pool?

A. The spacing unit is the north half of the northeast quarter of Section 13, Township 16 South, Range 36 East, Lea County, New Mexico.

Q. Have you prepared certain exhibits for introduction in this hearing?

A. I have.

Q. Will you please refer to what has been marked for identification as Bass Exhibit Number One, identify this, and explain what it shows?

A. Exhibit One is a land plat which was prepared under my direction, showing a six section area, one of which is Section 13, indicating Bass acreage and which is full interest and partial interest, as noted by the legend. On the plat are also indicated the wells which have been

drilled to the Strawn but which were unproductive in that formation.

Q. Will you now refer to what has been marked Bass Exhibit Number Two and review this for the Commission?

A. Exhibit Two is a copy of correspondence which was written by myself or Mr. Michael Joseph, who works for me. These letters were well proposal letters advising the working interest owners of hearing dates, developments in the -- the drilling of this well, as well as the forwarding of operating agreements and AFE's.

In addition, the exhibit also includes a copy of our joint operating agreement, which is the standard AAPL form 1977, which is -- has been signed by a majority of the working interest owners.

Q. Does Exhibit A to this operating agreement set out the percentage of interest of each of the working interest owners in this spacing unit?

A. Yes, it does.

Q. And what percentage of those interests do you represent at this hearing today?

A. We represent 81.1 percent.

Q. When did Bass first propose the drilling of this well?

A. Bass first proposed the drilling of this well prior to the letter which is dated August 11th, 1981, but that previous well proposal did not culminate in the drilling of a well due to problems with the operating agreement at that time. That operating agreement was withdrawn and subsequent to that Blanks proposed a well and sent out operating agreements which were unacceptable to the majority of the interest owners.

We then, as an alternative, proposed the well under our August 11th, 1981, letter and proposed an operating agreement which had more acceptable terms to the parties.

Q. An operating agreement submitted to those parties in August?

A. Yes.

Q. And when was the AFE first submitted to the working interest owners?

A. An AFE was submitted under letter dated August 19, 1981.

Q. Would you refer to this AFE and review the figures contained thereon?

A. The AFE was prepared by our drilling engineer in Midland, Texas, and the costs reflected by the AFE are $552,100 for a dry hole and $860,000 for a completed

well to the Strawn formation.

Q. In your opinion are the costs reflected on this AFE in line with what is being charged by other operators in the area?

A. Yes.

Q. Are you prepared to make a recommendation to the Commission concerning charges for overhead and administrative costs while drilling and producing this well?

A. Yes. Yes. Under our operating agreement it provides for $3500 per month per well for drilling rate, and $350 per month per well for a producing well rate.

Q. Are these figures in line with what is being charged by other operators in the area?

A. Yes.

Q. Do you recommend that these figures be incorporated into any order which results from this hearing?

A. Yes.

Q. Have you given notice to all working interest owners of this hearing?

A. Yes, we have.

Q. Are copies of those letters reflected -- are copies of those letters contained in what has been marked Bass Exhibit Number Three?

A. Yes, that's correct. It was prepared

by attorneys and forwarded on a certified mail basis.

Q. Does Bass request to be designated operator of the proposed well?

A. Yes.

Q. In your opinion will granting this application be in the best interest of conservation, the prevention of waste, and the protection of correlative rights?

A. Yes, it will.

Q. Will Bass call another witness to testify as to the risk involved in drilling this well?

A. Yes.

Q. Were Exhibits One through Three prepared by you or under your direction and supervision?

A. That's correct.

MR. CARR: At this time we will offer Bass Exhibits One through Three.

MR. RAMEY: Bass Exhibits One through Three will be admitted.

Q. Mr. Hansen, what sort of a rig schedule do you find yourself on?

A. We estimate that the rig will be on location and drilling by November 1, 1981.

Q. Do you request that the order resulting from this hearing be expedited?

A. Please.

Q. And how long did you say it had been since you first proposed this well to the other working interest owners?

A. The second time we proposed it, which I think is the applicable proposal, is August 11th, 1981.

Q. Because of the tight time frame you find yourself on, does Bass also request that the time for non-consenting working interest owners to join in the drilling of the well after receipt of the estimated well costs be reduced?

A. Yes.

Q. And what time would you propose?

A. Twenty days.

Q. Do you have anything further to add to your testimony?

A. No, I do not.

MR. CARR: We have nothing further on direct at this time of Mr. Hansen.

MR. RAMEY: Any questions of Mr. Hansen? He may be excused.

MR. CARR: We would call Mr. Hillis.

GEORGE ANDREW HILLIS

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your full name and place of residence?

A. George Andrew Hillis, H-I-L-L-I-S, 8824 Glen Hollow Drive, Ft. Worth.

Q. By whom are you employed?

A. I'm employed by Bass Enterprises Production Company.

Q. And in what capacity?

A. As a staff geological engineer.

Q. Have you previously testified before this Commission, had your credentials accepted and made a matter of record?

A. No, I have not, sir.

Q. Would you briefly summarize your educational background and your work experience?

A. I hold a Master of Science degree in geology from Imperial College, London, England, and received that degree in 1975, at which time I came to the United States

and have worked in a geological capacity since.

Q. By whom have you been employed?

A. I have been employed by Amoco until -- from '75 through to February of 1981, and since then by Bass Enterprises Production Company.

Q. Are you familiar with the application that was filed on behalf of Bass in this case?

A. Yes, I am.

Q. And are you familiar with the subject area?

A. Yes, I am.

MR. CARR: Are the witness' qualifications acceptable?

MR. RAMEY: He is acceptable.

Q. Mr. Hillis, have you prepared certain exhibits for introduction in this case?

A. Yes, I have. I have prepared Exhibit Number Four, which is on the wall behind you, consisting of a stratigraphic cross section hung on the top of the Strawn, and a structure map on the top of the Strawn, and also a map showing success or non-success of attempts of wells drilling through the Strawn in the area of concern.

Q. Would you like to go to the exhibit and show the Commission what is depicted?

A. This exhibit is prepared to demonstrate the high geological risk in the area. I'd like to draw your attention initially to this map in the lower righthand corner of the exhibit, demonstrating the wells which have drilled to the Strawn; in particular in the lower half of this map, which covers an area of 3,200 acres. We find that there are 10 Strawn tests nonproductive, and 11 were productive.

Two of these 11 which were productive produced only a cumulative production of 22,567 barrels of oil. And for the purposes of success versus non-success, I consider those non-successful. Using that data the percent rate of Strawn success within this area is 43 percent of the wells drilled were successful.

The cross section on Exhibit Four runs from, on the lefthand side of the exhibit, the Bass Montieth No. 1 in the south through to the proposed Bass State 13 No. 1 in the north. This line of cross section is indicated on the previously discussed map, and runs from that Montieth via the Bass Montieth "B" No. 1, original well, through to the Bass Montieth "B" No. 1 sidetrack well, and then through the Bass Montieth "A" No. 1 Well, through to the proposed location of the 13-1 Well.

The gamma ray compensated neutron formation density log is the common log type for each well on the

cross section, and the area shaded in blue demonstrates the correlations of zones where separations on the CNL/FDC log indicating hydrocarbon effect exceeds two porosity units.

The two producers on the cross section, Bass Montieth 1 and the Bass Montieth "A" No. 1, produce primarily from two different reservoirs. The two dry holes geographically in between the two producers, the Bass Montieth "B" No. 1 original well and "B" No. 1 sidetrack well, only find remnants of porosity.

The distance between these wells is noted and all do lie within the east half of Section 13, so it is demonstrated the erratic nature to the reservoir rock within such a small area.

I believe that phylloid algal accumulations deposited in shallow water constitute the existing reservoir rock type, and with the non-reservoir rock type being originally the surrounding lagoonal and open marine lime muds.

Because these algal accumulations were controlled by unpredictable factors, such as wave base, salinity, and temperature, and because the reservoir rock passes laterally into almost equivalent thicknesses of non-reservoir lime muds, it is very difficult to predict the presence or absence geologically of reservoir rock.

This together with the erratic nature

demonstrated by the cross section of the reservoir rock, and the 43 percent success rate in the Strawn within the area, all lead to demonstrate the high geological risk involved in drilling for a Strawn objective in this area.

Q. Mr. Hillis, are you prepared to make a recommendation to the Commission as to the risk penalty that should be assessed against any non-joining working interest owner?

A. Yes, sir.

Q. And what would that be?

A. I believe a 200 percent risk factor is assessed, should be assessed.

Q. Was Exhibit Number Four prpeared by you?

A. Prepared by me and drafted under my supervision.

MR. CARR: At this time we would offer Bass Exhibit Number Four.

MR. RAMEY: Bass Exhibit Number Four will be admitted.

MR. CARR: We have nothing further to present on direct.

MR. RAMEY: Any questions of Mr. Hillis? The witness may be excused.

Do you have anything further, Mr. Carr?

MR. CARR: Nothing further, Mr. Ramey.

MR. RAMEY: Does anyone have anything further in Case 7345?

If not, 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.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 16, 1981 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Jens Hansen	Bass Enterprises Production Co.	Ft. Worth
George A. Hillis	Bass Enterprises Prod. Co	Fort Worth
William F. Carr	Campbell, Byrd & Black, P.A.	Santa Fe
W. T. Kellahin	Kellahin & Kellahin	Santa Fe
Jack Becker	Southland Royalty Co	Midland TX
Jerry I. Moritz	Clements Energy	MIDLAND, TX
Bob Hulen	Bypass	Santa Fe
Wayne Newburet	Clements Energy	Midland, TX
Jerry Barnes	Clements Energy	Midland, TX

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

COMMISSION HEARING

IN THE MATTER OF:

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.

CASE 7345

BEFORE: Commissioner Ramey
Ccmmissioner Arnold

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William F. Carr, Esq.
CAMPBELL, BYRD, & BLACK P.A.
Jefferson Place
Santa Fe, New Mexico 87501

I N D E X

KARL JENS HANSEN

Direct Examination by Mr. Carr 4

GEORGE ANDREW HILLIS

Direct Examination by Mr. Carr 11

E X H I B I T S

Applicant Exhibit One, Plat 5

Applicant Exhibit Two, Correspondence 6

Applicant Exhibit Three, Correspondence 8

Applicant Exhibit Four, Cross Section 12

MR. RAMEY: The hearing will come to order.

We'll call first Case 7345.

MR. PEARCE: Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.

MR. RAMEY: Are there any appearances in the case?

MR. CARR: May it please the Commission, my name is William F. Carr, with the law firm Campbell, Byrd, and Black, P. A., of Santa Fe, New Mexico, appearing on behalf of Bass Enterprises Production Company.

I have two witnesses who need to be sworn.

MR. RAMEY: Any other appearances?

(Witnesses sworn.)

MR. CARR: First, we'll call Mr. Hansen.

KARL JENS HANSEN

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your full name and place of residence?

A. Karl Jens Hansen, J-E-N-S H-A-N-S-E-N. First name is K-A-R-L.

My address is 1104 Purdue, Arlington, Texas.

Q. Mr. Hansen, by whom are you employed and in what capacity?

A. I'm employed by Bass Enterprises Production Company. I'm the Division Land Manager.

Q. Have you previously testified before this Commission or one of its examiners and had your credentials accepted and made a matter of record?

A. Yes, that's correct.

Q. Are you familiar with the application of Bass in this case?

A. Yes.

Q. Are you familiar with the subject acreage?

A. Yes.

MR. CARR: Are the witness' qualifications acceptable?

MR. RAMEY: They are acceptable, Mr. Carr.

Q. Mr. Hansen, will you briefly state what Bass seeks with this application?

A. Bass seeks to be named as operator for the drilling of the Bass State 13-1 Well, and to pool the uncommitted interests which have not agreed to participate by signing an AFE or an operating agreement.

Q. And what is the spacing unit that you're desiring to pool?

A. The spacing unit is the north half of the northeast quarter of Section 13, Township 16 South, Range 36 East, Lea County, New Mexico.

Q. Have you prepared certain exhibits for introduction in this hearing?

A. I have.

Q. Will you please refer to what has been marked for identification as Bass Exhibit Number One, identify this, and explain what it shows?

A. Exhibit One is a land plat which was prepared under my direction, showing a six section area, one of which is Section 13, indicating Bass acreage and which is full interest and partial interest, as noted by the legend. On the plat are also indicated the wells which have been

drilled to the Strawn but which were unproductive in that formation.

Q. Will you now refer to what has been marked Bass Exhibit Number Two and review this for the Commission?

A. Exhibit Two is a copy of correspondence which was written by myself or Mr. Michael Joseph, who works for me. These letters were well proposal letters advising the working interest owners of hearing dates, developments in the -- the drilling of this well, as well as the forwarding of operating agreements and AFE's.

In addition, the exhibit also includes a copy of our joint operating agreement, which is the standard AAPL form 1977, which is -- has been signed by a majority of the working interest owners.

Q. Does Exhibit A to this operating agreement set out the percentage of interest of each of the working interest owners in this spacing unit?

A. Yes, it does.

Q. And what percentage of those interests do you represent at this hearing today?

A. We represent 81.1 percent.

Q. When did Bass first propose the drilling of this well?

A. Bass first proposed the drilling of this well prior to the letter which is dated August 11th, 1981, but that previous well proposal did not culminate in the drilling of a well due to problems with the operating agreement at that time. That operating agreement was withdrawn and subsequent to that Blanks proposed a well and sent out operating agreements which were unacceptable to the majority of the interest owners.

We then, as an alternative, proposed the well under our August 11th, 1981, letter and proposed an operating agreement which had more acceptable terms to the parties.

Q. An operating agreement submitted to those parties in August?

A. Yes.

Q. And when was the AFE first submitted to the working interest owners?

A. An AFE was submitted under letter dated August 19, 1981.

Q. Would you refer to this AFE and review the figures contained thereon?

A. The AFE was prepared by our drilling engineer in Midland, Texas, and the costs reflected by the AFE are $552,100 for a dry hole and $860,000 for a completed

well to the Strawn formation.

Q. In your opinion are the costs reflected on this AFE in line with what is being charged by other operators in the area?

A. Yes.

Q. Are you prepared to make a recommendation to the Commission concerning charges for overhead and administrative costs while drilling and producing this well?

A. Yes. Yes, Under our operating agreement it provides for $3500 per month per well for drilling rate, and $350 per month per well for a producing well rate.

Q. Are these figures in line with what is being charged by other operators in the area?

A. Yes.

Q. Do you recommend that these figures be incorporated into any order which results from this hearing?

A. Yes.

Q. Have you given notice to all working interest owners of this hearing?

A. Yes, we have.

Q. Are copies of those letters reflected -- are copies of those letters contained in what has been marked Bass Exhibit Number Three?

A. Yes, that's correct. It was prepared

by attorneys and forwarded on a certified mail basis.

Q. Does Bass request to be designated operator of the proposed well?

A. Yes.

Q. In your opinion will granting this application be in the best interest of conservation, the prevention of waste, and the protection of correlative rights?

A. Yes, it will.

Q. Will Bass call another witness to testify as to the risk involved in drilling this well?

A. Yes.

Q. Were Exhibits One through Three prepared by you or under your direction and supervision?

A. That's correct.

MR. CARR: At this time we will offer Bass Exhibits One through Three.

MR. RAMEY: Bass Exhibits One through Three will be admitted.

Q. Mr. Hansen, what sort of a rig schedule do you find yourself on?

A. We estimate that the rig will be on location and drilling by November 1, 1981.

Q. Do you request that the order resulting from this hearing be expedited?

A. Please.

Q. And how long did you say it had been since you first proposed this well to the other working interest owners?

A. The second time we proposed it, which I think is the applicable proposal, is August 11th, 1981.

Q. Because of the tight time frame you find yourself on, does Bass also request that the time for non-consenting working interest owners to join in the drilling of the well after receipt of the estimated well costs be reduced?

A. Yes.

Q. And what time would you propose?

A. Twenty days.

Q. Do you have anything further to add to your testimony?

A. No, I do not.

MR. CARR: We have nothing further on direct at this time of Mr. Hansen.

MR. RAMEY: Any questions of Mr. Hansen? He may be excused.

MR. CARR: We would call Mr. Hillis.

GEORGE ANDREW HILLIS

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

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and place of residence?

A George Andrew Hillis, H-I-L-L-I-S, 8824 Glen Hollow Drive, Ft. Worth.

Q By whom are you employed?

A I'm employed by Bass Enterprises Production Company.

Q And in what capacity?

A As a staff geological engineer.

Q Have you previously testified before this Commission, had your credentials accepted and made a matter of record?

A No, I have not, sir.

Q Would you briefly summarize your educational background and your work experience?

A I hold a Master of Science degree in geology from Imperial College, London, England, and received that degree in 1975, at which time I came to the United States

and have worked in a geological capacity since.

Q. By whom have you been employed?

A. I have been employed by Amoco until -- from '75 through to February of 1981, and since then by Bass Enterprises Production Company.

Q. Are you familiar with the application that was filed on behalf of Bass in this case?

A. Yes, I am.

Q. And are you familiar with the subject area?

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MR. CARR: Are the witness' qualifications acceptable?

MR. RAMEY: He is acceptable.

Q. Mr. Hillis, have you prepared certain exhibits for introduction in this case?

A. Yes, I have. I have prepared Exhibit Number Four, which is on the wall behind you, consisting of a stratigraphic cross section hung on the top of the Strawn, and a structure map on the top of the Strawn, and also a map showing success or non-success of attempts of wells drilling through the Strawn in the area of concern.

Q. Would you like to go to the exhibit and show the Commission what is depicted?

A. This exhibit is prepared to demonstrate the high geological risk in the area. I'd like to draw your attention initially to this map in the lower righthand corner of the exhibit, demonstrating the wells which have drilled to the Strawn; in particular in the lower half of this map, which covers an area of 3,200 acres. We find that there are 10 Strawn tests nonproductive, and 11 were productive.

Two of these 11 which were productive produced only a cumulative production of 22,567 barrels of oil. And for the purposes of success versus non-success, I consider those non-successful. Using that data the percent rate of Strawn success within this area is 43 percent of the wells drilled were successful.

The cross section on Exhibit Four runs from, on the lefthand side of the exhibit, the Bass Montieth No. 1 in the south through to the proposed Bass State 13 No. 1 in the north. This line of cross section is indicated on the previously discussed map, and runs from that Montieth via the Bass Montieth "B" No. 1, original well, through to the Bass Montieth "B" No. 1 sidetrack well, and then through the Bass Montieth "A" No. 1 Well, through to the proposed location of the 13-1 Well.

The gamma ray compensated neutron formation density log is the common log type for each well on the

cross section, and the area shaded in blue demonstrates the correlations of zones where separations on the CNL/FDC log indicating hydrocarbon effect exceeds two porosity units.

The two producers on the cross section, Bass Montieth 1 and the Bass Montieth "A" No. 1, produce primarily from two different reservoirs. The two dry holes geographically in between the two producers, the Bass Montieth "B" No. 1 original well and "B" No. 1 sidetrack well, only find remnants of porosity.

The distance between these wells is noted and all do lie within the east half of Section 13, so it is demonstrated the erratic nature to the reservoir rock within such a small area.

I believe that phylloid algal accumulations deposited in shallow water constitute the existing reservoir rock type, and with the non-reservoir rock type being originally the surrounding lagoonal and open marine lime muds.

Because these algal accumulations were controlled by unpredictable factors, such as wave base, salinity, and temperature, and because the reservoir rock passes laterally into almost equivalent thicknesses of non-reservoir lime muds, it is very difficult to predict the presence or absence geologically of reservoir rock.

This together with the erratic nature

demonstrated by the cross section of the reservoir rock, and the 43 percent success rate in the Strawn within the area, all lead to demonstrate the high geological risk involved in drilling for a Strawn objective in this area.

Q. Mr. Hillis, are you prepared to make a recommendation to the Commission as to the risk penalty that should be assessed against any non-joining working interest owner?

A. Yes, sir.

Q. And what would that be?

A. I believe a 200 percent risk factor is assessed, should be assessed.

Q. Was Exhibit Number Four prpeared by you?

A. Prepared by me and drafted under my supervision.

MR. CARR: At this time we would offer Bass Exhibit Number Four.

MR. RAMEY: Bass Exhibit Number Four will be admitted.

MR. CARR: We have nothing further to present on direct.

MR. RAMEY: Any questions of Mr. Hillis? The witness may be excused.

Do you have anything further, Mr. Carr?

MR. CARR: Nothing further, Mr. Ramey.

MR. RAMEY: Does anyone have anything further in Case 7345?

If not, 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.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
October 14, 1981

COMMISSION HEARING

IN THE MATTER OF: Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.	CASE 7345

BEFORE: Joe D. Ramey, Director

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: W. Perry Pearce
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

MR. RAMEY: Call Case 7345

MR. PEARCE: Case 7345, application of Bass Enterprises Production Company for compulsory pooling, Lea County New Mexico. It is requested that this case be continued to October 16, 1981.

MR. RAMEY: The case is hereby continued to October 16, 1981. The hearing is adjourned.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
October 14, 1981

COMMISSION HEARING

IN THE MATTER OF:

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico. CASE 7345

BEFORE: Joe D. Ramey, Director

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: W. Perry Pearce
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

MR. RAMEY: Call Case 7345

MR. PEARCE: Case 7345, application of Bass Enterprises Production Company for compulsory pooling, Lea County New Mexico. It is requested that this case be continued to October 16, 1981.

MR. RAMEY: The case is hereby continued to October 16, 1981. The hearing is adjourned.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

October 21, 1981

Re: CASE NO. 7345
ORDER NO. R-6808

Applicant:

Bass Enterprises Production Company

Mr. William F. Carr
Campbell, Byrd & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 7345
Order No. R-6808

APPLICATION OF BASS ENTERPRISES
PRODUCTION COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 16, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 20th day of October, 1981, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Bass Enterprises Production Company, seeks an order pooling all mineral interests in the San Andres, Bone Springs and Pennsylvanian formations underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 East, NMPM, Northeast Lovington-Pennsylvanian Pool, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas

in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3500.00 per month while drilling and $350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is

dedicated on or before February 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the San Andres, Bone Springs and Pennsylvanian formations underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 East, NMPM, Northeast Lovington-Pennsylvanian Pool, Lea County, New Mexico, are hereby pooled to form a standard 80-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of February, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Bass Enterprises Production Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 20 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $3500.00 per month while drilling and $350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the

proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EMERY C. ARNOLD, Chairman

ALEX J. ARMIJO, Member

JOE D. RAMEY, Member & Secretary

S E A L

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico. CASE 7345

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. STAMETS: Call next Case 7345.

MR. PEARCE: Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.

MR. STAMETS: At the request of the applicant, Case 7345 is going to be continued to an Oil Conservation Commission hearing, which at this time has not been scheduled, and Case 7345 will be readvertised at that time.

(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.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7345 heard by me on 9-23 19 81.

Richard L. Stamets, Examiner
Oil Conservation Division

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

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For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

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(Hearing concluded.)

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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. ____, heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

7345

Wm F Carr
2 w.i.tn.

Karl J Hanson

81.1%

Overhead 3500.00 Drlg.
350.00 Prod.

Non consent WI Owners be given 20 days

George Hillis

43% success

200% Risk factor

EASTLAND

THE EASTLAND OIL COMPANY

P.O. DRAWER 3488
560 ONE MARIENFELD PLACE
MIDLAND, TEXAS 79702
TELEPHONE: (915) 683-6293

RECEIVED
OCT 16 1981
OIL CONSERVATION DIVISION
SANTA FE

October 13, 1981

Energy Resources Board
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: The Eastland Oil Company
Federal "A", Well No. 1
Sec. 28, T-22-S, R-28-E
Herradura Bend (Cherry Canyon)
Eddy County, New Mexico

Gentlemen:

In compliance with the provisions of The Energy Resources Act, we submit the following data pertaining to the completion of the captioned well:

Type of completion: Oil well (Cherry Canyon)
Completion date: September 27, 1981
Potential - 24 hrs: Oil - 63 bbls.
Water - 117 bbls.
Gas - 35 MCF

It is our intent to sell the oil production from this lease to The Crude Company, P. O. Box 1968, Casper, Wyoming 82602. The gas production will be used on the lease.

Please advise if you require additional information.

Very truly yours,

THE EASTLAND OIL COMPANY

E. J. Hogan

EJH/sw

Docket 33-81

Docket Nos. 34-81 and 35-81 are tentatively set for October 21 and November 4, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - WEDNESDAY - OCTOBER 14, 1981

9 A.M. - OIL CONSERVATION COMMISSION - ROOM 205
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

(The following cases are continued from the October 14, 1981, Commission hearing to October 16, 1981.)

CASE 7345: (Continued and Readvertised)

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres, Bone Spring ... Pennsylvanian formations, Lovington Field, underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 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 7323: (DE NOVO)

Application of Clements Energy, Inc., for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the E/2 of Section 32, Township 15 South, Range 27 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Upon application of Southland Royalty Company, this case will be heard DE NOVO pursuant to the provisions of Rule 1220.

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Docket No. 34-81

DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 21, 1981

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

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

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

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

CASE 7373: Application of J. C. Williamson for Amendment of Division Order No. R-6738, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the Amendment of Division Order No. R-6738, which approved an unorthodox location for a well 1560 feet from the North line and 1650 feet from the West line of Section 10, Township 23 South, Range 34 East. Applicant seeks the Amendment of said order to reflect the corrected location of said well at a point 1580 feet from the North line and 2614 feet from the West line of said Section 10.

CASE 7374: Application of Dugan Production Corporation for an unorthodox gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Farmington formation well located 330 feet from the South line and 990 feet from the East line of Section 9, Township 28 North, Range 11 West, the E/2 of said Section 9 to be dedicated to the well.

CASE 7375: Application of Dugan Production Corporation for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Angel Peak Gallup-Basin Dakota production in the wellbore of its McAdams Well No. 2 located in Unit P of Section 34, Township 27 North, Range 10 West.

CASE 7376: Application of Dugan Production Corporation for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Basin-Dakota and Bisti-Lower Gallup production in the wellbore of its Big 8 Well No. 1-E, located in Unit O of Section 8, Township 24 North, Range 9 West.

CASE 7377: Application of Dugan Production Corporation for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of undesignated Gallup and Basin-Dakota production in the wellbore of its July Jubilee Well No. 1 located in Unit G of Section 30, Township 24 North, Range 9 West.

CASE 7378: Application of Jerome P. McHugh for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Wildhorse-Gallup and Basin-Dakota production in the wellbore of his Apache E Well No. 1, located in Unit A of Section 18, Township 26 North, Range 3 West.

CASE 7356: (Continued from September 23, 1981, Examiner Hearing)

Application of S & I Oil Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the W/2 SW/4 of Section 12, Township 29 North, Range 15 West, Cha Cha-Gallup Oil Pool, 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 7379: Application of JEM Resources, Inc., for vertical pool extension and special GOR limit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the vertical extension of the Cave-Grayburg Pool to include the San Andres formation, and the establishment of a special gas-oil ratio limit for said pool to 6000 to one or, in the alternative, the abolishment of the gas-oil ratio limit in said pool, all to be effective October 1, 1981.

CASE 7380: Application of Bird Oil Corporation for an unorthodox location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Entrada location of a well to be drilled 2310 feet from the North line and 1325 feet from the East line of Section 10, Township 22 North, Range 9 West, the SW/4 NE/4 of said Section 10 to be dedicated to the well.

CASE 7381: Application of H. L. Brown, Jr., for an unorthodox gas well location, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 330 feet from the South line and 2310 feet from the East line of Section 34, Township 7 South, Range 37 East, Bluitt-Wolfcamp Gas Pool, the E/2 of said Section 34 to be dedicated to the well.

CASE 7382: Application of TXO Production Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow well to be drilled 660 feet from the South and West lines of Section 20, Township 17 South, Range 28 East, the W/2 of said Section 20 to be dedicated to the well.

CASE 7383: Application of Amoco Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Upper Pennsylvanian formation underlying the NW/4 of Section 19, Township 19 South, Range 25 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 7384: Application of Morris R. Antweil for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Abo formation underlying the NE/4 SW/4 of Section 5, Township 20 South, Range 38 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 7385: Application of El Paso Natural Gas Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blanco-Mesaverde and Basin-Dakota production in the wellbore of its San Juan 27-5 Unit Well No. 59, located in Unit A of Section 6, Township 27 North, Range 5 West.

CASE 7386: Application of El Paso Natural Gas Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of South Blanco-Pictured Cliffs and Blanco-Mesaverde production in the wellbore of its San Juan 27-5 Unit Well No. 54, located in Unit L of Section 31, Township 27 North, Range 5 West.

CASE 7387: Application of Sun Oil Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the North and East lines of Section 32, Township 9 South, Range 37 East, West Sawyer-San Andres Pool, the N/2 NE/4 of said Section 32 to be dedicated to the well.

CASE 7388: Application of Sun Oil Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled in the Northeast Lusk Yates Pool, 2500 feet from the North line and 1880 feet from the East line of Section 15, Township 19 South, Range 32 East the SW/4 NE/4 of said Section 15 to be dedicated to the well.

CASE 7389: Application of Yates Petroleum Corporation for an Amendment to Division Order No. R-4365, Eddy County, New Mexico. Applicant, in the above-styled cause seeks the amendment of Division Order No. R-4365, which promulgated special rules and regulations for the Penasco Draw San Andres-Yeso Pool, by amending Rule 5 to permit the simultaneous dedication of gas wells and oil wells and amending Rule 9 to provide for annual gas-liquid ratio tests in lieu of semi-annual tests.

CASE 7365: (Continued from October 7, 1981, Examiner Hearing)

Application of Yates Petroleum Corporation for the amendment of Order No. R-6406, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-6406, to permit recompletion of its State "JM" No. 2 Well, drilled at an unorthodox Morrow location 660 feet from the South line and 660 feet from the East line of said Section 25, Township 18 South, Range 24 East, in any and all Wolfcamp and Pennsylvanian pays in said well.

CASE 7390: Application of Harvey E. Yates Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mississippian formation underlying the W/2 of Section 18, Township 9 South, Range 27 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 7391: Application of Harvey E. Yates Company for statutory unitization, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purposes of a secondary recovery project, all mineral interests in the Travis Penn Unit encompassing 480 acres, more or less, underlying all or portions of Sections 12 and 13, Township 18 South, Range 28 East, Eddy County, New Mexico.

The unitized interval would be the Cisco-Canyon formation between the depths of 9815 feet and 9935 feet in Harvey E. Yates Company's Travis Deep Unit No. 2 Well. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in well and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including, but not necessarily limited to, unit voting procedures, selection, removal, or substitution of unit operator, and time of commencement and termination of unit operations.

CASE 7392: Application of Sam H. Snoddy, for an unorthodox gas well location in the Oil-Potash Area, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the location of a Pennsylvanian well to be drilled 650 feet from the North and East lines of Section 26, Township 20 South, Range 32 East, Oil-Potash Area, the N/2 of said Section 26 to be dedicated to the well.

CASE 7393: Application of Uriah Exploration Incorporated for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Cisco, Canyon and Morrow formations underlying the W/2 of Section 13, Township 22 South, Range 24 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 7394: Application of Supron Energy Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Pennsylvanian well to be drilled 467 feet from the North line and 1650 feet from the West line of Section 13, Township 22 South, Range 24 East, the N/2 of said Section 13 to be dedicated to the well.

CASE 7395: Application of Curtis J. Little for Designation of a Tight formation, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Pictured Cliffs formation underlying portions of Townships 25 and 26 North, Ranges 6 and 7 West containing a total of 14,400 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7300: (Reopened and Readvertised)

Application of Dome Petroleum Corporation for designation of a tight formation, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Chacra formation underlying portions of Townships 21 and 22 North, Ranges 5,6, and 7 West, containing 73,018 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7352: (Continued from September 23, 1981, Examiner Hearing)

Application of Yates Petroleum Corporation for designation of a tight formation, Eddy County, New Mexico. Applicant, in the above-styled cause, pursuant to Section 107 of the Natural Gas Policy Act 18-CFR Section 271. 701-705, seeks the designation as a tight formation of the Permo-Penn formation underlying all of the following townships:

Township 17 South, Ranges 24 thru 26 East;

18 South, 24 and 25 East,

19 South, 23 thru 25 East;

20 South, 21 thru 24 East;

20 1/2 South, 21 and 22 East;

21 South, 21 and 22 East;

Also Sections 1 thru 12 in 22 South, 21 and 22 East,

All of the above containing a total of 315,000 acres more or less.

FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

September 30, 1981

WORKING INTEREST OWNERS

Re: Bass State #13-1
N/2 NE/4, Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

As I am sure you are aware, both Bass Enterprises Production Co. and W. C. Blanks Energy Corporation have proposed a Strawn Test Well to be located at a legal location in the NE/4 NE/4 of Section 13. Due to a dispute with Blanks concerning several provisions in their Operating Agreement, it was necessary for Bass to file for a Compulsory Pooling Application with the New Mexico Oil Conservation Division in an attempt to have Bass named as Operator. The date of the scheduled Hearing is to be October 16, 1981, in Santa Fe, New Mexico. Through discussions with Blanks, et al, an agreement was reached by both Parties to let Bass operate the subject Well. Bass has scheduled a drilling rig which is to move on location by October 16th (17 days). Therefore, it will be necessary for Bass to have all executed signature pages and AFE's in hand by Wednesday, October 14th or we shall be compelled to go ahead as planned with the Compulsory Pooling Hearing.

In the event you should desire not to participate, Bass is prepared to farmin your interest subject to a 1/16 of 8/8 Overriding Royalty (you will deliver Bass not less than 75% Net Revenue Interest) with the option to convert said override to a 50% Working Interest at pay out.

Again, I must emphasize the need to transmit executed signature pages and AFE's to our office on or before October 11, 1981.

If you should have any questions concerning the above, please do not hesitate to contact me at (817) 335-4591.

Sincerely,

MICHAEL L. JOSEPH
Landman

MLJ:ep

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7345 Exhibit No. 2
Submitted by BASS
Hearing Date 10-16-81

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 25, 1981

WORKING INTEREST OWNERS

Re: Bass State #13-1
(formerly Montieth C No. 1)
N/2 NE, Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Due to expressed confusion on the part of several Working Interest Owners relative to the above captioned Well, it is the intent of this letter is to clarify said confusion.

Under letter dated February 2, 1981, you were forwarded an Operating Agreement dated January 30, 1981, naming Bass as Operator, with language to provide for the drilling of a Strawn Well located 660' FNL and 810' FEL on or before June 1, 1981. At the request of W. C. Blanks, et al, several changes were made to the Agreement as to well location and formation. You were informed of same under letter dated March 2, 1981.

Additionally, we anticipated using the same rig to drill the Montieth C No. 1 as was being used to drill the Montieth B No. 1. As a result of the additional time needed for drilling the Montieth B No. 1 and Blanks request to move the Well location to 660' FNL and 1830' FEL of Section 13, the Operating Agreement was allowed to expire. Subsequently, W. C. Blanks has proposed the drilling of a Strawn Well to be located 660' FNL and 660' FEL, but under terms and conditions of an Operating Agreement that are unacceptable by Bass and deviate from normal industry standards.

On August 11, 1981, Bass Enterprises Production Co. submitted a new Operating Agreement to the Working Interest Owners to provide for a Well located 660' FNL and 510' FEL of Section 13. Since it is to be located on a State Lease No. LG-6347, it has been renamed the Bass State #13-1, rather than Montieth C No. 1.

I hope this explanation eliminates any confusion on your part, and if you should have any questions, please do not hesitate to contact me at (817) 335-4591.

Sincerely,

MICHAEL L. JOSEPH
Landman

MLJ:ep

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 19, 1981

Working Interest Owners

Re: Bass State #13-1
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Pursuant to Jens Hansen's letter dated August 11, 1981, enclosed for your review you will find two (2) copies of an AFE covering the above referenced well. If the AFE meets with your approval, please indicate so by signing one copy and returning same to the attention of the undersigned as soon as possible.

If you should have any questions concerning the above, please do not hesitate to contact me.

Sincerely,

Michael L. Joseph
Landman

MJ:dc
Enclosure

PRB 25% BEPCO 75%
(Company)

AUTHORITY FOR EXPENDITURE-
PRODUCTION AND EXPLORATION

Division	Department	District		Outside Operator AFE No.
WEST TEXAS	PRODUCTION	WEST TEXAS		AFE #

AFE TYPE CODE

- [X] Drilling
- [ ] Wildcat
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sale
- [ ] Construction
- [ ] Workover
- [ ] Leasehold Purchase
- [ ] Farm-In
- [ ] Geophysical
- [ ] DHC or BHC

API CLASSIFICATION 6

Proj. Well Type OIL Est. Total Depth 11,400' Pac. No.

Co. Land Lease No. 11463-04 Lease Name BASS STATE 13 Well No. 1

State NEW MEXICO County LEA Area or Field NE LOVINGTON PENN

Location 660'FNL & 510' FEL, SEC 13, T16S, R36E

Formation STRAWN Type Well (Oil/Gas) or Activity OIL

Reason for Expenditure Obligations DEVELOP PROVEN ACREAGE

Location Meets: [X] Statewide Rules [ ] Field Rules Field Spacing Pattern ____ Acres This Well 80 Acres

If Joint Interest, Project Subject to: [ ] Carried Int. [ ] Net Profit Int. [ ] Right to Convert to W.I.

Operating Owner & W.I. BASS 27.1660% Joint Owners' Agreement No.

Other Joint Owners & W.I. 72.8340%

Company Working Interest 27.1660% Revenue Interest 21.7328% Company Cost In U.S. Funds (outside USA only)

COMPLETED COST

	Total	Joint Owners	Co. Net
Intangible.....	578,500	421,345	157,155
Tangible.....	268,500	195,559	72,941
Lse. Equip & Inst'l	13,000	9,468	3,532
TOTAL	860,000	626,372	233,628

EXPLORATION, ETC. COST

DRY HOLE COST

	Total	Joint Owners	Co. Net
Intangible.....	510,100	371,526	138,574
Tangible.....	43,000	31,319	11,681
TOTAL.....	553,100	402,845	150,255
Less: Dry Hole Contribution			
TOTAL	553,100	402,845	150,255

RETIREMENT COST

Cost of Removal			
Salvage/Recovery			
Total Net Cost or (Recovery)...			

Proposed Starting Date ____ Estimated Completion Date ____

Lease Expiration Date ____ Drilling Obligation Date ____

Net Reserves: ____ BBLS ____ MMCF NEB. Avg. Price: $ ____ /BBL $ ____ /MMCF

Economic Parameters (Risk ADJ. AFIT): P.W. Profit @ 8% $ ____ % ROR(%) ____

Payout (YRS) ____ . Project Life (YRS): ____ Success Prob. (%) ____ Investment: $/NEB ____

Avg. Net Producing Rate During Payout: B/D MCF/D

REMARKS

JOINT OWNER'S APPROVAL

COMPANY ____

BY ____

DATE ____

APPROVALS

		DATE
DISTRICT		
DIVISION	J. E. Greer	8-17-81
LAND		
ACCOUNTING		
PRODUCTION		
EXPLORATION		
FORT WORTH OFFICE		

AFE DRILLING COST ESTIMATE

WELL BASS STATE 13-1

INTANGIBLE DRILLING COST ESTIMATE

	ESTIMATED	
LOCATION		
Surface Damages	300	
Surveyors & Equipment	15,000	
Location Construction	2,500	
Road Construction/Easements	2,000	
Rathole, Mousehole, Conductor		
Liner		
ABANDONMENT		
Recover Casing		
Cement	40,000	
RIG		
MIRU-RD-MO	241,500	
Footage ____ ft. @ $ ____ /ft.		
W/WD 35 days @ 6,900 /day		
W/O DP ____ days @ ____ /day		
SURFACE CASING SERVICES		
Inspection of pipe	1,000	
Casing Crew/Equipment	300	
Tong Operator/Equipment	300	
Float Equipment	5,500	
Centralizers/Scratchers		
Cement (Equipment & Services)		
FIRST INTERMEDIATE CASING SERVICES		
Inspection of pipe	2,500	
Casing Crew/Equipment	2,000	
~~Tong Operator/Equipment~~ Caliper	1,800	
Float Equipment Includes 8-5/8" DV Tool	7,000	
Centralizers/Scratchers	200	
Cement (Equipment & Services)	15,000	
SECOND INTERMEDIATE CASING/LINER SERVICES		
Inspection of pipe		
Casing Crew/Equipment		
Tong Operator/Equipment		
Float Equipment		
Centralizers/Scratchers		
Cement (Equipment & Services)		
BITS		
1 x 15" milltooth RT	500	
1 x 11" Insert @ 4,600	4,600	
7 x 7-7/8" Insert @ 3,600	25,200	
BHA		
1 x 15" blade reamer	600	
1 x 11" shock sub	1,000	
3 x 11" blade stabilizers @ 700	2,100	
6 x 7-7/8" blade stabilizers @ 500	3,000	
DRILLING FLUIDS		
Water	20,000	
Trucking & Pumping	5,000	
Mud Materials	25,000	
Corrosion Control	5,000	
TRANSPORTATION 11-3/4" csg., 8-5/8" csg.,	3,500	
FUEL 35 days @ 700 /day	24,500	
LABOR & SUPPLIES	2,000	
COMPANY SUPERVISION 35 days @ 250 /day	8,750	
RENTALS		
2 x BOP yellow jacket tests	1,500	
500 bbl. tank	700	
PVT	2,500	
Flowshoe	2,500	
LD Machine	3,000	
OTHER		
TOTAL	477,100	

INTANGIBLE FORMATION EVALUATION COST ESTIMATE

WIRELINE LOGS	
FDC-CNL	24,000
DLL-Rxo-SP	
DRILL STEM TESTS	
CORES/SIDEWALL CORES	
Wireline Service	
Core Barrel and Head Rental	
Analysis	
MUD LOGGING 20 days @ 350 /day	7,000
CONSULTING GEOLOGIST	
COMPANY SUPERVISION 5 days @ 250 /day	1,250
RENTALS	1,000
Test Sep. 20 days @ 50	
OTHER	
TOTAL	33,000

INTANGIBLE COMPLETION COST ESTIMATE

RIG/WELL SERVICE UNIT	
5 days @ 1,000 /day	5,000
RENTALS	
Work String	1,500
Drill Collars	1,500
BOP's & Adapter Flange	
Tanks 2 x 500 bbl.	400
Reverse Unit	400
Power Tongs	400
Catwalk	1,500
Anchors	
Pipe Rack	
Accumulator	
PRODUCTION CASING/LINER SERVICES	
Inspection of pipe	4,500
Casing Crew/Equipment	3,500
Tong Operator/Equipment	
Liner/Float Equipment	500
Centralizers/Scratchers	500
Cement (Equipment & Services)	10,000
PRODUCTION TUBING SERVICES	
Inspection	1,200
~~Internal Coating~~ Ruff cote 5-1/2" @ 2.35/ft.	2,500
Pressure Testing	2,000
MUD/COMPLETION FLUID	
KCl wtr.	3,500
BITS	1,000
TRANSPORTATION 5-1/2" csg., 2-3/8" tbg.	2,500
FUEL days @ /day	
LABOR AND SUPPLIES Misc.	
~~RIGHT OF WAY~~ Misc. lease work	

ELECTRICAL CONTRACT WORK		
COMPANY SUPERVISION 10 days @ 250 /day	2,500	
COMPLETION/PRODUCTION LOGGING		
CCL-GR	2,500	
PERFORATING		
10 shots select fire	2,500	
SQUEEZE CEMENTING		
WIRELINE WORK		
Set Packer	1,500	
Misc. wireline work	2,500	
TREATING		
1 x 10,000 gal. 7-1/2% HCl acid	7,500	
N_2 & CO_2		
PRODUCTION TESTING		
10 days test sep. @ 50 each	500	
OTHER		
4 pt. BHP	2,500	
TOTAL	68,400	

TANGIBLE DRILLING COST ESTIMATE

CONDUCTOR CASING		
SURFACE CASING		
30' x 16" X-42 line pipe @	400	
360' x 11-3/4" 42 #/ft., H-40 csg.	7,400	
FIRST INTERMEDIATE CASING		
4,900 x 8-5/8", 24 #/ft., S-80, ST&C	36,000	
SECOND INTERMEDIATE CASING OR LINER		
INTERMEDIATE LINER HANGER		
SURFACE CASING HEAD	1,200	
INTERMEDIATE CASING HEAD		
OTHER		
TOTAL	64,100	

TANGIBLE COMPLETION COST ESTIMATE

PRODUCTION CASING/LINER		
11,300 x 5-1/2", 17 #/ft., N-80, LT&C	125,500	

PRODUCTION TUBING		
11,300" x 2-3/8", 4.7 #/ft., N-80	55,000	
ABC modified couplings @ 8.10 each	3,100	
TUBING HEAD W/VALVES	7,000	
CHRISTMAS TREE	7,500	
PRODUCTION EQUIPMENT		
Rods and Sinker Bars		
Bottom Hole Pump		
Tubing Anchor		
Packer & Seal Assembly	3,500	
Polish Rod		
Other		
2-3/8" pups	1,000	
Wellhead safety valve W/controller	1,800	
TOTAL	204,400	

LEASE EQUIPMENT		
Pump Jack		
Engine/Motor		
Transformer & Switch Gear		
Electric Line		
Jack Base & Set		
Well Head Connections	300	
Flow Lines	2,000	
Water Disposal Equipment 1 x 200 bbl. fiberglass	3,500	
Tanks 1 x 500 bbl. welded steel	4,500	
Heater w/sep.		
Separator		
Dehydrator		
Fittings	2,000	
Other		
TOTAL	13,000	

AFE COST ESTIMATE SUMMARY

	(ESTIMATED) DRY HOLE	COMPLETED	DRY HOLE	COMPLETED
INTANGIBLE				
Drilling	477,100	477,100		
Formation Evaluation	33,000	33,000		
Completion		68,400		
SUBTOTAL	510,100	578,500		
TANGIBLE				
Drilling	43,000	64,100		
Completion		204,400		
SUBTOTAL	43,000	268,500		
Lease Equipment Total		13,000		
TOTAL	553,100	860,000		

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 11, 1981

Blanks Energy Corporation
600 Blanks Building
Midland, Texas 79701

Re: State #13-1 Well
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Attention: John Elphic

Dear Sir:

Confirming our conversation concerning your proposal to drill the referenced well, the Operating Agreement dated July 13, 1981 which you submitted to the Working Interest Owners contains several provisions which are unacceptable. It is my understanding from our conversation that Blanks Energy Corporation is not willing to allow Bass to operate the well under the Operating Agreement which we have used on the wells previously drilled in Section 13. Moreover, you advised us that you were only willing to drill the well if the Operating Agreement you have submitted is executed in its current form.

Since it appears that Bass and Blanks will be unable to reach an agreement to drill this well, we have filed a Pooling Application with the New Mexico Oil Conservation Division for a hearing of this dispute. In the interim we have prepared and have forwarded Operating Agreements and AFE's to the Working Interest Owners which proposes the drilling of an 11,600' Strawn test to be drilled 510' from the East line and 660' from the North line of Section 13. In the hope that you will reconsider your position, we are enclosing an Operating Agreement for your review. Our estimated well costs are $557,100 for a dry hole and $860,000 for a completed well. We are perparing an AFE and will forward same to you for your review in the next few days. After reviewing your AFE it appears that certain costs for fuel, equipment rental, mud, cementing, chemicals, and survey and testing have either been omitted or underestimated. As a result we estimate your completed well costs could be in excess of $900,000.

In addition to the above, there currently exists tankage and treatment facilities which have the capacity to treat and store the production from this proposed well which could result in a savings to the participating parties.

For these reasons we consider our operations to be in the best interests of the participating parties. We urge you to reconsider your position and we will be available at your convenience to discuss the matter in detail.

Yours very truly,

Jens Hansen
Landman

JH/bb

BASS ENTERPRISES PRODUCTION CO.
WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 11, 1981

Working Interest Owners

Re: Bass State # 13-1
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Under letter dated July 21, 1981, Blanks Energy Corporation proposed the drilling of an 11,600' test well to be drilled at a location 660' from the North and East lines of Section 13.

Enclosed with the Blanks letter was an Operating Agreement dated July 13, 1981, covering the N/2 of the SE/4 of Section 13. After reviewing their proposed Operating Agreement it is our position that a number of the provisions are unacceptable, namely the penalty for non-consenting parties, abbreviated election periods, excessive expenditure for single projects, excessive interest for amounts not paid within the 15 day period, and excessive overhead fixed rates for drilling and producing wells. We advised Blanks Energy that the Operating Agreement, in its proposed form, is unacceptable and requested that Blanks allow Bass Enterprises Production Co. to drill, complete, and operate this well under our Operating Agreement. In addition, Bass has existing tankage and treatment facilities which have the capacity to treat and store production from the proposed well which could result in a savings to the Participating Parties. Based on these factors, it is our position that Bass Enterprises Production Co. should be named Operator of this well.

Therefore, we propose the drilling of the referenced well to be located 510' from the East line and 660' from the North line in Section 13, to be drilled to an approximate depth of 11,600' to test the Strawn Formation. We estimate the well costs to be approximately $557,100 for a dry hole and $860,000 for a completed well. We are currently preparing an AFE and will forward same to you in the next few days for your review and signature.

Enclosed for your review is an Operating Agreement which we have prepared with essentially the same terms and provisions as the Operating Agreements used to drill the Montieth #1, #A-1 (formerly the Montieth #2), and #B-1 (formerly the Montieth #3), all drilled on Section 13.

Since Blanks has not agreed to either allow Bass to operate under its Operating Agreement or revise its Operating Agreement to provide for more reasonable terms, we have filed a Pooling Application with the New Mexico Oil Conservation Division with all of the Working Interest Owners under the referenced lands named as Respondents. As a result, you will receive a Notice of Hearing in the next few days advising you the date the hearing will occur. If you are interested in participating in this well with Bass as operator, please sign the extra signature page to the enclosed Operating Agreement and return same to us at your earliest opportunity and you will be dismissed from the

Pooling proceedings. Please understand and be assured that the filing of the Pooling Application in no way suggests or infers that you are unwilling to participate or make other arrangements with us for the drilling of this well. The Pooling action, unfortunately, has been made necessary due to the Operating Agreement and operations problems, and our uncertainty as to which parties will agree to participate under our Operating Agreement.

Your earliest attention in this matter will be greatly appreciated. If you should have any questions regarding this matter, please advise at your convenience.

Yours very truly,

Jens Hansen
Division Landman

JH/bb
Enclosure

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

MODEL FORM OPERATING AGREEMENT

Use of this identifying name or title is prohibited except when authorized in writing by the American Association of Petroleum Landmen

OPERATING AGREEMENT

DATED

August 10, 19 81,

OPERATOR BASS ENTERPRISES PRODUCTION CO.

CONTRACT AREA N/2 NE/4, Section 13 - T16S-R36E

COUNTY OR PARISH OF Lea County STATE OF New Mexico

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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between BASS ENTERPRISES PRODUCTION CO., 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.~~

☒ 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:

BASS ENTERPRISES PRODUCTION CO. 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 10 day of November, 1981, Operator shall commence the drilling of a well for oil and gas at the following location: 660' FNL and 510' FEL, Section 13, T16S-R36E, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth adequate to test the Strawn Formation, or 11,600', whichever is the lesser depth unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and if 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, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

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 Twenty Thousand Dollars ($ 20,000.00) 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 Ten Thousand Dollars ($ 10,000.00).

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 one eighth (1/8) 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:

While this agreement is in force, if any party contracts for 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 be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. 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 Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. 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 Twenty Thousand Dollars ($ 20,000.00) 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 90 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 90 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

A. DEPARTMENT OF ENERGY REGULATIONS: Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Operator's interpretations or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Operator for their proportionate share of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with Non-Operator's proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

BASS ENTERPRISES PRODUCTION CO
Bass State#13-1
660' FNL-510' FEL
Section 13 - T16S-R36E
Lea County, New Mexico

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 10 day of August, 1981.

OPERATOR

ATTEST

By: Wm. Arthur Hamilton
BASS ENTERPRISES RPODUCTION CO.

NON-OPERATORS

ATTEST

By:
PANTHER CITY INVESTMENT COMPANY
Trustee of the Hyatt Anne Bass
Successor Trust

ATTEST

By:
PANTHER CITY INVESTMENT COMPANY
Trustee of the Samantha Simms Bass
Successor Trust

ATTEST

SID R. BASS

ATTEST

ROBERT M. BASS

ATTEST

By:
LEE M. BASS 1976 TRUST, Perry R. Bass, Trustee

ATTEST

By:
FINE LINE, INC.

ATTEST

ROY G. BARTON, JR.

ATTEST

By: F/O To BLANKS
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES Pool

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS Pool

ATTEST

By:
REBEL OIL COMPANY

ATTEST

J. H. VAN ZANT, II

ATTEST

F/O TO BASS ; BALK-IN APO
E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

ATTEST

By:
SUNMARK EXPLORATION COMPANY Pool

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo
Merrick Pool

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC. Pool

ATTEST

By:

ATTEST

By: _____
W. C. BLANKS

ATTEST

By: _____
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST

By: _____
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST

F/O TO BASS. BACK A PO
DOROTHY VAN ZANT SANDERS

BASS ENTERPRISES PRODUCTION C(
Bass State#13-1
660' FNL-510' FEL
Section 13 - T16S-R36E
Lee County, New Mexico

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 10 day of August 1981.

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Successor Trust

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PANTHER CITY INVESTMENT COMPANY
Trustee of the Samantha Simms Bass
Successor Trust

ATTEST

SID R. BASS

ATTEST

ROBERT M. BASS

ATTEST

By:
LEE M. BASS 1976 TRUST, Perry R.
Bass, Trustee

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By:
FINE LINE, INC.

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ROY G. BARTON, JR.

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FELMONT OIL CORPORATION

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By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

K. V. Reese
ATTEST

J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

ATTEST

By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC.

ATTEST

By:
THE EVOLUTION CORP.

ATTEST

By:
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

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By:
PETROLEUM CORPORATION OF TEXAS

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By:
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WILLIAM J. PARSONS

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SUNMARK EXPLORATION COMPANY

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To The Benefit of Faith McAdoo
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HERITAGE RESOURCES

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By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

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J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

Patricia M. Elam
ATTEST

William J Parsons for
~~WILLIAM J. PARSONS~~
Machpane Energy

ATTEST

By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

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WILLIAM J. PARSONS

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SUNMARK EXPLORATION COMPANY

ATTEST

By: Fernanda de Mohrenschildt Hastie
FERNANDA DE MOHRENSCHILDT HASTIE

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By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick
TREXCO 79-3, A LIMITED PARTNERSHIP
Transcontinental Exploration Company, Inc., General Partner

LaVerne Allen
ATTEST Asst. Secretary

By: George W. Head
George W. Head, Vice President-Land

ATTEST

By:
AMERICAN CRUDE, INC.

By:

ATTEST

By: Joe D. Miller Jr.
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

ATTEST

J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

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HARRY A. MILLER, JR.

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WILLIAM J. PARSONS

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By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC.

By: _____
W. C. BLANKS

ATTEST

By: _____
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST

By: _____
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST

_____
DOROTHY VAN ZANT SANDERS

ATTEST

ATTEST

By: _____
W. C. BLANKS

ATTEST DAVID H. STARK
Asst. Vice President
& Trust Officer

By: Bill J. Hill SENIOR VICE PRESIDENT AND TRUST OFFICER
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST DAVID H. STARK
Asst. Vice President
& Trust Officer

By: Bill J. Hill SENIOR VICE PRESIDENT AND TRUST OFFICER
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST

DOROTHY VAN ZANT SANDERS

EXHIBIT "A"
TO JOINT OPERATING AGREEMENT DATED EFFECTIVE
AUGUST 10, 1981, BETWEEN
BASS ENTERPRISES PRODUCTION CO., AS OPERATOR
AND OTHER PARTIES, AS NON-OPERATORS

I. Lands Subject to the Agreement: N/2 NE/4, Section 13, T16S-R36E, Lea County, New Mexico

II. Restrictions as to Depths or Formations: This Agreement applies from the surface down to the base of the Strawn Formation.

III. Interest of the Parties:

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Panther City Investment Company, Trustee of the Hyatt Anne Bass Successor Trust	2.681214	3.351517	2.661682	3.327103
Panther City Investment Company, Trustee of the Samantha Sims Bass Successor Trust	2.681213	3.351517	2.661683	3.327102
Sid R. Bass 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5.027275	3.992523	4.990654
Robert M. Bass 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5.027275	3.992523	4.990654
Lee M. Bass 1976 Trust Perry R. Bass, Trustee 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5.027275	3.992523	4.990654

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Fine Line, Inc. 3100 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021821	5.027274	3.992524	4.990653
Roy G. Barton, Jr. P.O. Box 978 Hobbs, New Mexico (505) 393-5515	.187988	.234985	.187988	.234985
Felmont Oil Corporation Box 2266 Midland, Texas 79702 (915) 682-5231	4.500000	5.625000	4.500000	5.625000
Heritage Resources P.O. Box 777 Davis, Oklahoma 73030 (405) 369-2313	2.000000	2.500000	2.000000	2.500000
Petroleum Corporation of Texas P.O. Box 911 Breckenridge, Texas 76024 (817) 559-3355	2.666667	3.333334	2.666667	3.333334
Rebel Oil Company 603 Seco Hobbs, New Mexico (505) 393-8097	.141601	.177002	.141601	.177002
J.H. Van Zant, II 1722 Commerce Bldg. Fort Worth, Texas (817) 332-3757	.625000	.781250	.625000	.781250
E.B. White, Jr. P.O. Box 2052 Midland, Texas 79702 (915) 682-4434	.989583	1.236979	.989583	1.236979

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Harry A. Miller, Jr. 600 First National Bank Bldg. Midland, Texas 79701 (915) 682-8731	.989583	1.236979	.989583	1.236979
William J. Parsons 219 North Main Midland, Texas 79701 (915) 683-3060	.833334	1.041667	.833334	1.041667
Sunmark Exploration Company Suite 824 C & K Building Midland, Texas 79701 (915) 684-0051	5.333334	6.666667	5.333334	6.666667
Fernanda de Mohrenschildt Hastie c/o J. Drayton Hastie Rt. 4 "Ravenswood" Charleston, S. Carolina 29407	.141601	.177002	.141601	.177002
Bank of America National Trust and Savings Association, Trustee for the Benefit of Faith McAdoo Merrick P.O. Drawer EE Santa Barbara, California 93102 (805) 963-1466	.141601	.177002	.141601	.177002
Transcontinental Oil Corp. (TREXCO 79-3) 1400 First National Bank Tower Shreveport, Louisiana 71101 (318) 222-9511	20.000000	25.000000	20.000000	25.000000
American Crude, Inc. 1700 West Loop South Suite 1110 Houston, Texas 77027 (713) 621-0861	5.000000	6.250000	5.000000	6.250000

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
The Evolution Corp. 600 Blanks Building Midland, Texas 79701 (915) 683-5169	5.000000	6.250000	5.000000	6.250000
W.C. Blanks 600 Blanks Building Midland, Texas 79701 (915) 683-5169	7.500000	9.375000	7.500000	9.375000
First National Bank of Midland Trustee for Trust No. 1190 P.O. Box 270 Midland, Texas 79702 (915) 685-2000	1.250000	1.562500	1.250000	1.562500
First National Bank of Midland Trustee for Trust No. 1191 P.O. Box 270 Midland, Texas 79701 (915) 685-2000	1.250000	1.562500	1.250000	1.562500
Dorothy Van Zant Sanders 6737 Brants Lane Fort Worth, Texas 67116 (817) 732-0860	-0-	-0-	.156250	.195313
	80.000000	100.000000	80.000000	100.000000

Prod. J Rev.

EXHIBIT "B"

OIL AND GAS LEASE

This Agreement made and entered into by and between _____

_____,

(hereinafter called Lessor), and _____

_____,

(hereinafter called Lessee).

Witnesseth that Lessor, for and in consideration of TEN DOLLARS ($10.00) cash in hand paid and other valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained to be paid, kept and performed by Lessee, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto Lessee, for the sole and only purpose of exploring, drilling, mining and producing oil and gas and laying pipe lines and building tanks, power stations and structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of _____, State of _____, described as follows, to-wit:

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

Subject to the other provisions herein contained, this lease shall remain in force for a term of _____ years from this date, and as long thereafter as oil or gas, or either of them, is produced in commercial quantities from said lands by Lessee.

In consideration of the premises Lessee covenants and agrees:

To deliver in kind, free of cost, at the wells or to the credit of Lessor in the pipe lines or tanks to which the wells may be connected, the equal 1/4 part of all oil produced and saved from said leased premises.

And to pay Lessor 1/4 of the value of all raw gas at the mouth of the well, for gas sold at the well or sold or used off the premises, or for the extraction of gasoline or other products, payment for gas so used or sold to be made monthly. Lessor shall have gas free of cost from any gas well on said premises for all stoves and lights in the principal house on said land.

If the actual drilling of a well has not been commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless Lessee on or before that date shall pay or tender to Lessor, or to Lessor's credit in the First National Bank at Breckenridge, Texas, or its successors, which shall continue as the depository regardless of changes in the ownership of said lands, the sum of _____ _____ DOLLARS ($_____), which shall operate as a rental and cover the privilege of deferring the commencement of a well for a period of one year from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for one year periods during the primary term hereof.

If Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid Lessor only in the proportion which its interest bears to the whole undivided fee. This clause does not apply to rentals payable hereunder.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from the wells of Lessor. When requested by Lessor, Lessee shall bury its pipe lines below plow depth. No well shall be drilled nearer than 200 feet to any building now on said premises, without the written consent of Lessor. Lessee shall pay for damages caused by its operation on said land.

Lessee shall at all times protect the leased premises from drainage by wells on other properties and whenever oil or gas has been discovered in commercial quantities, Lessee shall reasonably develop the leased premises.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing; provided that Lessor reserves the option to pay salvage value of such casing and take over any well proposed to be plugged.

If Lessee shall commence drilling a well within the primary term of this lease or any extension thereof, Lessee shall have the right to drill such well to completion with reasonable diligence and dispatch and, if oil or gas or either of them be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the primary term.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or part is expressly allowed - the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns; but no change of ownership shall be binding on either party until the other has been furnished with a true copy of the deed or assignment within 30 days of the date of the change of ownership.

Lessee shall, during the drilling of any wells on the leased premises, furnish Lessor daily drilling reports, copies of all logs run, copies of reports and forms filed with the State regulatory bodies in connection with such wells, well locations, dates of completion and abandonment. Lessee shall also furnish Lessor copies of any title opinions or title reports which Lessee may obtain on the leased premises.

In the event Lessor defaults in payment of any taxes, liens or other encumbrances on the above described lands then, in such event, Lessee shall have the right at any time to pay same and thus be subrogated to the rights of the owner or holder of such indebtedness.

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

Executed and effective this the _____ day of _____, 19 ____.

Attest: _____ By: _____
Secretary President

THE STATE OF TEXAS)
COUNTY OF _____)

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said _____, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, This _____ day of _____, 19 ____.

(Seal)
My Commission Expires: _____

_____
Notary Public, _____ County, Texas.

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

EXHIBIT "C"

Attached to and made a part of Joint Operating Agreement Dated August 10, 1981, Between Bass Enterprises Production Co., as Operator, and Other Parties, 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%)~~. the percentage recomended by COPAS from time to time.

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:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 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 $ 3,500.00
Producing Well Rate $ 350.00

(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 Properly 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 BE NEGOTIATED, IF NEEDED.

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

A. _____% of total costs if such costs are more than $_____ but less than $_____; plus

B. _____% of total costs in excess of $_____ 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.

EXHIBIT "D"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators

With respect to all operations conducted hereunder on the Unit Area by the Operator for the joint account of the parties hereto, Operator shall maintain in effect the following insurance coverage:

Kind	Policy Form	Minimum Limits of Liability
Workmen's Compensation	Statutory	Statutory
Employer's Liability		$500,000 each accident
Comprehensive	Comprehensive	B.I. ($1,000,000 each accident) ($1,000,000 aggregate) P.D. ($1,000,000 each accident) ($1,000,000 aggregate)
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($1,000,000 each person) ($1,000,000 each accident) P.D. ($1,000,000 each accident)

Upon request, Operator shall furnish Non-Operator with a certificate evidencing such insurance coverage.

Losses not covered by insurance required by this Agreement to be carried for the benefit and at the expense of the parties hereto shall be charged to the joint account.

If the parties hereto or any of them shall insure their respective risks beyond the specific limits of insurance required hereunder to be carried by the parties, the benefits of such insurance shall inure to the parties procuring and maintaining the same, respectively, and the cost of such insurance shall be borne by such parties, respectively, without reimbursements one from the other and without entering into any accounting hereunder.

EXHIBIT "E"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

GAS STORAGE AGREEMENT

The parties to the Operating Agreement to which this Gas Storage Agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this Storage Agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from the Contract Area or its purchaser is unable to take its share of gas produced from the Contract Area, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such Unit by the applicable governmental authority and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this Gas Storage Agreement is attached but the party or parties taking such gas shall own all of the gas delivered to its or their producer. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost. The Operator will maintain a

current amount of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from any well located within the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party's or parties' share of gas produced from each such well located within the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party's or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in each such well.

In the event production of gas from any well located within the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement as between the parties. Such settlement shall be based upon the price received by the overproduced party or parties for the overproduced gas which was sold by such party in the order of accrual.

It is the intent of the parties hereto that this Gas Storage Agreement be considered a separate agreement as to each well located within the Contract Area.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

FEDERAL PROVISIONS

Operator shall comply with the non-discrimination provisions of Executive Order 11246 dated September 23, 1965, and the regulations promulgated pursuant thereto. Section 202 thereof is hereby incorporated by reference. Operator shall, during the term of this agreement, file all reports required by the aforementioned regulation duly and promptly and shall, upon request, furnish Non-Operators with evidence that such reports have been filed.

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Bank of America National Trust
and Savings Association, Trustee
for the Benefit of Faith McAdoo Merrick
P.O. Drawer EE
Santa Barbara, California 93102

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7345 Exhibit No. 3
Submitted by BASS
Hearing Date 10-16-81

P22 [illegible] 572

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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. WAROLE

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

October 8, 1981

Transcontinental Oil Corp. (TREXCO 79-3)
1400 First National Bank Tower
Shreveport, Louisiana 71101

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

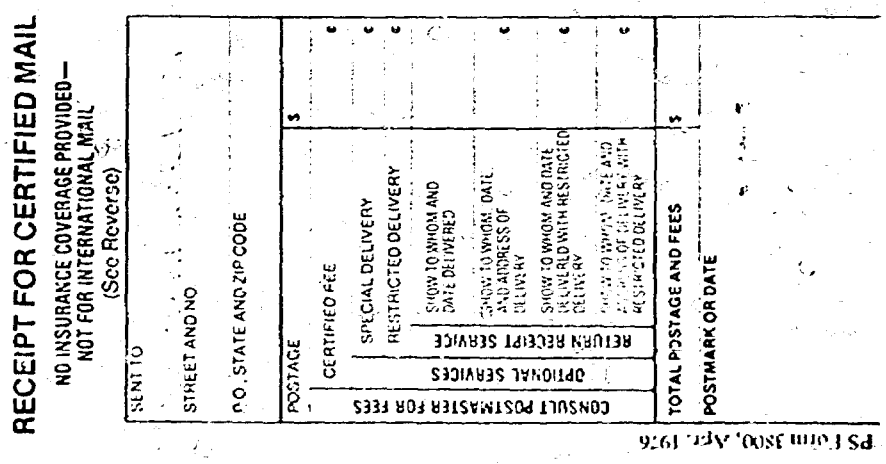
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
EARL 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

October 8, 1981

Roy G. Barton, Jr.
P.O. Box 978
Hobbs, New Mexico

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 [illegible]

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

SENT TO [illegible]
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
SHOW TO WHOM AND DATE DELIVERED	¢
RETURN RECEIPT SERVICE	
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY	¢
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
CONSULT POSTMASTER FOR FEES	
OPTIONAL SERVICES	
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	

PS Form 3800, Apr. 1976

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Felmont Oil Corporation
Box 2266
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

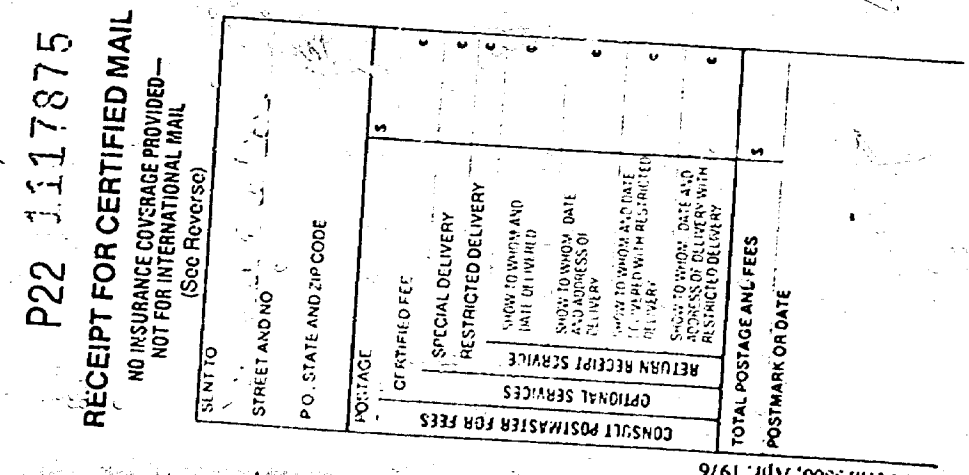
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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

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

October 8, 1981

Heritage Resources
P.O. Box 777
Davis, Oklahoma 73030

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

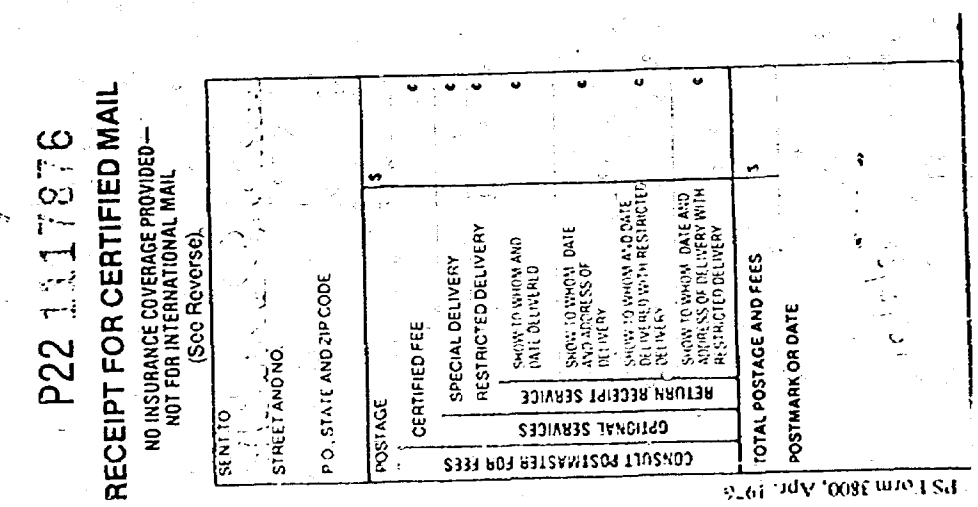
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL C. 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

October 8, 1981

Petroleum Corporation of Texas
P.O. Box 911
Breckenridge, Texas 76024

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 877

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

SENT TO
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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

October 8, 1981

Rebel Oil Company
603 Seco
Hobbs, New Mexico

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

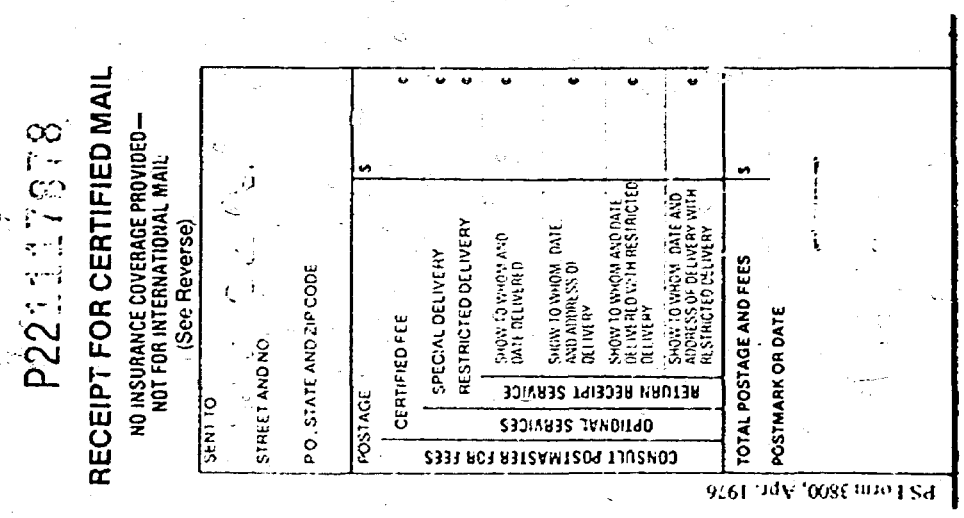
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

J.H. Van Zant, II
1722 Commerce Bldg.
Fort Worth, Texas

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 879

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

SENT TO
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

E.B. White, Jr.
P.O. Box 2052
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

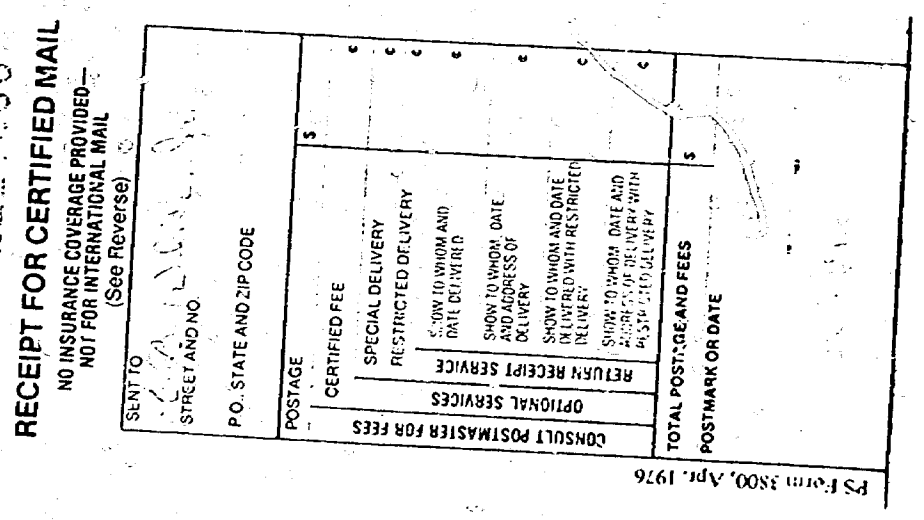
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



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

October 8, 1981

Harry A. Miller, Jr.
600 First National Bank Bldg.
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7881

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

SENT TO

STREET AND NO.

P.O., STATE AND ZIP CODE

POSTAGE $

CERTIFIED FEE

SPECIAL DELIVERY

RESTRICTED DELIVERY

SHOW TO WHOM AND DATE DELIVERED

RETURN RECEIPT SERVICE

SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY

SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY

SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY

CONSULT POSTMASTER FOR FEES

OPTIONAL SERVICES

TOTAL POSTAGE AND FEES $

POSTMARK OR DATE

PS Form 3800, Apr. 1976

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

October 8, 1981

William J. Parsons
219 North Main
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

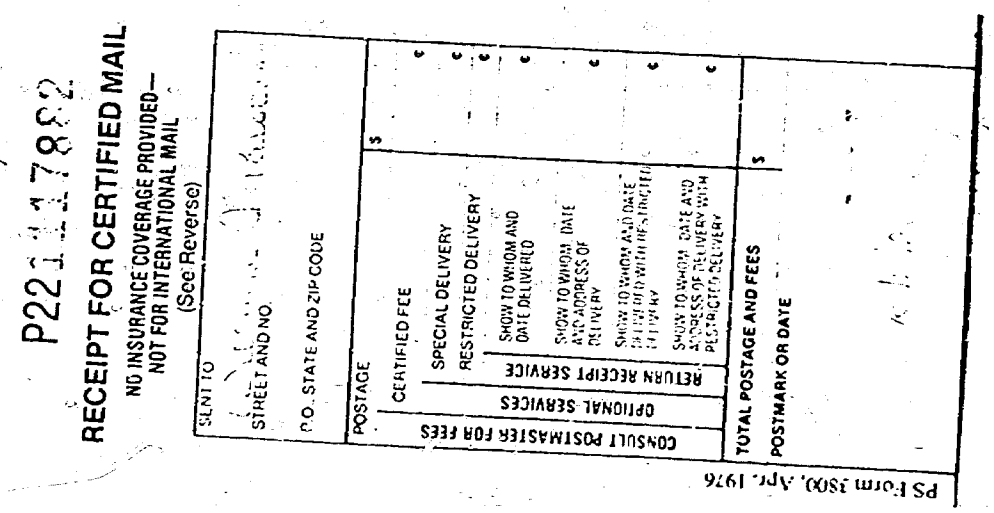
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



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. WAROLE

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Sunmark Exploration Company
Suite 824
C & K Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 783

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

SENT TO

STREET AND NO.

P.O., STATE AND ZIP CODE

POSTAGE $

CERTIFIED FEE

SPECIAL DELIVERY

RESTRICTED DELIVERY

CONSULT POSTMASTER FOR FEES

OPTIONAL SERVICES

RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY

TOTAL POSTAGE AND FEES $

POSTMARK OR DATE

PS Form 3800, Apr. 1976

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Fernanda de Mohrenschildt Hastie
c/o J. Drayton Hastie
Rt. 4 "Ravenswood"
Charleston, S. Carolina 29407

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

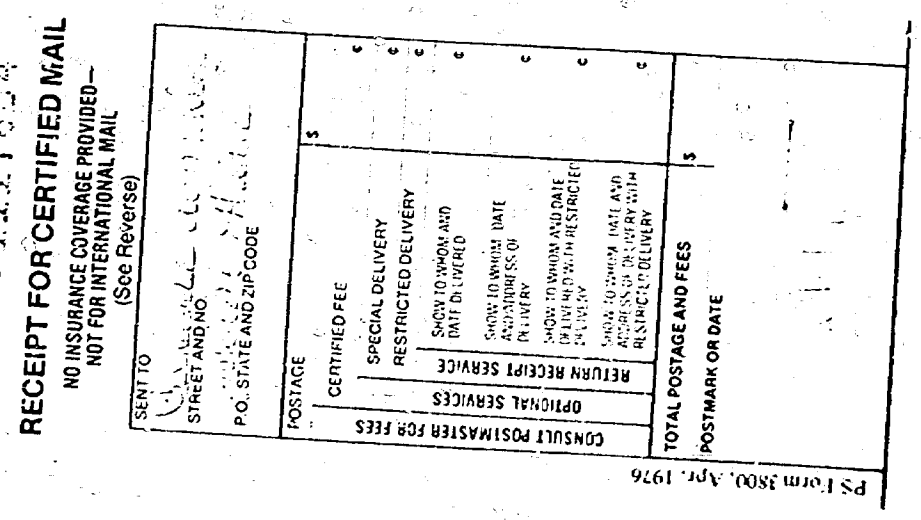
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
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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

October 8, 1981

American Crude, Inc.
1700 West Loop South
Suite 1110
Houston, Texas 77027

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111885

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

SENT TO

STREET AND NO.

P.O., STATE AND ZIP CODE

POSTAGE $

CERTIFIED FEE

SPECIAL DELIVERY

RESTRICTED DELIVERY

CONSULT POSTMASTER FOR FEES

OPTIONAL SERVICES

RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY

TOTAL POSTAGE AND FEES $

POSTMARK OR DATE

PS Form 3800, Apr. 1976

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

The Evolution Corp.
600 Blanks Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

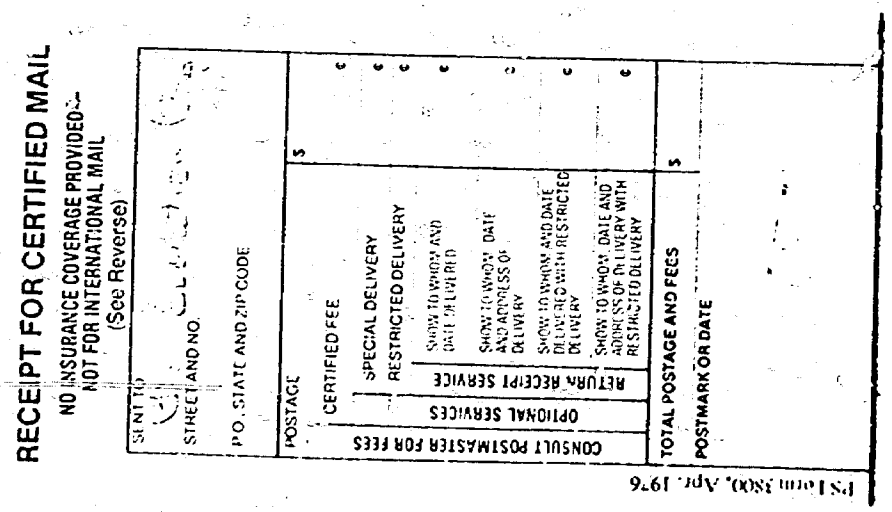
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE C. 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

October 8, 1981

W.C. Blanks
600 Blanks Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7887

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

SENT TO
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
RETURN RECEIPT SERVICE
Show to whom and date delivered
Show to whom, date, and address of delivery
Show to whom and date delivered with restricted delivery
Show to whom, date, and address of delivery with restricted delivery
OPTIONAL SERVICES
CONSULT POSTMASTER FOR FEES
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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. WAPDLE

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

First National Bank of Midland
Trustee for Trust No. 1190
P.O. Box 270
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 768
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE	$
CERTIFIED FEE	
SPECIAL DELIVERY	
RESTRICTED DELIVERY	
SHOW TO WHOM AND DATE DELIVERED	
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	
RESTRICTED DELIVERY WITH SPECIAL DELIVERY	
SHOW TO WHOM AND DATE DELIVERED	
RESTRICTED DELIVERY WITH SPECIAL DELIVERY	
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	
CONSULT POSTMASTER FOR FEES	
OPTIONAL SERVICES	
RETURN RECEIPT SERVICE	
RESTRICTED DELIVERY	
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	

PS Form 3800, Apr. 1976

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

First National Bank of Midland
Trustee for Trust No. 1191
P.O. Box 270
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7889

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

SENT TO

STREET AND NO.

P.O. STATE AND ZIP CODE

POSTAGE	$
CERTIFIED FEE	
SPECIAL DELIVERY	
RESTRICTED DELIVERY	
RETURN RECEIPT SERVICE	
SHOW TO WHOM AND DATE DELIVERED	
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY	
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	
CONSULT POSTMASTER FOR FEES	
OPTIONAL SERVICES	
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Dorothy Van Zant Sanders
6737 Brants Lane
Fort Worth, Texas 67116

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

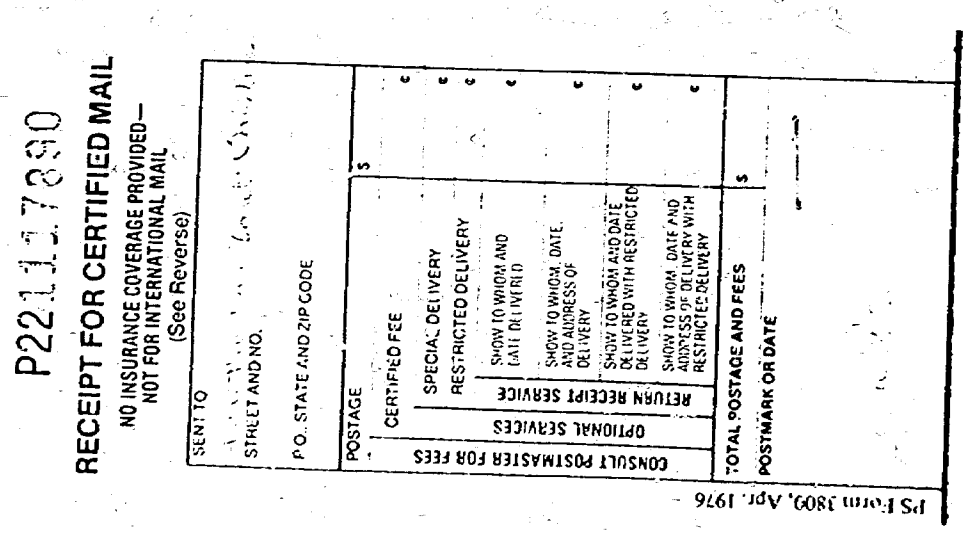
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

September 30, 1981

WORKING INTEREST OWNERS

Re: Bass State #13-1
N/2 NE/4, Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

As I am sure you are aware, both Bass Enterprises Production Co. and W. C. Blanks Energy Corporation have proposed a Strawn Test Well to be located at a legal location in the NE/4 NE/4 of Section 13. Due to a dispute with Blanks concerning several provisions in their Operating Agreement, it was necessary for Bass to file for a Compulsory Pooling Application with the New Mexico Oil Conservation Division in an attempt to have Bass named as Operator. The date of the scheduled Hearing is to be October 16, 1981, in Santa Fe, New Mexico. Through discussions with Blanks, et al, an agreement was reached by both Parties to let Bass operate the subject Well. Bass has scheduled a drilling rig which is to move on location by October 16th (17 days). Therefore, it will be necessary for Bass to have all executed signature pages and AFE's in hand by Wednesday, October 14th or we shall be compelled to go ahead as planned with the Compulsory Pooling Hearing.

In the event you should desire not to participate, Bass is prepared to farmin your interest subject to a 1/16 of 8/8 Overriding Royalty (you will deliver Bass not less than 75% Net Revenue Interest) with the option to convert said override to a 50% Working Interest at pay out.

Again, I must emphasize the need to transmit executed signature pages and AFE's to our office on or before October 11, 1981.

If you should have any questions concerning the above, please do not hesitate to contact me at (817) 335-4591.

Sincerely,

MICHAEL L. JOSEPH
Landman

MLJ:ep

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7345 Exhibit No. 2
Submitted by BASS
Hearing Date 10-16-81

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 25, 1981

WORKING INTEREST OWNERS

Re: Bass State #13-1
(formerly Montieth C No. 1)
N/2 NE, Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Due to expressed confusion on the part of several Working Interest Owners relative to the above captioned Well, it is the intent of this letter is to clarify said confusion.

Under letter dated February 2, 1981, you were forwarded an Operating Agreement dated January 30, 1981, naming Bass as Operator, with language to provide for the drilling of a Strawn Well located 660' FNL and 810' FEL on or before June 1, 1981. At the request of W. C. Blanks, et al, several changes were made to the Agreement as to well location and formation. You were informed of same under letter dated March 2, 1981.

Additionally, we anticipated using the same rig to drill the Montieth C No. 1 as was being used to drill the Montieth B No. 1. As a result of the additional time needed for drilling the Montieth B No. 1 and Blanks request to move the Well location to 660' FNL and 1830' FEL of Section 13, the Operating Agreement was allowed to expire. Subsequently, W. C. Blanks has proposed the drilling of a Strawn Well to be located 660' FNL and 660' FEL, but under terms and conditions of an Operating Agreement that are unacceptable by Bass and deviate from normal industry standards.

On August 11, 1981, Bass Enterprises Production Co. submitted a new Operating Agreement to the Working Interest Owners to provide for a Well located 660' FNL and 510' FEL of Section 13. Since it is to be located on a State Lease No. LG-6347, it has been renamed the Bass State #13-1, rather than Montieth C No. 1.

I hope this explanation eliminates any confusion on your part, and if you should have any questions, please do not hesitate to contact me at (817) 335-4591.

Sincerely,

Michael L. Joseph

MICHAEL L. JOSEPH
Landman

MLJ:ep

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 19, 1981

Working Interest Owners

Re: Bass State #13-1
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Pursuant to Jens Hansen's letter dated August 11, 1981, enclosed for your review you will find two (2) copies of an AFE covering the above referenced well. If the AFE meets with your approval, please indicate so by signing one copy and returning same to the attention of the undersigned as soon as possible.

If you should have any questions concerning the above, please do not hesitate to contact me.

Sincerely,

Michael L. Joseph
Landman

MJ:dc
Enclosure

PRB 25% BEPCO 75%
(Company)

AUTHORITY FOR EXPENDITURE-
PRODUCTION AND EXPLORATION

Division	Department	District		Outside Operator AFE No.
WEST TEXAS	PRODUCTION	WEST TEXAS		AFE #

AFE TYPE CODE

- [X] Drilling
- [ ] Wildcat
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sale
- [ ] Construction
- [ ] Workover
- [ ] Leasehold Purchase
- [ ] Farm-in
- [ ] Geophysical
- [ ] DHC or BHC

API CLASSIFICATION 6

Proj. Well Type OIL Est. Total Depth 11,400' Pac. No.

Co. Land Lease No. 11463-04 Lease Name BASS STATE 13 Well No. 1

State NEW MEXICO County LEA Area or Field NE LOVINGTON PENN

Location 660'FNL & 510' FEL, SEC 13, T16S, R36E

Formation STRAWN Type Well (Oil/Gas) or Activity OIL

Reason for Expenditure DEVELOP PROVEN ACREAGE

Obligations

Location Meets: [X] Statewide Rules [ ] Field Rules Field Spacing Pattern ____ Acres This Well 80 Acres

If Joint Interest, Project Subject to: [ ] Carried Int. [ ] Net Profit Int. [ ] Right to Convert to W.I.

Operating Owner & W.I. BASS 27.1660% Joint Owners' Agreement No.

Other Joint Owners & W.I. 72.8340%

Company Working Interest 27.1660% Revenue Interest 21.7328% Company Cost in U.S. Funds (outside USA only)

COMPLETED COST	Total	Joint Owners	Co. Net
Intangible.....	578,500	421,345	157,155
Tangible.....	268,500	195,559	72,941
Lse. Equip & Inst'l	13,000	9,468	3,532
TOTAL	860,000	626,372	233,628

DRY HOLE COST	Total	Joint Owners	Co. Net
Intangible.....	510,100	371,526	138,574
Tangible.....	43,000	31,319	11,681
TOTAL....	553,100	402,845	150,255
Less: Dry Hole Contribution			
TOTAL	553,100	402,845	150,255

EXPLORATION, ETC. COST

RETIREMENT COST

Cost of Removal			
Salvage/Recovery			
Total Net Cost or (Recovery)...			

Proposed Starting Date Estimated Completion Date

Lease Expiration Date Drilling Obligation Date

Net Reserves: ____ BBLS ____ MMCF NEB. Avg. Price: $ ____ /BBL $ ____ /MMCF

Economic Parameters (Risk ADJ. AFIT): P.W. Profit @ 8% $ ____ % ____ ROR(%) ____

Payout (YRS) ____, Project Life (YRS): ____ Success Prob. (%) ____ Investment: $/NEB ____

Avg. Net Producing Rate During Payout: B/D MCF/D

REMARKS

JOINT OWNER'S APPROVAL

COMPANY

BY

DATE

APPROVALS

		DATE
DISTRICT		
DIVISION	J. E. Greer	8-17-81
LAND		
ACCOUNTING		
PRODUCTION		
EXPLORATION		
FORT WORTH OFFICE		

AFE DRILLING COST ESTIMATE

WELL BASS STATE 13-1

INTANGIBLE DRILLING COST ESTIMATE

	ESTIMATED	
LOCATION		
Surface Damages		
Surveyors & Equipment	300	
Location Construction	15,000	
Road Construction/Easements		
Rathole, Mousehole, Conductor	2,500	
Liner	2,000	
ABANDONMENT		
Recover Casing		
Cement		
RIG		
MIRU-RD-MO		
Footage ft. @ $ /ft.		
W/WD 35 days @ 6,900 /day	40,000	
W/O DP days @ /day		
	241,500	
SURFACE CASING SERVICES		
Inspection of pipe		
Casing Crew/Equipment		
Tong Operator/Equipment		
Float Equipment	1,000	
Centralizers/Scratchers		
Cement (Equipment & Services)	300	
FIRST INTERMEDIATE CASING SERVICES	300	
Inspection of pipe	5,500	
Casing Crew/Equipment		
~~Tong Operator/Equipment~~ Caliper	2,500	
Float Equipment Includes 8-5/8" DV Tool	2,000	
Centralizers/Scratchers	1,800	
Cement (Equipment & Services)	7,000	
SECOND INTERMEDIATE CASING/LINER SERVICES	200	
Inspection of pipe	15,000	
Casing Crew/Equipment		
Tong Operator/Equipment		
Float Equipment		
Centralizers/Scratchers		
Cement (Equipment & Services)		
BITS		
1 x 15" milltooth RT	500	
1 x 11" Insert @ 4,600	4,600	
7 x 7-7/8" Insert @ 3,600	25,200	
BHA		
1 x 15" blade reamer	600	
1 x 11" shock sub	1,000	
3 x 11" blade stabilizers @ 700	2,100	
6 x 7-7/8" blade stabilizers @ 500	3,000	
DRILLING FLUIDS		
Water	20,000	
Trucking & Pumping	5,000	
Mud Materials	25,000	
Corrosion Control	5,000	
TRANSPORTATION 11-3/4" csg., 8-5/8" csg.,	3,500	
FUEL 35 days @ 700 /day	24,500	
LABOR & SUPPLIES	2,000	
COMPANY SUPERVISION 35 days @ 250 /day	8,750	
RENTALS		
2 x BOP yellow jacket tests	1,500	
500 bbl. tank	700	
PVT	2,500	
Flowshoe	2,500	
LD Machine	3,000	
OTHER		
TOTAL	477,100	

INTANGIBLE FORMATION EVALUATION COST ESTIMATE

WIRELINE LOGS		
FDC-CNL	24,000	
DLL-Rxo-SP		
DRILL STEM TESTS		
CORES/SIDEWALL CORES		
Wireline Service		
Core Barrel and Head Rental		
Analysis		
MUD LOGGING 20 days @ 350 /day	7,000	
CONSULTING GEOLOGIST		
COMPANY SUPERVISION 5 days @ 250 /day	1,250	
RENTALS		
Test Sep. 20 days @ 50	1,000	
OTHER		
TOTAL	33,000	

INTANGIBLE COMPLETION COST ESTIMATE

RIG/WELL SERVICE UNIT 5 days @ 1,000 /day	5,000	
RENTALS		
Work String		
Drill Collars		
BOP's & Adapter Flange	1,500	
Tanks 2 x 500 bbl.	1,500	
Reverse Unit		
Power Tongs		
Catwalk	400	
Anchors	400	
Pipe Rack	400	
Accumulator	1,500	
PRODUCTION CASING/LINER SERVICES		
Inspection of pipe	4,500	
Casing Crew/Equipment	3,500	
Tong Operator/Equipment		
Liner/Float Equipment	500	
Centralizers/Scratchers	500	
Cement (Equipment & Services)	10,000	
PRODUCTION TUBING SERVICES		
Inspection		
~~Internal Coating~~ Ruff cote 5-1/2" @ 2.35/ft.	1,200	
Pressure Testing	2,500	
MUD/COMPLETION FLUID		
KCl wtr.	2,000	
BITS		
TRANSPORTATION 5-1/2" csg., 2-3/8" tbg.	3,500	
FUEL days @ /day		
LABOR AND SUPPLIES Misc.	1,000	
~~RIGHT OF WAY~~ Misc. lease work	2,500	

ELECTRICAL CONTRACT WORK		
COMPANY SUPERVISION 10 days @ 250 /day	2,500	
COMPLETION/PRODUCTION LOGGING		
CCL-GR	2,500	
PERFORATING		
10 shots select fire	2,500	
SQUEEZE CEMENTING		
WIRELINE WORK		
Set Packer	1,500	
Misc. wireline work	2,500	
TREATING		
1 x 10,000 gal. 7-1/2% HCl acid	7,500	
N_2 & CO_2		
PRODUCTION TESTING		
10 days test sep. @ 50 each	500	
OTHER		
4 pt. BHP	2,500	
TOTAL	68,400	

TANGIBLE DRILLING COST ESTIMATE

CONDUCTOR CASING		
SURFACE CASING		
30' x 16" X-42 line pipe @	400	
360' x 11-3/4" 42 #/ft., H-40 csg.	7,400	
FIRST INTERMEDIATE CASING		
4,900 x 8-5/8", 24 #/ft., S-80, ST&C	36,000	
SECOND INTERMEDIATE CASING OR LINER		
INTERMEDIATE LINER HANGER		
SURFACE CASING HEAD	1,200	
INTERMEDIATE CASING HEAD		
OTHER		
TOTAL	64,100	

TANGIBLE COMPLETION COST ESTIMATE

PRODUCTION CASING/LINER		
11,300 x 5-1/2", 17 #/ft., N-80, LT&C	125,500	

PRODUCTION TUBING	
11,300" x 2-3/8", 4.7 #/ft., N-80	55,000
ABC modified couplings @ 8.10 each	3,100
TUBING HEAD W/VALVES	7,000
CHRISTMAS TREE	7,500
PRODUCTION EQUIPMENT	
Rods and Sinker Bars	
Bottom Hole Pump	
Tubing Anchor	
Packer & Seal Assembly	3,500
Polish Rod	
Other	
2-3/8" pups	1,000
Wellhead safety valve W/controller	1,800
TOTAL	204,400

LEASE EQUIPMENT

Pump Jack	
Engine/Motor	
Transformer & Switch Gear	
Electric Line	
Jack Base & Set	
Well Head Connections	300
Flow Lines	2,000
Water Disposal Equipment 1 x 200 bbl. fiberglass	3,500
Tanks 1 x 500 bbl. welded steel	4,500
Heater w/sep.	
Separator	
Dehydrator	
Fittings	2,000
Other	
TOTAL	13,000

AFE COST ESTIMATE SUMMARY

	(ESTIMATED) DRY HOLE	COMPLETED	DRY HOLE	COMPLETED
INTANGIBLE				
Drilling	477,100	477,100		
Formation Evaluation	33,000	33,000		
Completion		68,400		
SUBTOTAL	510,100	578,500		
TANGIBLE				
Drilling	43,000	64,100		
Completion		204,400		
SUBTOTAL	43,000	268,500		
Lease Equipment Total		13,000		
TOTAL	553,100	860,000		

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 11, 1981

Blanks Energy Corporation
600 Blanks Building
Midland, Texas 79701

Re: State #13-1 Well
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Attention: John Elphic

Dear Sir:

Confirming our conversation concerning your proposal to drill the referenced well, the Operating Agreement dated July 13, 1981 which you submitted to the Working Interest Owners contains several provisions which are unacceptable. It is my understanding from our conversation that Blanks Energy Corporation is not willing to allow Bass to operate the well under the Operating Agreement which we have used on the wells previously drilled in Section 13. Moreover, you advised us that you were only willing to drill the well if the Operating Agreement you have submitted is executed in its current form.

Since it appears that Bass and Blanks will be unable to reach an agreement to drill this well, we have filed a Pooling Application with the New Mexico Oil Conservation Division for a hearing of this dispute. In the interim we have prepared and have forwarded Operating Agreements and AFE's to the Working Interest Owners which proposes the drilling of an 11,600' Strawn test to be drilled 510' from the East line and 660' from the North line of Section 13. In the hope that you will reconsider your position, we are enclosing an Operating Agreement for your review. Our estimated well costs are $557,100 for a dry hole and $860,000 for a completed well. We are perparing an AFE and will forward same to you for your review in the next few days. After reviewing your AFE it appears that certain costs for fuel, equipment rental, mud, cementing, chemicals, and survey and testing have either been omitted or underestimated. As a result we estimate your completed well costs could be in excess of $900,000.

In addition to the above, there currently exists tankage and treatment facilities which have the capacity to treat and store the production from this proposed well which could result in a savings to the participating parties.

For these reasons we consider our operations to be in the best interests of the participating parties. We urge you to reconsider your position and we will be available at your convenience to discuss the matter in detail.

Yours very truly,

Jens Hansen
Landman

JH/bb

BASS ENTERPRISES PRODUCTION CO.
WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 11, 1981

Working Interest Owners

Re: Bass State # 13-1
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Under letter dated July 21, 1981, Blanks Energy Corporation proposed the drilling of an 11,600' test well to be drilled at a location 660' from the North and East lines of Section 13.

Enclosed with the Blanks letter was an Operating Agreement dated July 13, 1981, covering the N/2 of the SE/4 of Section 13. After reviewing their proposed Operating Agreement it is our position that a number of the provisions are unacceptable, namely the penalty for non-consenting parties, abbreviated election periods, excessive expenditure for single projects, excessive interest for amounts not paid within the 15 day period, and excessive overhead fixed rates for drilling and producing wells. We advised Blanks Energy that the Operating Agreement, in its proposed form, is unacceptable and requested that Blanks allow Bass Enterprises Production Co. to drill, complete, and operate this well under our Operating Agreement. In addition, Bass has existing tankage and treatment facilities which have the capacity to treat and store production from the proposed well which could result in a savings to the Participating Parties. Based on these factors, it is our position that Bass Enterprises Production Co. should be named Operator of this well.

Therefore, we propose the drilling of the referenced well to be located 510' from the East line and 660' from the North line in Section 13, to be drilled to an approximate depth of 11,600' to test the Strawn Formation. We estimate the well costs to be approximately $557,100 for a dry hole and $860,000 for a completed well. We are currently preparing an AFE and will forward same to you in the next few days for your review and signature.

Enclosed for your review is an Operating Agreement which we have prepared with essentially the same terms and provisions as the Operating Agreements used to drill the Montieth #1, #A-1 (formerly the Montieth #2), and #B-1 (formerly the Montieth #3), all drilled on Section 13.

Since Blanks has not agreed to either allow Bass to operate under its Operating Agreement or revise its Operating Agreement to provide for more reasonable terms, we have filed a Pooling Application with the New Mexico Oil Conservation Division with all of the Working Interest Owners under the referenced lands named as Respondents. As a result, you will receive a Notice of Hearing in the next few days advising you the date the hearing will occur. If you are interested in participating in this well with Bass as operator, please sign the extra signature page to the enclosed Operating Agreement and return same to us at your earliest opportunity and you will be dismissed from the

Pooling proceedings. Please understand and be assured that the filing of the Pooling Application in no way suggests or infers that you are unwilling to participate or make other arrangements with us for the drilling of this well. The Pooling action, unfortunately, has been made necessary due to the Operating Agreement and operations problems, and our uncertainty as to which parties will agree to participate under our Operating Agreement.

Your earliest attention in this matter will be greatly appreciated. If you should have any questions regarding this matter, please advise at your convenience.

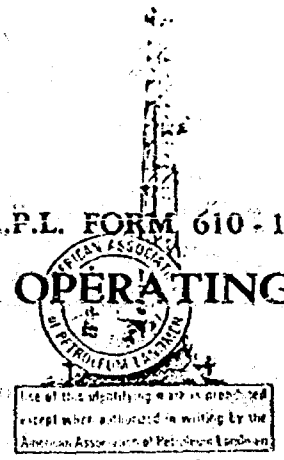
Yours very truly,

Jens Hansen
Division Landman

JH/bb
Enclosure

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

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

August 10, 19 81,

OPERATOR BASS ENTERPRISES PRODUCTION CO.

CONTRACT AREA N/2 NE/4, Section 13 - T16S-R36E

COUNTY OR PARISH OF Lea County STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between BASS ENTERPRISES PRODUCTION CO., 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.

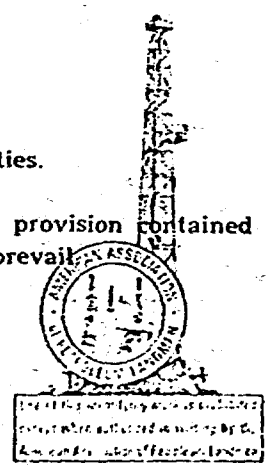
☒ C. Exhibit "C", Accounting Procedure.

☒ 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.~~

☒ 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:

BASS ENTERPRISES PRODUCTION CO. 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 10 day of November, 1981, Operator shall commence the drilling of a well for oil and gas at the following location: 660' FNL and 510' FEL, Section 13, T16S-R36E, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth adequate to test the Strawn Formation, or 11,600', whichever is the lesser depth unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

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, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

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 Twenty Thousand Dollars ($ 20,000.00) 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 Ten Thousand Dollars ($ 10,000.00).

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 one eighth (1/8) 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

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:

While this agreement is in force, if any party contracts for 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 be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. 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 Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. 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 Twenty Thousand Dollars ($ 20,000.00) 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 in force and effect

tinued 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 90 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 90 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:

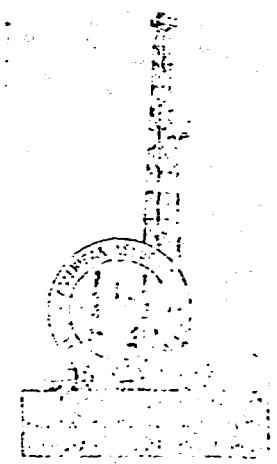
This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, 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

A. DEPARTMENT OF ENERGY REGULATIONS: Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Operator's interpretations or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Operator for their proportionate share of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with Non-Operator's proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.



BASS ENTERPRISES PRODUCTION C(
Bass State#13-1
660' FNL-510' FEL
Section 13 - T16S-R36E
Lea County, New Mexico

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 10 day of August, 1981.

OPERATOR

ATTEST

By: Wm. Arthur Hamilton
BASS ENTERPRISES RPODUCTION CO.

NON-OPERATORS

ATTEST

By:
PANTHER CITY INVESTMENT COMPANY
Trustee of the Hyatt Anne Bass
Successor Trust

ATTEST

By:
PANTHER CITY INVESTMENT COMPANY
Trustee of the Samantha Simms Bass
Successor Trust

ATTEST

SID R. BASS

ATTEST

ROBERT M. BASS

ATTEST

By:
LEE M. BASS 1976 TRUST, Perry R. Bass, Trustee

ATTEST

By:
FINE LINE, INC.

ATTEST

ROY G. BARTON, JR.

ATTEST

By: F/O To BLANKS
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES Pool

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS Pool

ATTEST

By:
REBEL OIL COMPANY

ATTEST

J. H. VAN ZANT, II

ATTEST

F/O TO BASS; BACK-IN APO
E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

ATTEST

By:
SUNMARK EXPLORATION COMPANY Pool

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & Pool
SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo
Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC. Pool

ATTEST

By:
THE EVOLUTION CORP.

ATTEST

ATTEST

By: ✓
W. C. BLANKS

ATTEST

By: ✓
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST

By: ✓
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST

F/D To BASS. BACK A PO
DOROTHY VAN ZANT SANDERS

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

BASS ENTERPRISES PRODUCTION CO
Bass State#13-1
660' FNL-510' FEL
Section 13 - T16S-R36E
Lea County, New Mexico

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By:
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

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By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

K. V. Rowe
ATTEST

J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

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HARRY A. MILLER, JR.

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WILLIAM J. PARSONS

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By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

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By:
TRANSCONTINENTAL OIL CORP.

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Lois L. Hinnen
ATTEST

Harry A. Miller Jr
HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

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E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

Patricia M. Elam
ATTEST

William J Parsons for
~~WILLIAM J. PARSONS~~
Machpane Energy

ATTEST

By:
SUNMARK EXPLORATION COMPANY

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FERNANDA DE MOHRENSCHILDT HASTIE

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ATTEST

By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

ATTEST

J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

ATTEST

By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST &
SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo
Merrick

LaVerne Allen
ATTEST Asst. Secretary

TREXCO 79-3, A LIMITED PARTNERSHIP
Transcontinental Exploration
Company, Inc., General Partner

By: George W. Head
George W. Head, Vice President-
Land

ATTEST

By:
AMERICAN CRUDE, INC.

By:

ATTEST

By: Joe D. Miller Jr.
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

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SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo
Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC.

ATTEST

By:
THE EVOLUTION CORP.

By: _____
W. C. BLANKS

ATTEST

By: _____
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST

By: _____
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST

_____
DOROTHY VAN ZANT SANDERS

ATTEST

ATTEST

By:
W. C. BLANKS

ATTEST DAVID H. STARK
Asst. Vice President
& Trust Officer

By: Bill J. Hill SENIOR VICE PRESIDENT AND TRUST OFFICER
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST DAVID H. STARK
Asst. Vice President
& Trust Officer

By: Bill J. Hill SENIOR VICE PRESIDENT AND TRUST OFFICER
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST

DOROTHY VAN ZANT SANDERS

EXHIBIT "A"
TO JOINT OPERATING AGREEMENT DATED EFFECTIVE
AUGUST 10, 1981, BETWEEN
BASS ENTERPRISES PRODUCTION CO., AS OPERATOR
AND OTHER PARTIES, AS NON-OPERATORS

I. Lands Subject to the Agreement: N/2 NE/4, Section 13, T16S-R36E, Lea County, New Mexico

II. Restrictions as to Depths or Formations: This Agreement applies from the surface down to the base of the Strawn Formation.

III. Interest of the Parties:

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Panther City Investment Company, Trustee of the Hyatt Anne Bass Successor Trust	2.681214	3.351517	2.661682	3.327103
Panther City Investment Company, Trustee of the Samantha Sims Bass Successor Trust	2.681213	3.351517	2.661683	3.327102
Sid R. Bass 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5.027275	3.992523	4.990654
Robert M. Bass 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5.027275	3.992523	4.990654
Lee M. Bass 1976 Trust Perry R. Bass, Trustee 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5.027275	3.992523	4.990654

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Fine Line, Inc. 3100 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021821	5.027274	3.992524	4.990653
Roy G. Barton, Jr. P.O. Box 978 Hobbs, New Mexico (505) 393-5515	.187988	.234985	.187988	.234985
Felmont Oil Corporation Box 2266 Midland, Texas 79702 (915) 682-5231	4.500000	5.625000	4.500000	5.625000
Heritage Resources P.O. Box 777 Davis, Oklahoma 73030 (405) 369-2313	2.000000	2.500000	2.000000	2.500000
Petroleum Corporation of Texas P.O. Box 911 Breckenridge, Texas 76024 (817) 559-3355	2.666667	3.333334	2.666667	3.333334
Rebel Oil Company 603 Seco Hobbs, New Mexico (505) 393-8097	.141601	.177002	.141601	.177002
J.H. Van Zant, II 1722 Commerce Bldg. Fort Worth, Texas (817) 332-3757	.625000	.781250	.625000	.781250
E.B. White, Jr. P.O. Box 2052 Midland, Texas 79702 (915) 682-4434	.989583	1.236979	.989583	1.236979

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Harry A. Miller, Jr. 600 First National Bank Bldg. Midland, Texas 79701 (915) 682-8731	.989583	1.236979	.989583	1.236979
William J. Parsons 219 North Main Midland, Texas 79701 (915) 683-3060	.833334	1.041667	.833334	1.041667
Sunmark Exploration Company Suite 824 C & K Building Midland, Texas 79701 (915) 684-0051	5.333334	6.666667	5.333334	6.666667
Fernanda de Mohrenschildt Hastie c/o J. Drayton Hastie Rt. 4 "Ravenswood" Charleston, S. Carolina 29407	.141601	.177002	.141601	.177002
Bank of America National Trust and Savings Association, Trustee for the Benefit of Faith McAdoo Merrick P.O. Drawer EE Santa Barbara, California 93102 (805) 963-1466	.141601	.177002	.141601	.177002
Transcontinental Oil Corp. (TREXCO 79-3) 1400 First National Bank Tower Shreveport, Louisiana 71101 (318) 222-9511	20.000000	25.000000	20.000000	25.000000
American Crude, Inc. 1700 West Loop South Suite 1110 Houston, Texas 77027 (713) 621-0861	5.000000	6.250000	5.000000	6.250000

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
The Evolution Corp. 600 Blanks Building Midland, Texas 79701 (915) 683-5169	5.000000	6.250000	5.000000	6.250000
W.C. Blanks 600 Blanks Building Midland, Texas 79701 (915) 683-5169	7.500000	9.375000	7.500000	9.375000
First National Bank of Midland Trustee for Trust No. 1190 P.O. Box 270 Midland, Texas 79702 (915) 685-2000	1.250000	1.562500	1.250000	1.562500
First National Bank of Midland Trustee for Trust No. 1191 P.O. Box 270 Midland, Texas 79701 (915) 685-2000	1.250000	1.562500	1.250000	1.562500
Dorothy Van Zant Sanders 6737 Brants Lane Fort Worth, Texas 67116 (817) 732-0860	-0-	-0-	.156250	.195313
	80.000000	100.000000	80.000000	100.000000

Produ 3 Rev.

EXHIBIT "B"

OIL AND GAS LEASE

This Agreement made and entered into by and between _____

_____,

(hereinafter called Lessor), and _____

_____,

(hereinafter called Lessee).

Witnesseth that Lessor, for and in consideration of TEN DOLLARS ($10.00) cash in hand paid and other valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained to be paid, kept and performed by Lessee, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto Lessee, for the sole and only purpose of exploring, drilling, mining and producing oil and gas and laying pipe lines and building tanks, power stations and structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of _____, State of _____, described as follows, to-wit:

_____

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

Subject to the other provisions herein contained, this lease shall remain in force for a term of _____ years from this date, and as long thereafter as oil or gas, or either of them, is produced in commercial quantities from said lands by Lessee.

In consideration of the premises Lessee covenants and agrees:

To deliver in kind, free of cost, at the wells or to the credit of Lessor in the pipe lines or tanks to which the wells may be connected, the equal 1/4 part of all oil produced and saved from said leased premises.

And to pay Lessor 1/4 of the value of all raw gas at the mouth of the well, for gas sold at the well or sold or used off the premises, or for the extraction of gasoline or other products, payment for gas so used or sold to be made monthly. Lessor shall have gas free of cost from any gas well on said premises for all stoves and lights in the principal house on said land.

If the actual drilling of a well has not been commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless Lessee on or before that date shall pay or tender to Lessor, or to Lessor's credit in the First National Bank at Breckenridge, Texas, or its successors, which shall continue as the depository regardless of changes in the ownership of said lands, the sum of _____ _____ DOLLARS ($_____), which shall operate as a rental and cover the privilege of deferring the commencement of a well for a period of one year from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for one year periods during the primary term hereof.

If Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid Lessor only in the proportion which its interest bears to the whole undivided fee. This clause does not apply to rentals payable hereunder.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from the wells of Lessor. When requested by Lessor, Lessee shall bury its pipe lines below plow depth. No well shall be drilled nearer than 200 feet to any building now on said premises, without the written consent of Lessor. Lessee shall pay for damages caused by its operation on said land.

Lessee shall at all times protect the leased premises from drainage by wells on other properties and whenever oil or gas has been discovered in commercial quantities, Lessee shall reasonably develop the leased premises.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing; provided that Lessor reserves the option to pay salvage value of such casing and take over any well proposed to be plugged.

If Lessee shall commence drilling a well within the primary term of this lease or any extension thereof, Lessee shall have the right to drill such well to completion with reasonable diligence and dispatch and, if oil or gas or either of them be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the primary term.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or part is expressly allowed - the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns; but no change of ownership shall be binding on either party until the other has been furnished with a true copy of the deed or assignment within 30 days of the date of the change of ownership.

Lessee shall, during the drilling of any wells on the leased premises, furnish Lessor daily drilling reports, copies of all logs run, copies of reports and forms filed with the State regulatory bodies in connection with such wells, well locations, date of completion and abandonment. Lessee shall also furnish Lessor copies of any title opinions or title reports which Lessee may obtain on the leased premises.

In the event Lessor defaults in payment of any taxes, liens or other encumbrances on the above described lands then, in such event, Lessee shall have the right at any time to pay same and thus be subrogated to the rights of the owner or holder of such indebtedness.

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

Executed and effective this the _____ day of _____, 19 ____.

Attest: _____ By: _____

Secretary President

THE STATE OF TEXAS)

COUNTY OF _____)

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said _____, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, This _____ day of _____, 19 ____.

(Seal)

My Commission Expires: _____

_____

Notary Public, _____ County, Texas.

BM

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

EXHIBIT "C"

Attached to and made a part of Joint Operating Agreement Dated August 10, 1981, Between Bass Enterprises Production Co., as Operator, and Other Parties, 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%)~~. the percentage recomended by COPAS from time to time.

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:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 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 $ 3,500.00
Producing Well Rate $ 350.00

(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 BE NEGOTIATED, IF NEEDED.

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

A. _____% of total costs if such costs are more than $_____ but less than $_____; plus

B. _____% of total costs in excess of $_____ 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.

EXHIBIT "D"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators

With respect to all operations conducted hereunder on the Unit Area by the Operator for the joint account of the parties hereto, Operator shall maintain in effect the following insurance coverage:

Kind	Policy Form	Minimum Limits of Liability
Workmen's Compensation	Statutory	Statutory
Employer's Liability		$500,000 each accident
Comprehensive	Comprehensive	B.I. ($1,000,000 each accident) ($1,000,000 aggregate) P.D. ($1,000,000 each accident) ($1,000,000 aggregate)
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($1,000,000 each person) ($1,000,000 each accident) P.D. ($1,000,000 each accident)

Upon request, Operator shall furnish Non-Operator with a certificate evidencing such insurance coverage.

Losses not covered by insurance required by this Agreement to be carried for the benefit and at the expense of the parties hereto shall be charged to the joint account.

If the parties hereto or any of them shall insure their respective risks beyond the specific limits of insurance required hereunder to be carried by the parties, the benefits of such insurance shall inure to the parties procuring and maintaining the same, respectively, and the cost of such insurance shall be borne by such parties, respectively, without reimbursements one from the other and without entering into any accounting hereunder.

EXHIBIT "E"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

GAS STORAGE AGREEMENT

The parties to the Operating Agreement to which this Gas Storage Agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this Storage Agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from the Contract Area or its purchaser is unable to take its share of gas produced from the Contract Area, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such Unit by the applicable governmental authority and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this Gas Storage Agreement is attached but the party or parties taking such gas shall own all of the gas delivered to its or their producer. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost. The Operator will maintain a

current amount of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from any well located within the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party's or parties' share of gas produced from each such well located within the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party's or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in each such well.

In the event production of gas from any well located within the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement as between the parties. Such settlement shall be based upon the price received by the overproduced party or parties for the overproduced gas which was sold by such party in the order of accrual.

It is the intent of the parties hereto that this Gas Storage Agreement be considered a separate agreement as to each well located within the Contract Area.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

FEDERAL PROVISIONS

Operator shall comply with the non-discrimination provisions of Executive Order 11246 dated September 25, 1965, and the regulations promulgated pursuant thereto. Section 202 thereof is hereby incorporated by reference. Operator shall, during the term of this agreement, file all reports required by the aforementioned regulation duly and promptly and shall, upon request, furnish Non-Operators with evidence that such reports have been filed.

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Bank of America National Trust
and Savings Association, Trustee
for the Benefit of Faith McAdoo Merrick
P.O. Drawer EE
Santa Barbara, California 93102

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7345 Exhibit No. 3
Submitted by BASS
Hearing Date 10-16-81

P22 111 732

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE
POSTAGE
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF
CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE
TOTAL POSTAGE AND FEES
POSTMARK OR DATE

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
PAUL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Transcontinental Oil Corp. (TREXCO 79-3)
1400 First National Bank Tower
Shreveport, Louisiana 71101

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 117273

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

SENT TO

STREET AND NO.

P.O., STATE AND ZIP CODE

POSTAGE		$
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE	¢
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	RESTRICTED DELIVERY	¢
OPTIONAL SERVICES	RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED	¢
	SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
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TOTAL POSTAGE AND FEES		$
POSTMARK OR DATE		

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Roy G. Barton, Jr.
P.O. Box 978
Hobbs, New Mexico

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

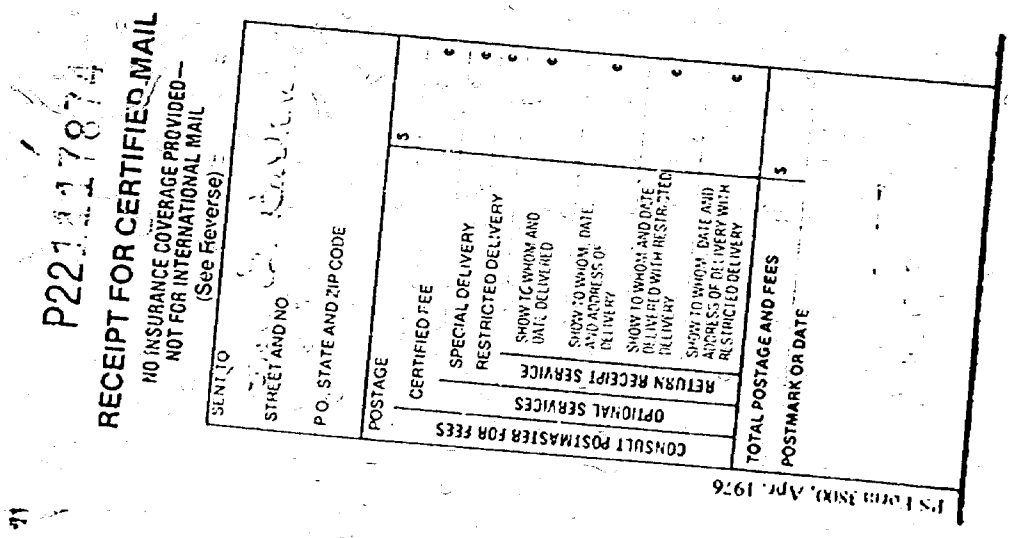
Very truly yours,

William F. Carr

WFC:kb

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October 8, 1981

Felmont Oil Corporation
Box 2266
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 787 5

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE		$
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE	
	SPECIAL DELIVERY	
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OPTIONAL SERVICES	RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED	
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TOTAL POSTAGE AND FEES		$
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PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
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TELECOPIER: (505) 983-6043

October 8, 1981

Heritage Resources
P.O. Box 777
Davis, Oklahoma 73030

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

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SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY

CONSULT POSTMASTER FOR FEES

TOTAL POSTAGE AND FEES $

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CAMPBELL, BYRD & BLACK, P.A.
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October 8, 1981

Petroleum Corporation of Texas
P.O. Box 911
Breckenridge, Texas 76024

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

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You may have an interest that will be affected by the above-referenced case.

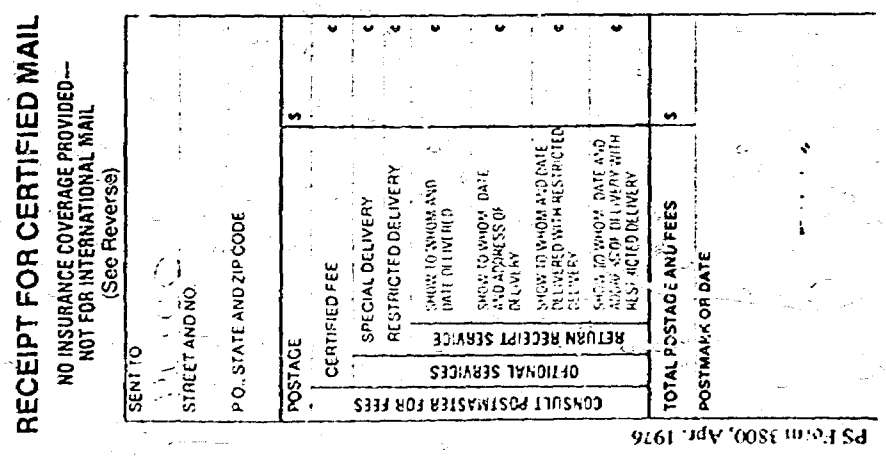
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Rebel Oil Company
603 Seco
Hobbs, New Mexico

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

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You may have an interest that will be affected by the above-referenced case.

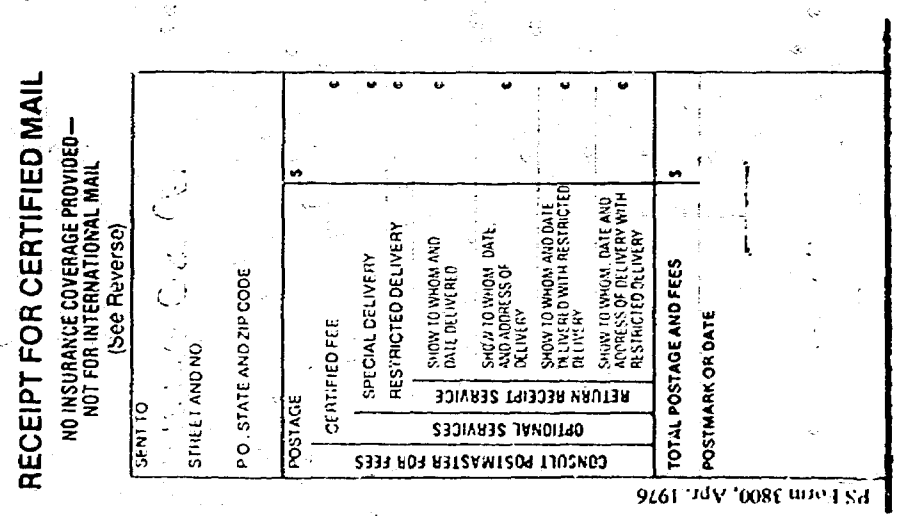
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William F. Carr

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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

J.H. Van Zant, II
1722 Commerce Bldg.
Fort Worth, Texas

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

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William F. Carr

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Enclosure

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SPECIAL DELIVERY

RESTRICTED DELIVERY

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OPTIONAL SERVICES

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SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY

SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY

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TOTAL POSTAGE AND FEES $

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CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
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TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

E.B. White, Jr.
P.O. Box 2052
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

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You may have an interest that will be affected by the above-referenced case.

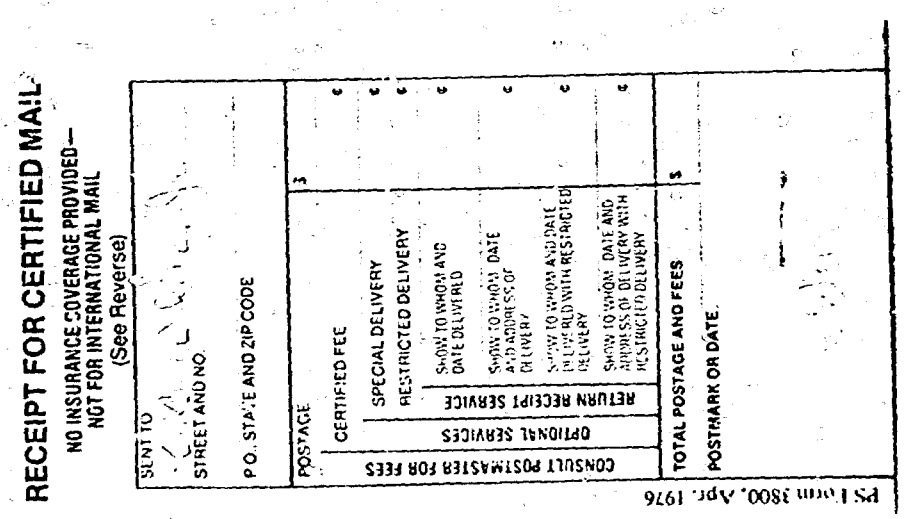
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William F. Carr

WFC:kb

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LAWYERS

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POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Harry A. Miller, Jr.
600 First National Bank Bldg.
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 881

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
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POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
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POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

William J. Parsons
219 North Main
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P 221 117 852

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
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SENT TO

STREET AND NO.

P.O. STATE AND ZIP CODE

POSTAGE		$
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE	¢
	SPECIAL DELIVERY	¢
OPTIONAL SERVICES	RESTRICTED DELIVERY	¢
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	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY	¢
	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES		$
POSTMARK OR DATE		

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CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Sunmark Exploration Company
Suite 824
C & K Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

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You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7883

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

SENT TO
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
CONSULT POSTMASTER FOR FEES	
OPTIONAL SERVICES	
RETURN RECEIPT SERVICE	
SHOW TO WHOM AND DATE DELIVERED	¢
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	

PS Form 3800, Apr. 1976

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Fernanda de Mohrenschildt Hastie
c/o J. Drayton Hastie
Rt. 4 "Ravenswood"
Charleston, S. Carolina 29407

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

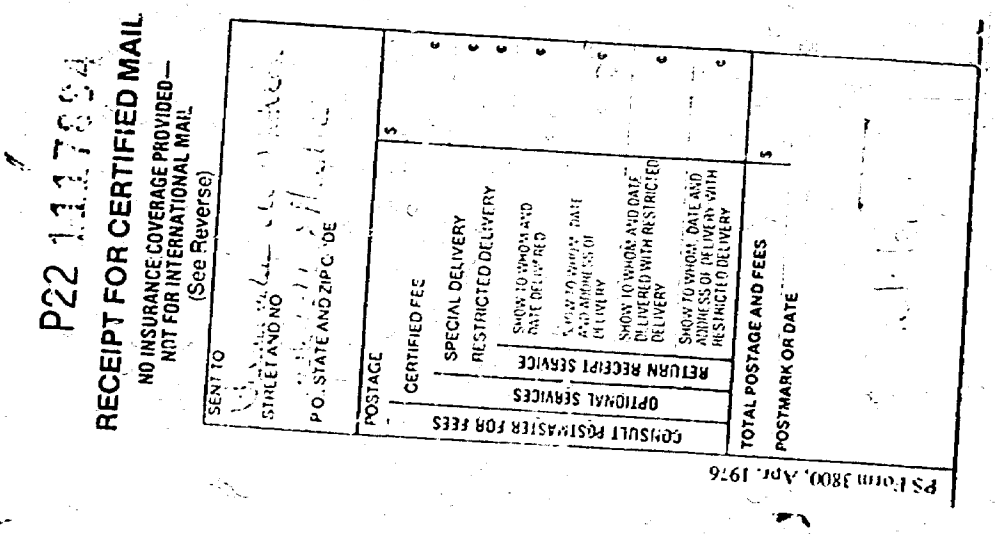
Very truly yours,

William F. Carr

WFC:kb

Enclosure

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SANTA FE, NEW MEXICO 87501
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TELECOPIER: (505) 983-6043

October 8, 1981

American Crude, Inc.
1700 West Loop South
Suite 1110
Houston, Texas 77027

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
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P22 111 885

RECEIPT FOR CERTIFIED MAIL
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(See Reverse)

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STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
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SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

The Evolution Corp.
600 Blanks Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 15, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

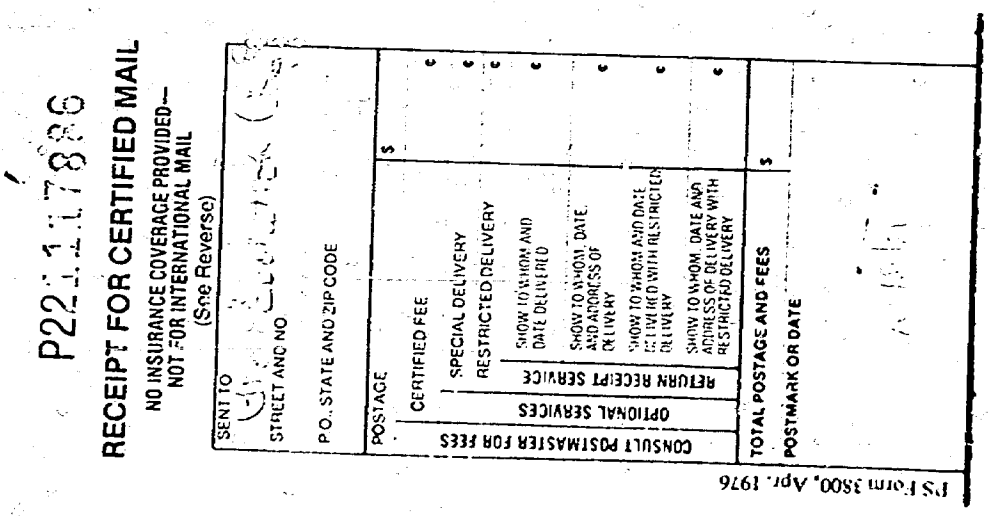
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William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

W.C. Blanks
600 Blanks Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 1117887

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

SENT TO

STREET AND NO.

P.O., STATE AND ZIP CODE

POSTAGE		$
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE	¢
	SPECIAL DELIVERY	¢
	RESTRICTED DELIVERY	¢
OPTIONAL SERVICES	RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED	¢
	SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES		$
POSTMARK OR DATE		

PS Form 3800, Apr. 1976

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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

First National Bank of Midland
Trustee for Trust No. 1190
P.O. Box 270
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 788

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
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(See Reverse)

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
OPTIONAL SERVICES
CONSULT POSTMASTER FOR FEES
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

First National Bank of Midland
Trustee for Trust No. 1191
P.O. Box 270
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:ko

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7889

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

SENT TO
STREET AND NO.
P.O., STATE AND ZIP CODE

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	¢
OPTIONAL SERVICES: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
OPTIONAL SERVICES: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
CONSULT POSTMASTER FOR FEES: TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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HARL D. BYRD
BRUCE D. BLACK
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Dorothy Van Zant Sanders
6737 Brants Lane
Fort Worth, Texas 67116

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

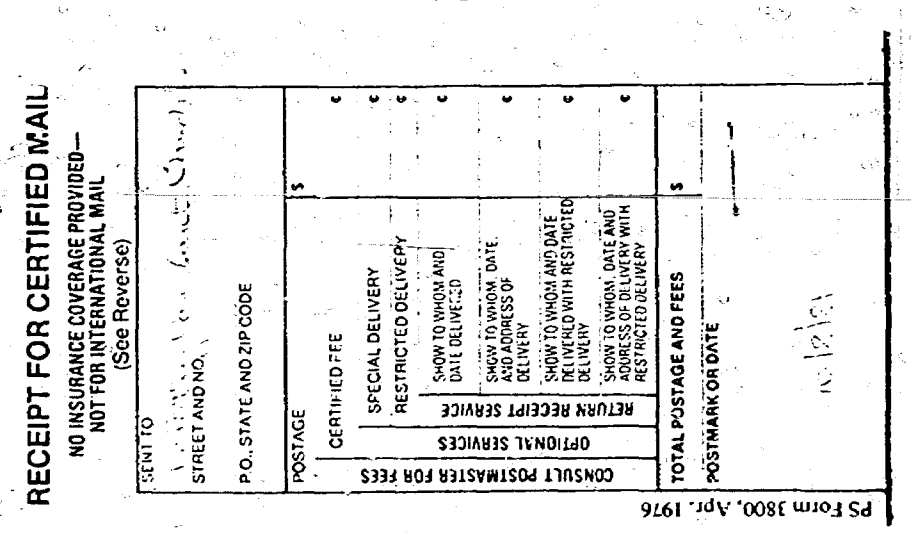
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

September 30, 1981

WORKING INTEREST OWNERS

Re: Bass State #13-1
N/2 NE/4, Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

As I am sure you are aware, both Bass Enterprises Production Co. and W. C. Blanks Energy Corporation have proposed a Strawn Test Well to be located at a legal location in the NE/4 NE/4 of Section 13. Due to a dispute with Blanks concerning several provisions in their Operating Agreement, it was necessary for Bass to file for a Compulsory Pooling Application with the New Mexico Oil Conservation Division in an attempt to have Bass named as Operator. The date of the scheduled Hearing is to be October 16, 1981, in Santa Fe, New Mexico. Through discussions with Blanks, et al, an agreement was reached by both Parties to let Bass operate the subject Well. Bass has scheduled a drilling rig which is to move on location by October 16th (17 days). Therefore, it will be necessary for Bass to have all executed signature pages and AFE's in hand by Wednesday, October 14th or we shall be compelled to go ahead as planned with the Compulsory Pooling Hearing.

In the event you should desire not to participate, Bass is prepared to farmin your interest subject to a 1/16 of 8/8 Overriding Royalty (you will deliver Bass not less than 75% Net Revenue Interest) with the option to convert said override to a 50% Working Interest at pay out.

Again, I must emphasize the need to transmit executed signature pages and AFE's to our office on or before October 11, 1981.

If you should have any questions concerning the above, please do not hesitate to contact me at (817) 335-4591.

Sincerely,

MICHAEL L. JOSEPH
Landman

MLJ:ep

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7345 Exhibit No. 2
Submitted by BASS
Hearing Date 10-16-81

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 25, 1981

WORKING INTEREST OWNERS

Re: Bass State #13-1
(formerly Montieth C No. 1)
N/2 NE, Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Due to expressed confusion on the part of several Working Interest Owners relative to the above captioned Well, it is the intent of this letter is to clarify said confusion.

Under letter dated February 2, 1981, you were forwarded an Operating Agreement dated January 30, 1981, naming Bass as Operator, with language to provide for the drilling of a Strawn Well located 660' FNL and 810' FEL on or before June 1, 1981. At the request of W. C. Blanks, et al, several changes were made to the Agreement as to well location and formation. You were informed of same under letter dated March 2, 1981.

Additionally, we anticipated using the same rig to drill the Montieth C No. 1 as was being used to drill the Montieth B No. 1. As a result of the additional time needed for drilling the Montieth B No. 1 and Blanks request to move the Well location to 660' FNL and 1830' FEL of Section 13, the Operating Agreement was allowed to expire. Subsequently, W. C. Blanks has proposed the drilling of a Strawn Well to be located 660' FNL and 660' FEL, but under terms and conditions of an Operating Agreement that are unacceptable by Bass and deviate from normal industry standards.

On August 11, 1981, Bass Enterprises Production Co. submitted a new Operating Agreement to the Working Interest Owners to provide for a Well located 660' FNL and 510' FEL of Section 13. Since it is to be located on a State Lease No. LG-6347, it has been renamed the Bass State #13-1, rather than Montieth C No. 1.

I hope this explanation eliminates any confusion on your part, and if you should have any questions, please do not hesitate to contact me at (817) 335-4591.

Sincerely,

Michael L. Joseph

MICHAEL L. JOSEPH
Landman

MLJ:ep

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 19, 1981

Working Interest Owners

Re: Bass State #13-1
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Pursuant to Jens Hansen's letter dated August 11, 1981, enclosed for your review you will find two (2) copies of an AFE covering the above referenced well. If the AFE meets with your approval, please indicate so by signing one copy and returning same to the attention of the undersigned as soon as possible.

If you should have any questions concerning the above, please do not hesitate to contact me.

Sincerely,

Michael L. Joseph
Landman

MJ:dc
Enclosure

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August 19, 1981

Working Interest Owners

Re: Bass State #13-1
N/2 NE/4 Section 13, T16S-R35E
Lea County, New Mexico

Gentlemen:

Pursuant to Jens Hansen's letter dated August 11, 1981, enclosed for your review you will find two (2) copies of an AFE covering the above referenced well. If the AFE meets with your approval, please indicate so by signing one copy and returning same to the attention of the undersigned as soon as possible.

If you should have any questions concerning the above, please do not hesitate to contact me.

Sincerely,

Michael L. Joseph
Landman

MJ:dc
Enclosure

PRB 25% BEPCO 75%
(Company)

AUTHORITY FOR EXPENDITURE-
PRODUCTION AND EXPLORATION

Division	Department	District		Outside Operator AFE No.
WEST TEXAS	PRODUCTION	WEST TEXAS		AFE #

AFE TYPE CODE

- [X] Drilling
- [ ] Wildcat
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sale
- [ ] Construction
- [ ] Workover
- [ ] Leasehold Purchase
- [ ] Farm-in
- [ ] Geophysical
- [ ] DHC or BHC

API CLASSIFICATION 6

Proj. Well Type: OIL Est. Total Depth: 11,400' Pac. No.:

Co. Land Lease No.: 11463-04 Lease Name: BASS STATE 13 Well No.: 1

State: NEW MEXICO County: LEA Area or Field: NE LOVINGTON PENN

Location: 660'FNL & 510' FEL, SEC 13, T16S, R36E

Formation: STRAWN Type Well (Oil/Gas) or Activity: OIL

Reason for Expenditure: DEVELOP PROVEN ACREAGE

Obligations:

Location Meets: [X] Statewide Rules [ ] Field Rules Field Spacing Pattern ____ Acres This Well 80 Acres

If Joint Interest, Project Subject to: [ ] Carried Int. [ ] Net Profit Int. [ ] Right to Convert to W.I.

Operating Owner & W.I.: BASS 27.1660% Joint Owners' Agreement No.:

Other Joint Owners & W.I.: 72.8340% Company Cost in U.S. Funds (outside USA only):

Company Working Interest: 27.1660% Revenue Interest: 21.7328%

COMPLETED COST	Total	Joint Owners	Co. Net
Intangible.....	578,500	421,345	157,155
Tangible.....	268,500	195,559	72,941
Lse. Equip & Inst'l	13,000	9,468	3,532
TOTAL	860,000	626,372	233,628

EXPLORATION, ETC. COST			

DRY HOLE COST	Total	Joint Owners	Co. Net
Intangible.....	510,100	371,526	138,574
Tangible.....	43,000	31,319	11,681
TOTAL....	553,100	402,845	150,255
Less: Dry Hole Contribution			
TOTAL	553,100	402,845	150,255

RETIREMENT COST			
Cost of Removal			
Salvage/Recovery			
Total Net Cost or (Recovery)...			

Proposed Starting Date: ____ Estimated Completion Date: ____

Lease Expiration Date: ____ Drilling Obligation Date: ____

Net Reserves: ____ BBLS ____ MMCF ____ NEB. Avg. Price: $ ____ /BBL $ ____ /MMCF

Economic Parameters (Risk ADJ. AFIT): P.W. Profit @ 8% $ ____ % ____ ROR(%) ____

Payout (YRS) ____, Project Life (YRS): ____ Success Prob. (%) ____ Investment: $/NEB ____

Avg. Net Producing Rate During Payout: ____ B/D ____ MCF/D

REMARKS

JOINT OWNER'S APPROVAL

COMPANY ____

BY ____

DATE ____

APPROVALS

		DATE
DISTRICT		
DIVISION	J. E. Bruning	8-17-81
LAND		
ACCOUNTING		
PRODUCTION		
EXPLORATION		
FORT WORTH OFFICE		

AFE DRILLING COST ESTIMATE

WELL BASS STATE 13-1

INTANGIBLE DRILLING COST ESTIMATE

	ESTIMATED	
LOCATION		
Surface Damages		
Surveyors & Equipment	300	
Location Construction	15,000	
Road Construction/Easements		
Rathole, Mousehole, Conductor	2,500	
Liner	2,000	
ABANDONMENT		
Recover Casing		
Cement		
RIG		
MIRU-RD-MO	40,000	
Footage ____ ft. @ $ ____ /ft.		
W/WD 35 days @ 6,900 /day	241,500	
W/O DP ____ days @ ____ /day		
SURFACE CASING SERVICES		
Inspection of pipe		
Casing Crew/Equipment	1,000	
Tong Operator/Equipment		
Float Equipment	300	
Centralizers/Scratchers	300	
Cement (Equipment & Services)	5,500	
FIRST INTERMEDIATE CASING SERVICES		
Inspection of pipe	2,500	
Casing Crew/Equipment	2,000	
~~Tong Operator/Equipment~~ Caliper	1,800	
Float Equipment Includes 8-5/8" DV Tool	7,000	
Centralizers/Scratchers	200	
Cement (Equipment & Services)	15,000	
SECOND INTERMEDIATE CASING/LINER SERVICES		
Inspection of pipe		
Casing Crew/Equipment		
Tong Operator/Equipment		
Float Equipment		
Centralizers/Scratchers		
Cement (Equipment & Services)		
BITS		
1 x 15" milltooth RT	500	
1 x 11" Insert @ 4,600	4,600	
7 x 7-7/8" Ipsert @ 3,600	25,200	
BHA		
1 x 15" blade reamer	600	
1 x 11" shock sub	1,000	
3 x 11" blade stabilizers @ 700	2,100	
6 x 7-7/8" blade stabilizers @ 500	3,000	
DRILLING FLUIDS		
Water	20,000	
Trucking & Pumping	5,000	
Mud Materials	25,000	
Corrosion Control	5,000	
TRANSPORTATION 11-3/4" csg., 8-5/8" csg.	3,500	
FUEL 35 days @ 700 /day	24,500	
LABOR & SUPPLIES	2,000	
COMPANY SUPERVISION 35 days @ 250 /day	8,750	
RENTALS		
2 x BOP yellow jacket tests	1,500	
500 bbl. tank	700	
PVT	2,500	
Flowshoe	2,500	
LD Machine	3,000	
OTHER		
TOTAL	477,100	

INTANGIBLE FORMATION EVALUATION COST ESTIMATE

WIRELINE LOGS		
FDC-CNL	24,000	
DLL-Rxo-SP		
DRILL STEM TESTS		
CORES/SIDEWALL CORES		
Wireline Service		
Core Barrel and Head Rental		
Analysis		
MUD LOGGING 20 days @ 350 /day	7,000	
CONSULTING GEOLOGIST		
COMPANY SUPERVISION 5 days @ 250 /day	1,250	
RENTALS		
Test Sep. 20 days @ 50	1,000	
OTHER		
TOTAL	33,000	

INTANGIBLE COMPLETION COST ESTIMATE

RIG/WELL SERVICE UNIT		
5 days @ 1,000 /day	5,000	
RENTALS		
Work String		
Drill Collars		
BOP's & Adapter Flange	1,500	
Tanks 2 x 500 bbl.	1,500	
Reverse Unit		
Power Tongs		
Catwalk	400	
Anchors	400	
Pipe Rack	400	
Accumulator	1,500	
PRODUCTION CASING/LINER SERVICES		
Inspection of pipe	4,500	
Casing Crew/Equipment	3,500	
Tong Operator/Equipment		
Liner/Float Equipment	500	
Centralizers/Scratchers	500	
Cement (Equipment & Services)	10,000	
PRODUCTION TUBING SERVICES		
Inspection		
~~Internal Coating~~ Ruff cote 5-1/2" @ 2.35/ft.	1,200	
Pressure Testing	2,500	
MUD/COMPLETION FLUID		
KCl wtr.	2,000	
BITS		
TRANSPORTATION 5-1/2" csg., 2-3/8" tbg.	3,500	
FUEL days @ /day		
LABOR AND SUPPLIES Misc.	1,000	
~~RIGHT OF WAY~~ Misc. lease work	2,500	

ELECTRICAL CONTRACT WORK		
COMPANY SUPERVISION 10 days @ 250 /day	2,500	
COMPLETION/PRODUCTION LOGGING		
CCL-GR	2,500	
PERFORATING		
10 shots select fire	2,500	
SQUEEZE CEMENTING		
WIRELINE WORK		
Set Packer	1,500	
Misc. wireline work	2,500	
TREATING		
1 x 10,000 gal. 7-1/2% HCl acid	7,500	
N_2 & CO_2		
PRODUCTION TESTING		
10 days test sep. @ 50 each	500	
OTHER		
4 pt. BHP	2,500	
TOTAL	68,400	

TANGIBLE DRILLING COST ESTIMATE

CONDUCTOR CASING		
SURFACE CASING		
30' x 16" X-42 line pipe @	400	
360' x 11-3/4" 42 #/ft., H-40 csg.	7,400	
FIRST INTERMEDIATE CASING		
4,900 x 8-5/8", 24 #/ft., S-80, ST&C	36,000	
SECOND INTERMEDIATE CASING OR LINER		
INTERMEDIATE LINER HANGER		
SURFACE CASING HEAD	1,200	
INTERMEDIATE CASING HEAD		
OTHER		
TOTAL	64,100	

TANGIBLE COMPLETION COST ESTIMATE

PRODUCTION CASING/LINER		
11,300 x 5-1/2", 17 #/ft., N-80, LT&C	125,500	

PRODUCTION TUBING		
11,300" x 2-3/8", 4.7 #/ft., N-80	55,000	
ABC modified couplings @ 8.10 each	3,100	
TUBING HEAD W/VALVES	7,000	
CHRISTMAS TREE	7,500	
PRODUCTION EQUIPMENT		
Rods and Sinker Bars		
Bottom Hole Pump		
Tubing Anchor		
Packer & Seal Assembly	3,500	
Polish Rod		
Other		
2-3/8" pups	1,000	
Wellhead safety valve W/controller	1,800	
TOTAL	204,400	

LEASE EQUIPMENT		
Pump Jack		
Engine/Motor		
Transformer & Switch Gear		
Electric Line		
Jack Base & Set		
Well Head Connections	300	
Flow Lines	2,000	
Water Disposal Equipment 1 x 200 bbl. fiberglass	3,500	
Tanks 1 x 500 bbl. welded steel	4,500	
Heater w/sep.		
Separator		
Dehydrator		
Fittings	2,000	
Other		
TOTAL	13,000	

AFE COST ESTIMATE SUMMARY

	(ESTIMATED)			
	DRY HOLE	COMPLETED	DRY HOLE	COMPLETED
INTANGIBLE				
Drilling	477,100	477,100		
Formation Evaluation	33,000	33,000		
Completion		68,400		
SUBTOTAL	510,100	578,500		
TANGIBLE				
Drilling	43,000	64,100		
Completion		204,400		
SUBTOTAL	43,000	268,500		
Lease Equipment Total		13,000		
TOTAL	553,100	860,000		

BASS ENTERPRISES PRODUCTION CO.
FORT WORTH NATIONAL BANK BUILDING
FORT WORTH, TEXAS 76102

August [illegible], 1981

Blanks Energy Corporation
600 Blanks Building
Midland, Texas 79701

Re: State #13-1 Well
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Attention: John Elphic

Dear Sir:

Confirming our conversation concerning your proposal to drill the referenced well, the Operating Agreement dated July 13, 1981 which you submitted to the Working Interest Owners contains several provisions which are unacceptable. It is my understanding from our conversation that Blanks Energy Corporation is not willing to allow Bass to operate the well under the Operating Agreement which we have used on the wells previously drilled in Section 13. Moreover, you advised us that you were only willing to drill the well if the Operating Agreement you have submitted is executed in its current form.

Since it appears that Bass and Blanks will be unable to reach an agreement to drill this well, we have filed a Pooling Application with the New Mexico Oil Conservation Division for a hearing of this dispute. In the interim we have prepared and have forwarded Operating Agreements and AFE's to the Working Interest Owners which proposes the drilling of an 11,600' Strawn test to be drilled 510' from the East line and 660' from the North line of Section 13. In the hope that you will reconsider your position, we are enclosing an Operating Agreement for your review. Our estimated well costs are $557,100 for a dry hole and $860,000 for a completed well. We are perparing an AFE and will forward same to you for your review in the next few days. After reviewing your AFE it appears that certain costs for fuel, equipment rental, mud, cementing, chemicals, and survey and testing have either been omitted or underestimated. As a result we estimate your completed well costs could be in excess of $900,000.

In addition to the above, there currently exists tankage and treatment facilities which have the capacity to treat and store the production from this proposed well which could result in a savings to the participating parties.

For these reasons we consider our operations to be in the best interests of the participating parties. We urge you to reconsider your position and we will be available at your convenience to discuss the matter in detail.

Yours very truly,

Jens Hansen
Landman

JH/bb

BASS ' ERP' ES PRODUCTION CO.
F WOR' .TIONAL BANK BUILDING
FC ORTH, TEXAS 76102

August 11, 1981

Working Interest Owners

Re: Bass State # 13-1
N/2 NE/4 Section 13, T16S-R36E
Lea County, New Mexico

Gentlemen:

Under letter dated July 21, 1981, Blanks Energy Corporation proposed the drillin of an 11,600' test well to be drilled at a location 660' from the North and Eas lines of Section 13.

Enclosed with the Blanks letter was an Operating Agreement dated July 13, 1981, covering the N/2 of the SE/4 of Section 13. After reviewing their proposed Operating Agreement it is our position that a number of the provisions are unacceptable, namely the penalty for non-consenting parties, abbreviated election periods, excessive expenditure for single projects, excessive interest for amounts not paid within the 15 day period, and excessive overhead fixed rates for drilling and producing wells. We advised Blanks Energy that the Operating Agreement, in its proposed form, is unacceptable and requested that Blanks allow Bass Enterprises Production Co. to drill, complete, and operate this well under our Operating Agreement. In addition, Bass has existing tankage and treatment facilities which have the capacity to treat and store production from the proposed well which could result in a savings to the Participating Parties. Based on these factors, it is our position that Bass Enterprises Production Co. should be named Operator of this well.

Therefore, we propose the drilling of the referenced well to be located 510' from the East line and 660' from the North line in Section 13, to be drilled to an approximate depth of 11,600' to test the Strawn Formation. We estimate the well costs to be approximately $557,100 for a dry hole and $860,000 for a completed well. We are currently preparing an AFE and will forward same to you in the next few days for your review and signature.

Enclosed for your review is an Operating Agreement which we have prepared with essentially the same terms and provisions as the Operating Agreements used to drill the Montieth #1, #A-1 (formerly the Montieth #2), and #B-1 (formerly the Montieth #3), all drilled on Section 13.

Since Blanks has not agreed to either allow Bass to operate under its Operating Agreement or revise its Operating Agreement to provide for more reasonable terms, we have filed a Pooling Application with the New Mexico Oil Conservation Division with all of the Working Interest Owners under the referenced lands named as Respondents. As a result, you will receive a Notice of Hearing in the next few days advising you the date the hearing will occur. If you are interested in participating in this well with Bass as operator, please sign the extra signature page to the enclosed Operating Agreement and return same to us at your earliest opportunity and you will be dismissed from the

Pooling proceedings. Please understand and be assured that the filing of the Pooling Application in no way suggests or infers that you are unwilling to participate or make other arrangements with us for the drilling of this well. The Pooling action, unfortunately, has been made necessary due to the Operating Agreement and operations problems, and our uncertainty as to which parties will agree to participate under our Operating Agreement.

Your earliest attention in this matter will be greatly appreciated. If you should have any questions regarding this matter, please advise at your convenience.

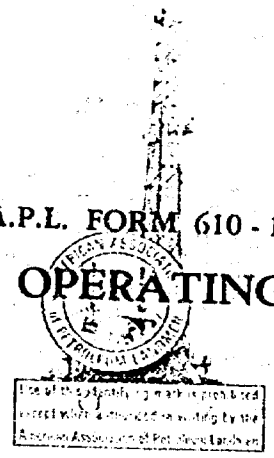
Yours very truly,

Jens Hansen
Division Landman

JH/bb
Enclosure

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

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

August 10, 19 81,

OPERATOR BASS ENTERPRISES PRODUCTION CO.

CONTRACT AREA N/2 NE/4, Section 13 - T16S-R36E

COUNTY OR PARISH OF Lea County STATE OF New Mexico

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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between BASS ENTERPRISES PRODUCTION CO., 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.~~

☒ 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:

BASS ENTERPRISES PRODUCTION CO. 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 10 day of November, 1981, Operator shall commence the drilling of a well for oil and gas at the following location: 660' FNL and 510' FEL, Section 13, T16S-R36E, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth adequate to test the Strawn Formation, or 11,600', whichever is the lesser depth unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

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, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

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 Twenty Thousand Dollars ($ 20,000.00) 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 Ten Thousand Dollars ($ 10,000.00).

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 one eighth (1/8) 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:

While this agreement is in force, if any party contracts for 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 be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. 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 Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. 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 Twenty Thousand Dollars ($ 20,000.00) 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 in force and effect, or 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.~~

X 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 90 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 90 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

A. DEPARTMENT OF ENERGY REGULATIONS: Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Operator's interpretations or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Operator for their proportionate share of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with Non-Operator's proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

BASS ENTERPRISES PRODUCTION CO
Bass State#13-1
660' FNL-510' FEL
Section 13 - T16S-R36E
Lea County, New Mexico

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 10 day of August, 1981.

OPERATOR

ATTEST

By: Wm. Perkins Hamilton
BASS ENTERPRISES RPODUCTION CO.

NON-OPERATORS

ATTEST

By:
PANTHER CITY INVESTMENT COMPANY
Trustee of the Hyatt Anne Bass
Successor Trust

ATTEST

By:
PANTHER CITY INVESTMENT COMPANY
Trustee of the Samantha Simms Bass
Successor Trust

ATTEST

SID R. BASS

ATTEST

ROBERT M. BASS

ATTEST

By:
LEE M. BASS 1976 TRUST, Perry R. Bass, Trustee

ATTEST

By:
FINE LINE, INC.

ATTEST

ROY G. BARTON, JR.

ATTEST

By: F/O To BLANKS
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

ATTEST

J. H. VAN ZANT, II

ATTEST

F/O TO BASS; BACK-IN APO
E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

ATTEST

By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST &
SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo
Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC.

ATTEST

By:
THE EVOLUTION CORP.

ATTEST

By: ✓
W. C. BLANKS

ATTEST

By: ✓
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST

By: ✓
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST

F/O TO BASS. BACK APO
DOROTHY VAN ZANT SANDERS

BASS ENTERPRISES PRODUCTION CO
Bass State#13-1
660' FNL-510' FEL
Section 13 - T16S-R36E
Lea County, New Mexico

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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 10 day of August, 1981.

OPERATOR

ATTEST

By: Wm. Arthur Hamilton
BASS ENTERPRISES RPODUCTION CO.

NON-OPERATORS

ATTEST

By:
PANTHER CITY INVESTMENT COMPANY
Trustee of the Hyatt Anne Bass
Successor Trust

ATTEST

By:
PANTHER CITY INVESTMENT COMPANY
Trustee of the Samantha Simms Bass
Successor Trust

ATTEST

SID R. BASS

ATTEST

ROBERT M. BASS

ATTEST

By:
LEE M. BASS 1976 TRUST, Perry R.
Bass, Trustee

ATTEST

By:
FINE LINE, INC.

ATTEST

ROY B. BARTON, JR.

ATTEST

By:
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

K. V. Reese
ATTEST

J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

ATTEST

By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC.

ATTEST

By:

ATTEST

By:
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

ATTEST

J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

Lois L. Hanna
ATTEST

Harry A. Miller Jr
HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

ATTEST

By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC.

ATTEST

By:
THE EVOLUTION CORP.

ATTEST

By:
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

ATTEST

J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

Patricia M. Elam
ATTEST

William J Parsons for
~~WILLIAM J. PARSONS~~
Machpane Energy

ATTEST

By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC.

By:

ATTEST

By: _____
FELMONT OIL CORPORATION

ATTEST

By: _____
HERITAGE RESOURCES

ATTEST

By: _____
PETROLEUM CORPORATION OF TEXAS

ATTEST

By: _____
REBEL OIL COMPANY

ATTEST

_____
J. H. VAN ZANT, II

ATTEST

_____
E. B. WHITE, JR.

ATTEST

_____
HARRY A. MILLER, JR.

ATTEST

_____
WILLIAM J. PARSONS

ATTEST

By: _____
SUNMARK EXPLORATION COMPANY

ATTEST

By: Fernanda de Mohrenschildt Hastie
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By: _____
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

ATTEST

By: _____
TRANSCONTINENTAL OIL CORP.

ATTEST

By: _____
AMERICAN CRUDE, INC.

ATTEST

By: _____
THE EVOLUTION CORP.

ATTEST

By:
FELMONT OIL CORPORATION

ATTEST

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HERITAGE RESOURCES

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By:
PETROLEUM CORPORATION OF TEXAS

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J. H. VAN ZANT, II

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HARRY A. MILLER, JR.

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WILLIAM J. PARSONS

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By:
SUNMARK EXPLORATION COMPANY

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FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

TREXCO 79-3, A LIMITED PARTNERSHIP
Transcontinental Exploration Company, Inc., General Partner

LaVerne Allen
ATTEST Asst. Secretary

By: George W. Head
George W. Head, Vice President-Land

ATTEST

By:
AMERICAN CRUDE, INC.

ATTEST Margie W. Williams

By: Joe D. Miller Jr.
FELMONT OIL CORPORATION

ATTEST

By:
HERITAGE RESOURCES

ATTEST

By:
PETROLEUM CORPORATION OF TEXAS

ATTEST

By:
REBEL OIL COMPANY

ATTEST

J. H. VAN ZANT, II

ATTEST

E. B. WHITE, JR.

ATTEST

HARRY A. MILLER, JR.

ATTEST

WILLIAM J. PARSONS

ATTEST

By:
SUNMARK EXPLORATION COMPANY

ATTEST

By:
FERNANDA DE MOHRENSCHILDT HASTIE

ATTEST

By:
BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION, TRUSTEE
To The Benefit of Faith McAdoo Merrick

ATTEST

By:
TRANSCONTINENTAL OIL CORP.

ATTEST

By:
AMERICAN CRUDE, INC.

ATTEST

By: John E. Reid
THE EVOLUTION CORP.

By: _____
W. C. BLANKS

ATTEST

By: _____
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST

By: _____
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST

DOROTHY VAN ZANT SANDERS

ATTEST

By:
W. C. BLANKS

ATTEST

By: Bill J. Hill SENIOR VICE PRESIDENT AND TRUST OFFICER
FIRST NATIONAL BANK OF MIDLAND,
Turstee for Trust No. 1190

ATTEST DAVID H. STARK
Asst. Vice President
& Trust Officer

By: Bill J. Hill SENIOR VICE PRESIDENT AND TRUST OFFICER
FIRST NATIONAL BANK OF MIDLAND
Trustee for Trust No. 1191

ATTEST DAVID H. STARK
Asst. Vice President
& Trust Officer

DOROTHY VAN ZANT SANDERS

ATTEST

EXHIBIT "A"
TO JOINT OPERATING AGREEMENT DATED EFFECTIVE
AUGUST 10, 1981, BETWEEN
BASS ENTERPRISES PRODUCTION CO., AS OPERATOR
AND OTHER PARTIES, AS NON-OPERATORS

I. Lands Subject to the Agreement: N/2 NE/4, Section 13, T16S-R36E, Lea County, New Mexico

II. Restrictions as to Depths or Formations: This Agreement applies from the surface down to the base of the Strawn Formation.

III. Interest of the Parties:

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Panther City Investment Company, Trustee of the Hyatt Anne Bass Successor Trust	2.681214	3.351517	2.661682	3.327103
Panther City Investment Company, Trustee of the Samantha Sims Bass Successor Trust	2.681213	3.351517	2.661683	3.327102
Sid R. Bass 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5,027275	3.992523	4.990654
Robert M. Bass 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5.027275	3.992523	4.990654
Lee M. Bass 1976 Trust Perry R. Bass, Trustee 3200 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021820	5.027275	3.992523	4.990654

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Fine Line, Inc. 3100 Fort Worth National Bank Bldg. Fort Worth, Texas 76102	4.021821	5.027274	3.992524	4.990653
Roy G. Barton, Jr. P.O. Box 978 Hobbs, New Mexico (505) 393-5515	.187988	.234985	.187988	.234985
Felmont Oil Corporation Box 2266 Midland, Texas 79702 (915) 682-5231	4.500000	5.625000	4.500000	5.625000
Heritage Resources P.O. Box 777 Davis, Oklahoma 73030 (405) 369-2313	2.000000	2.500000	2.000000	2.500000
Petroleum Corporation of Texas P.O. Box 911 Breckenridge, Texas 76024 (817) 559-3355	2.666667	3.333334	2.666667	3.333334
Rebel Oil Company 603 Seco Hobbs, New Mexico (505) 393-8097	.141601	.177002	.141601	.177002
J.H. Van Zant, II 1722 Commerce Bldg. Fort Worth, Texas (817) 332-3757	.625000	.781250	.625000	.781250
E.B. White, Jr. P.O. Box 2052 Midland, Texas 79702 (915) 682-4434	.989583	1.236979	.989583	1.236979

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
Harry A. Miller, Jr. 600 First National Bank Bldg. Midland, Texas 79701 (915) 682-8731	.989583	1.236979	.989583	1.236979
William J. Parsons 219 North Main Midland, Texas 79701 (915) 683-3060	.833334	1.041667	.833334	1.041667
Sunmark Exploration Company Suite 824 C & K Building Midland, Texas 79701 (915) 684-0051	5.333334	6.666667	5.333334	6.666667
Fernanda de Mohrenschildt Hastie c/o J. Drayton Hastie Rt. 4 "Ravenswood" Charleston, S. Carolina 29407	.141601	.177002	.141601	.177002
Bank of America National Trust and Savings Association, Trustee for the Benefit of Faith McAdoo Merrick P.O. Drawer EE Santa Barbara, California 93102 (805) 963-1466	.141601	.177002	.141601	.177002
Transcontinental Oil Corp. (TREXCO 79-3) 1400 First National Bank Tower Shreveport, Louisiana 71101 (318) 222-9511	20.000000	25.000000	20.000000	25.000000
American Crude, Inc. 1700 West Loop South Suite 1110 Houston, Texas 77027 (713) 621-0861	5.000000	6.250000	5.000000	6.250000

	Acres	Percentage Before Pay Out	Acres	Percentage After Pay Out
The Evolution Corp. 600 Blanks Building Midland, Texas 79701 (915) 683-5169	5.000000	6.250000	5.000000	6.250000
W.C. Blanks 600 Blanks Building Midland, Texas 79701 (915) 683-5169	7.500000	9.375000	7.500000	9.375000
First National Bank of Midland Trustee for Trust No. 1190 P.O. Box 270 Midland, Texas 79702 (915) 685-2000	1.250000	1.562500	1.250000	1.562500
First National Bank of Midland Trustee for Trust No. 1191 P.O. Box 270 Midland, Texas 79701 (915) 685-2000	1.250000	1.562500	1.250000	1.562500
Dorothy Van Zant Sanders 6737 Brants Lane Fort Worth, Texas 67116 (817) 732-0860	-0-	-0-	.156250	.195313
	80.000000	100.000000	80.000000	100.000000

Produ J Rev.

EXHIBIT "B"

OIL AND GAS LEASE

This Agreement made and entered into by and between _____

_____,

(hereinafter called Lessor), and _____

_____,

(hereinafter called Lessee).

Witnesseth that Lessor, for and in consideration of TEN DOLLARS ($10.00) cash in hand paid and other valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements hereinafter contained to be paid, kept and performed by Lessee, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto Lessee, for the sole and only purpose of exploring, drilling, mining and producing oil and gas and laying pipe lines and building tanks, power stations and structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of _____, State of _____, described as follows, to-wit:

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

Subject to the other provisions herein contained, this lease shall remain in force for a term of _____ years from this date, and as long thereafter as oil or gas, or either of them, is produced in commercial quantities from said lands by Lessee.

In consideration of the premises Lessee covenants and agrees:

To deliver in kind, free of cost, at the wells or to the credit of Lessor in the pipe lines or tanks to which the wells may be connected, the equal 1/4 part of all oil produced and saved from said leased premises.

And to pay Lessor 1/4 of the value of all raw gas at the mouth of the well, for gas sold at the well or sold or used off the premises, or for the extraction of gasoline or other products, payment for gas so used or sold to be made monthly. Lessor shall have gas free of cost from any gas well on said premises for all stoves and lights in the principal house on said land.

If the actual drilling of a well has not been commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless Lessee on or before that date shall pay or tender to Lessor, or to Lessor's credit in the First National Bank at Breckenridge, Texas, or its successors, which shall continue as the depository regardless of changes in the ownership of said lands, the sum of _____ _____ DOLLARS ($_____), which shall operate as a rental and cover the privilege of deferring the commencement of a well for a period of one year from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for one year periods during the primary term hereof.

If Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid Lessor only in the proportion which its interest bears to the whole undivided fee. This clause does not apply to rentals payable hereunder.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from the wells of Lessor. When requested by Lessor, Lessee shall bury its pipe lines below plow depth. No well shall be drilled nearer than 200 feet to any building now on said premises, without the written consent of Lessor. Lessee shall pay for damages caused by its operation on said land.

Lessee shall at all times protect the leased premises from drainage by wells on other properties and whenever oil or gas has been discovered in commercial quantities, Lessee shall reasonably develop the leased premises.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing; provided that Lessor reserves the option to pay salvage value of such casing and take over any well proposed to be plugged.

If Lessee shall commence drilling a well within the primary term of this lease or any extension thereof, Lessee shall have the right to drill such well to completion with reasonable diligence and dispatch and, if oil or gas or either of them be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the primary term.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or part is expressly allowed - the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns; but no change of ownership shall be binding on either party until the other has been furnished with a true copy of the deed or assignment within 30 days of the date of the change of ownership.

Lessee shall, during the drilling of any wells on the leased premises, furnish Lessor daily drilling reports, copies of all logs run, copies of reports and forms filed with the State regulatory bodies in connection with such wells, well locations, dates of completion and abandonment. Lessee shall also furnish Lessor copies of any title opinions or title reports which Lessee may obtain on the leased premises.

In the event Lessor defaults in payment of any taxes, liens or other encumbrances on the above described lands then, in such event, Lessee shall have the right at any time to pay same and thus be subrogated to the rights of the owner or holder of such indebtedness.

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

Executed and effective this the _____ day of _____, 19 _____.

Attest: _____ By: _____

Secretary President

THE STATE OF TEXAS)

COUNTY OF _____)

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said _____, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, This _____ day of _____, 19 _____.

(Seal)

My Commission Expires: _____

_____

Notary Public, _____ County, Texas.

[redacted] 801, [redacted] 74101

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

COPAS

EXHIBIT "C"

Attached to and made a part of Joint Operating Agreement Dated August 10, 1981, Between Bass Enterprises Production Co., as Operator, and Other Parties, 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%)~~ the percentage recomended by COPAS from time to time.

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:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 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 $ 3,500.00
Producing Well Rate $ 350.00

(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 BE NEGOTIATED, IF NEEDED.

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

A. _____% of total costs if such costs are more than $_____ but less than $_____; plus

B. _____% of total costs in excess of $_____ 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.

EXHIBIT "D"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators

With respect to all operations conducted hereunder on the Unit Area by the Operator for the joint account of the parties hereto, Operator shall maintain in effect the following insurance coverage:

Kind	Policy Form	Minimum Limits of Liability
Workmen's Compensation	Statutory	Statutory
Employer's Liability		$500,000 each accident
Comprehensive	Comprehensive	B.I. ($1,000,000 each accident) ($1,000,000 aggregate) P.D. ($1,000,000 each accident) ($1,000,000 aggregate)
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($1,000,000 each person) ($1,000,000 each accident) P.D. ($1,000,000 each accident)

Upon request, Operator shall furnish Non-Operator with a certificate evidencing such insurance coverage.

Losses not covered by insurance required by this Agreement to be carried for the benefit and at the expense of the parties hereto shall be charged to the joint account.

If the parties hereto or any of them shall insure their respective risks beyond the specific limits of insurance required hereunder to be carried by the parties, the benefits of such insurance shall inure to the parties procuring and maintaining the same, respectively, and the cost of such insurance shall be borne by such parties, respectively, without reimbursements one from the other and without entering into any accounting hereunder.

EXHIBIT "E"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

GAS STORAGE AGREEMENT

The parties to the Operating Agreement to which this Gas Storage Agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this Storage Agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from the Contract Area or its purchaser is unable to take its share of gas produced from the Contract Area, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such Unit by the applicable governmental authority and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this Gas Storage Agreement is attached but the party or parties taking such gas shall own all of the gas delivered to its or their producer. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost. The Operator will maintain a

current amount of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from any well located within the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party's or parties' share of gas produced from each such well located within the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party's or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in each such well.

In the event production of gas from any well located within the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement as between the parties. Such settlement shall be based upon the price received by the overproduced party or parties for the overproduced gas which was sold by such party in the order of accrual.

It is the intent of the parties hereto that this Gas Storage Agreement be considered a separate agreement as to each well located within the Contract Area.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F"

Attached to and made a part of Joint Operating Agreement dated August 10, 1981, between Bass Enterprises Production Co., as Operator, and Other Parties, as Non-Operators.

FEDERAL PROVISIONS

Operator shall comply with the non-discrimination provisions of Executive Order 11246 dated September 25, 1965, and the regulations promulgated pursuant thereto. Section 202 thereof is hereby incorporated by reference. Operator shall, during the term of this agreement, file all reports required by the aforementioned regulation duly and promptly and shall, upon request, furnish Non-Operators with evidence that such reports have been filed.

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Bank of America National Trust
and Savings Association, Trustee
for the Benefit of Faith McAdoo Merrick
P.O. Drawer EE
Santa Barbara, California 93102

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

/William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7345 Exhibit No. 3
Submitted by Bass
Hearing Date 10-16-81

P22 [illegible]

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE
POSTAGE
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
RETURN RECEIPT SERVICE
OPTIONAL SERVICES
CONSULT POSTMASTER FOR FEES
TOTAL POSTAGE AND FEES
POSTMARK OR DATE

PS Form 3806, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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

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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Transcontinental Oil Corp. (TREXCO 79-3)
1400 First National Bank Tower
Shreveport, Louisiana 71101

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7273

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

SENT TO

STREET AND NO.

P.O. STATE AND ZIP CODE

POSTAGE $

CERTIFIED FEE

SPECIAL DELIVERY

RESTRICTED DELIVERY

RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY

OPTIONAL SERVICES

CONSULT POSTMASTER FOR FEES

TOTAL POSTAGE AND FEES $

POSTMARK OR DATE

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
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POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Roy G. Barton, Jr.
P.O. Box 978
Hobbs, New Mexico

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

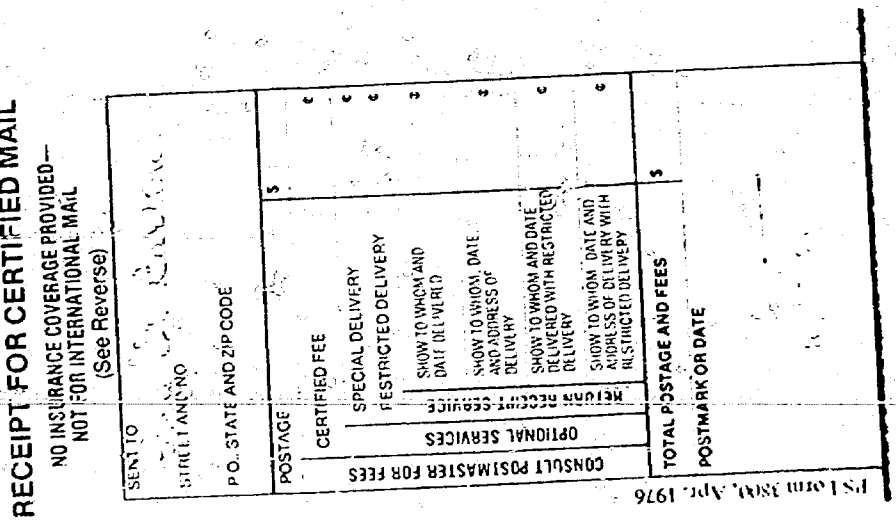
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



CAMPBELL, BYRD & BLACK, P.A.
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TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Felmont Oil Corporation
Box 2266
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7875

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

SENT TO

STREET AND NO.

P.O., STATE AND ZIP CODE

POSTAGE		$
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE	¢
	SPECIAL DELIVERY	¢
	RESTRICTED DELIVERY	¢
OPTIONAL SERVICES	SHOW TO WHOM AND DATE DELIVERED	¢
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY	¢
	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE		
TOTAL POSTAGE AND FEES		$
POSTMARK OR DATE		

PS Form 3800, Apr. 1974

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Heritage Resources
P.O. Box 777
Davis, Oklahoma 73030

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

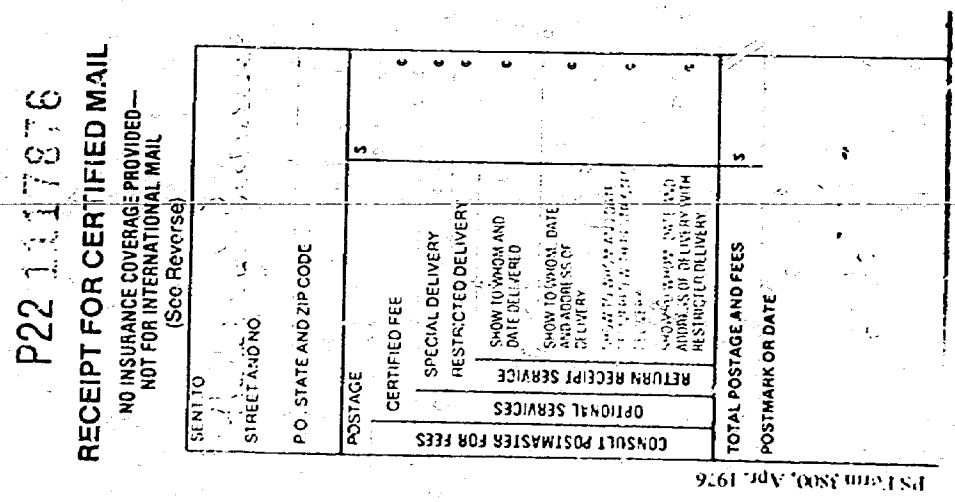
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Petroleum Corporation of Texas
P.O. Box 911
Breckenridge, Texas 76024

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7877

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

SENT TO
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE		$
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE	
	SPECIAL DELIVERY	
	RESTRICTED DELIVERY	
OPTIONAL SERVICES	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	
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	
TOTAL POSTAGE AND FEES		$
POSTMARK OR DATE		

PS Form 3800, Apr. 1976

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-5043

October 8, 1981

Rebel Oil Company
603 Seco
Hobbs, New Mexico

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

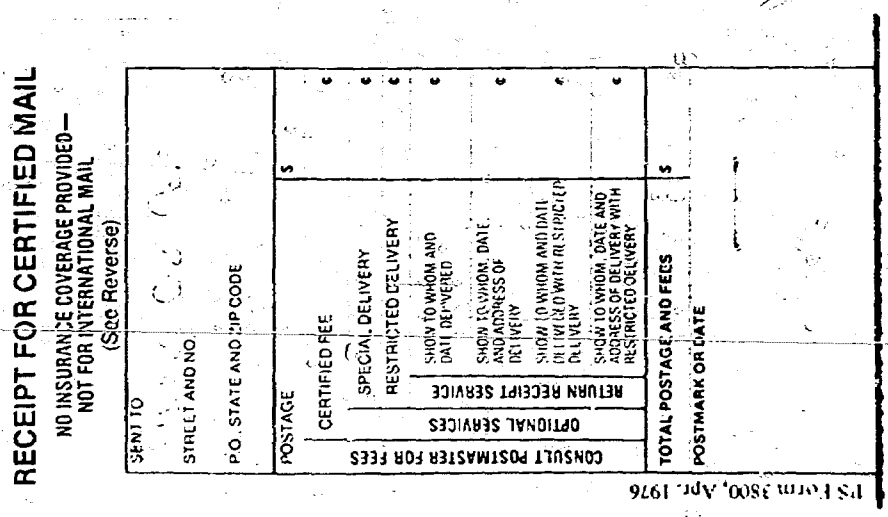
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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HARL D. BYRD
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MICHAEL B. CAMPBELL
WILLIAM F. CARR
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WILLIAM G. WARDLE

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

J.H. Van Zant, II
1722 Commerce Bldg.
Fort Worth, Texas

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 879

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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
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POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

E.B. White, Jr.
P.O. Box 2052
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 280

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

SENT TO
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
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OPTIONAL SERVICES
CONSULT POSTMASTER FOR FEES
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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

October 8, 1981

Harry A. Miller, Jr.
600 First National Bank Bldg.
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7881

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE
POSTAGE
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
RETURN RECEIPT SERVICE
OPTIONAL SERVICES
CONSULT POSTMASTER FOR FEES
TOTAL POSTAGE AND FEES
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

William J. Parsons
219 North Main
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

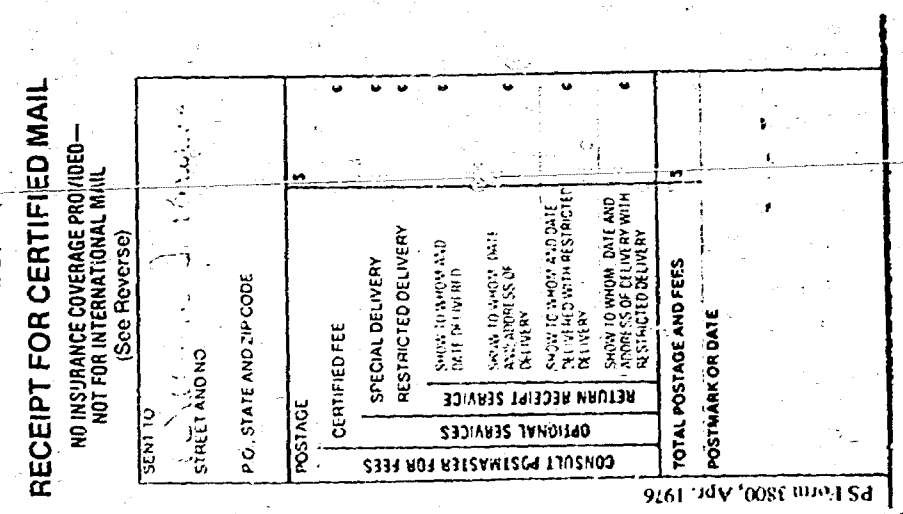
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Sunmark Exploration Company
Suite 824
C & K Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 1117883

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
RETURN RECEIPT SERVICE
OPTIONAL SERVICES
CONSULT POSTMASTER FOR FEES
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Fernanda de Mohrenschildt Hastie
c/o J. Drayton Hastie
Rt. 4 "Ravenswood"
Charleston, S. Carolina 29407

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

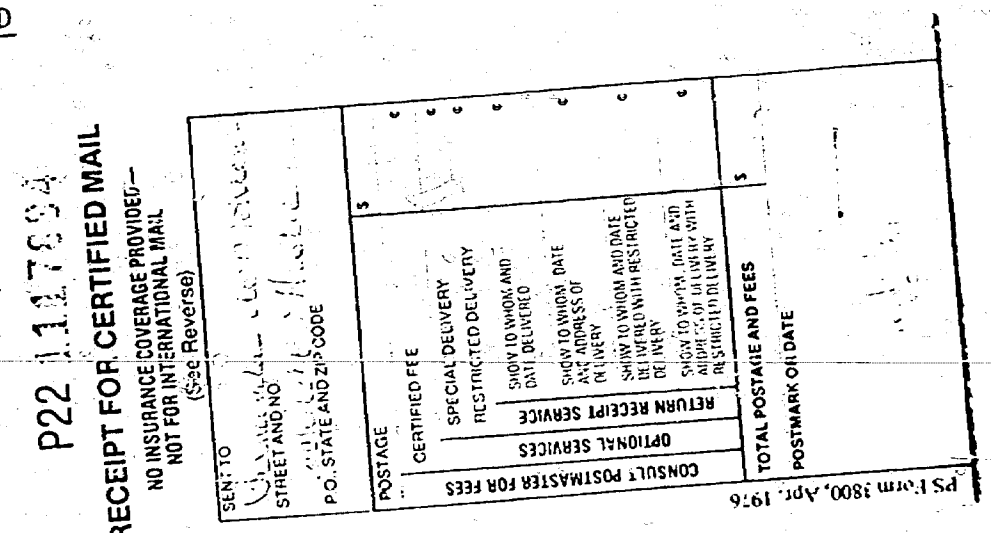
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
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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

October 8, 1981

American Crude, Inc.
1700 West Loop South
Suite 1110
Houston, Texas 77027

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

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You may have an interest that will be affected by the above-referenced case.

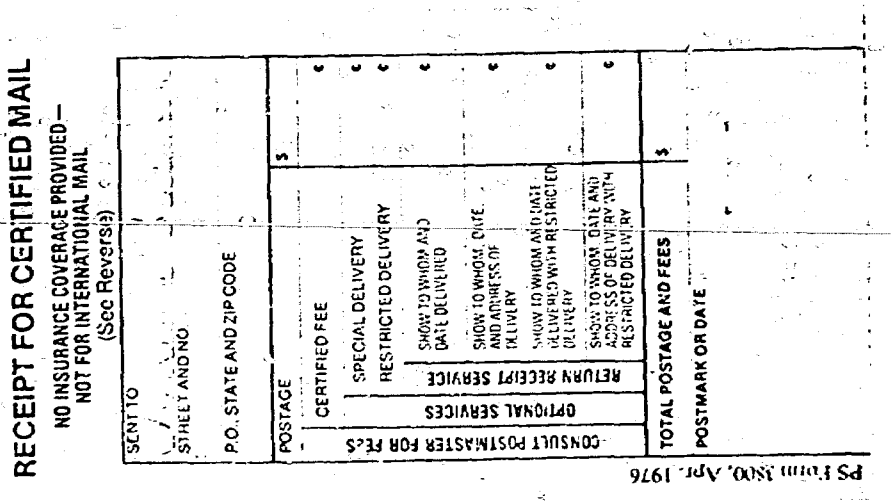
Very truly yours,

William F. Carr

WFC:kb

Enclosure

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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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

The Evolution Corp.
600 Blanks Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

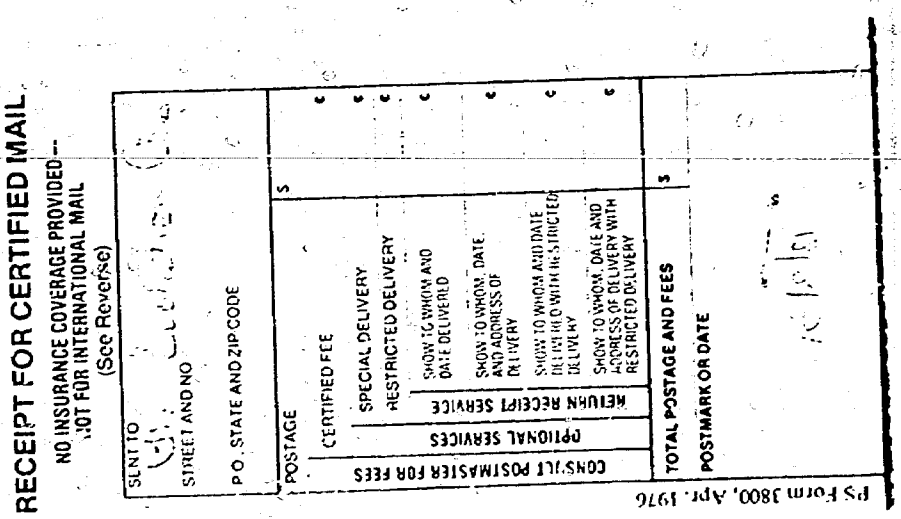
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



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 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

W.C. Blanks
600 Blanks Building
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111787

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE	$	
CERTIFIED FEE		
SPECIAL DELIVERY		
RESTRICTED DELIVERY		
RETURN RECEIPT SERVICE		
SHOW TO WHOM AND DATE DELIVERED		
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY		
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY		
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY		
OPTIONAL SERVICES		
CONSULT POSTMASTER FOR FEES		
TOTAL POSTAGE AND FEES	$	
POSTMARK OR DATE		

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

First National Bank of Midland
Trustee for Trust No. 1190
P.O. Box 270
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111 7268

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

SENT TO
STREET AND NO.
P.O. STATE AND ZIP CODE

POSTAGE	$
CERTIFIED FEE	
SPECIAL DELIVERY	
RESTRICTED DELIVERY	
SHOW TO WHOM AND DATE DELIVERED	
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY	
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	
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RETURN RECEIPT SERVICE	
OPTIONAL SERVICES	
CONSULT POSTMASTER FOR FEES	
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	

PS Form 3800, Apr. 1976

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. WAROLE

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

October 8, 1981

First National Bank of Midland
Trustee for Trust No. 1191
P.O. Box 270
Midland, Texas 79701

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P22 111789

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

SENT TO
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
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CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 8, 1981

Dorothy Van Zant Sanders
6737 Brants Lane
Fort Worth, Texas 67116

Re: New Mexico Oil Conservation Division Case 7345

Gentlemen:

Enclosed is a copy of the docket for the October 16, 1981 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

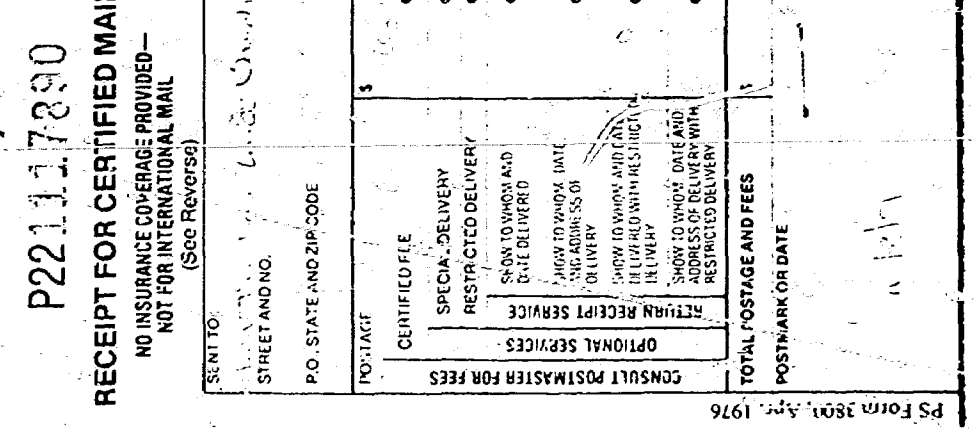
Very truly yours,

William F. Carr

WFC:kb

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



Docket Nos. 34-81 and 35-81 are tentatively set for October 21 and November 4, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - WEDNESDAY - OCTOBER 14, 1981

9 A.M. - OIL CONSERVATION COMMISSION - ROOM 205
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 7345: (Continued and Readvertised)

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres, Bone Springs and Pennsylvanian formations, Lovington Field, underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 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 7323: (DE NOVO)

Application of Clements Energy, Inc., for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the E/2 of Section 32, Township 15 South, Range 27 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Upon application of Southland Royalty Company, this case will be heard DE NOVO pursuant to the provisions of Rule 1220.

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico. CASE 7345

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. NUTTER: Call now Case Number 7345.

MR. PEARCE: Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.

MR. NUTTER: Applicant has requested continuance.

Case Number 7345 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. September 23rd, 1981.

(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. 7345 heard by me on 9/9 1981.

_____, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.

CASE 7345

BEFORE: **Daniel S. Nutter**

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. NUTTER: Call now Case Number 7345.

MR. PEARCE: Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.

MR. NUTTER: Applicant has requested continuance.

Case Number 7345 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. September 23rd, 1981.

(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.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2345 heard by me on 9/9 1981.

, Examiner
Oil Conservation Division

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
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

RECEIVED
SEP 18 1981
OIL CONSERVATION DIVISION
SANTA FE

September 16, 1981

Mr. R. L. Stamets
Examiner
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Case 7345: Application of Bass Enterprises Production Company for Compulsory Pooling, Lea County, New Mexico

Dear Mr. Stamets:

Bass Enterprises Production Company requests that the above-referenced case be continued from the examiner hearing scheduled for Wednesday, September 23, 1981 and that it be set before the full Oil Conservation Commission at the earliest possible date. It is our understanding that this case will be opposed and, no matter what the outcome of the examiner hearing, will be appealed to the full Commission. We believe that setting the matter before the Commission initially will avoid unnecessary hearings and result in the speedy resolution of the dispute between the parties.

Your attention to this request is appreciated.

Very truly yours,

William F. Carr

WFC:lr

cc: Mr. Jens Hanson

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

RECEIVED
SEP 23 1981
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE APPLICATION
OF BASS ENTERPRISES PRODUCTION
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE 7345

AMENDED APPLICATION

Comes now, BASS ENTERPRISES PRODUCTION COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in the San Andres, Bone Springs and Pennsylvanian formations, Lovington Pennsylvanian Pool, in and under the N/2 NE/4 of Section 13, Township 16 South, Range 36 East, N.M.P.M., Lea County, New Mexico, and in support thereof would show the Division:

1. Applicant is the owner of 26.62% of the working interest in and under the N/2 NE/4 of Section 13, and applicant has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to its State No. 13-1 Well to be drilled at an orthodox location 660 feet from the North line and 510 feet from the East line of said Section 13.

3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the N/2 NE/4 of said Section 13 except the following:

Roy G. Barton, Jr.	.234985%	WI
Felmont Oil Corporation	5.625%	WI

Heritage Resources		
Petroleum Corporation of Texas	2.5%	WI
Rebel Oil Company	3.33334%	WI
J.H. Van Zant II	.177002%	WI
E.B. White, Jr.	.78125%	WI
Harry A. Miller, Jr.	1.236979%	WI
William J. Parsons	1.236979%	WI
Sunmark Exploration Co.	1.04166%	WI
Transcontinental Oil Corp.	6.66667%	WI
American Crude, Inc.	25%	WI
The Evolution Corporation	6.25%	WI
W. C. Blanks	6.25%	WI
First National Bank of Midland Trustee for Trust #1190	9.375%	WI
First National Bank of Midland Trustee for Trust #1191	1.5625%	WI
Fernanda de Mohrenschildt Hastie	1.5625%	WI
Bank of American National Trust & Savings Association, Trustee for Benefit of Faith McAdoo Merrick	.177002%	WI
Dorothy Van Zant Sanders	.177002%	WI
	.195313%	WI

4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and assessing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By _____

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

RECEIVED
SEP 23 1981
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE APPLICATION OF BASS ENTERPRISES PRODUCTION COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

CASE 7345

AMENDED APPLICATION

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2. Applicant proposes to dedicate the above-referenced pooled unit to its State No. 13-1 Well to be drilled at an orthodox location 660 feet from the North line and 510 feet from the East line of said Section 13.

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American Crude, Inc.	6.25%	WI
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Dorothy Van Zant Sanders	.195313%	WI

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WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and assessing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By William F. Carr

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

RECEIVED
SEP 2 3 1987
OIL CONSERVATION DIVISION
SANTA FE

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF BASS ENTERPRISES PRODUCTION
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE 7345

AMENDED APPLICATION

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Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By _____
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

Docket No. 29-81

Dockets Nos. 31-81 and 32-81 are tentatively set for October 7, and October 21, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 23, 1981

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

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

CASE 7353: Application of Texaco, Inc., for the amendment of Division Order No. R-5530, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-5530, which authorized its Central Vacuum Unit Area Pressure Maintenace Project, to increase the total project area allowable, or as an alternative, to reclassify the project as a waterflood project.

CASE 7354: Application of Corona Oil Company, for a pilot steam-enhanced oil recovery project, Guadalupe County, New Mexico.
Applicant, in the above-styled cause, seeks authority to institute a pilot steam-enhanced oil recovery project in the Santa Rosa formation by using two existing wells and three additional wells to be drilled to complete a five spot pattern located in the NE/4 NW/4 of Section 17, Township 11 North, Range 26 East.

CASE 7355: Application of Doyle Hartman for directional drilling and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill his Bates Well No. 3, the surface location of which is 1635 feet from the South line and 1210 feet from the West line of Section 20, Township 25 South, Range 37 East, in such a manner as to bottom it at a depth of 3500 feet in the Jalmat Gas Pool at an unorthodox location 2310 feet from the South line and 1650 feet from the West line of Section 20. The SW/4 of said Section 20 would be dedicated to the well.

CASE 7356: Application of S & I Oil Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the W/2 SW/4 of Section 12, Township 29 North, Range 15 West, Cha Cha-Gallup Oil Pool, 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 7357: Application of Union Oil Company of California for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Atoka and Morrow formations underlying the W/2 of Section 16, Township 22 South, Range 33 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 7343: (Continued from September 9, 1981, Examiner Hearing)

Application of Caribou Four Corners, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Cha Cha Gallup Oil Pool underlying the E/2 NW/4 of Section 18, Township 29 North, Range 14 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 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 7358: Application of John Yuronka for compulsory pooling, Lea County, New Mexico.
Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Langley Mattix Pool underlying the SW/4 of Section 6, Township 23 South, Range 37 East, to form four 40-acre tracts, each 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 wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells, and a charge for risk involved in drilling said wells.

CASE 7359: Application of Energy Reserves Group for creation of a new gas pool and an unorthodox location, Roosevelt County, New Mexico.

Applicant, in the above-styled cause, seeks creation of a new Cisco gas pool for its Miller Com Well No. 1, located in Unit M of Section 12, Township 6 South, Range 33 East.

Applicant further seeks approval of an unorthodox location for its Miller "A" Well No. 1-Y, to be drilled 1800 feet from the South line and 1700 feet from the East line of Section 11 of the same township. The S/2 of said Section 11 to be dedicated to the well.

CASE 7345: (Continued from September 9, 1981, Examiner Hearing)

Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Lovington Penn Pool underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 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 7360: Application of L. J. Buck for salt water disposal, Lea County, New Mexico.
Applicant, in the above-styled cause seeks authority to dispose of produced salt water into the Seven Rivers formation in the interval from 3221 feet to 3250 feet in his Mondo Well No. 2 in Unit M of Section 25, Township 25 South, Range 36 East.

CASE 7352: (Continued from September 9, 1981 Examiner Hearing)

Application of Yates Petroleum Corporation for designation of a tight formation, Eddy County, New Mexico. Applicant, in the above-styled cause, pursuant to Section 107 of the Natural Gas Policy Act 18 CFR Section 271.701-705, seeks the designation as a tight formation of the Permo-Penn and formation underlying all of the following townships:

Township 17 South, Ranges 24 thru 26 East;

18 South, 24 and 25 East;

19 South, 23 thru 25 East;

20 South, 21 thru 24 East;

20½ South, 21 and 22 East;

21 South, 21 and 22 East;

Also Sections 1 thru 12 in 22 South, 21 and 22 East,

All of the above containing a total of 315,000 acres more or less.

CASE 7329: (Readvertised)

Application of Loco Hills Water Disposal Company for an exception to Order No. R-3221, Eddy County, New Mexico

Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit the commercial disposal of produced brine into several unlined surface pits located in the N/2 SW/4 SW/4 of Section 16, Township 17 South, Range 30 East.

Docket No. 30-81

Dockets Nos. 31-81 and 32-81 are tentatively set for October 7, and October 21, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - SEPTEMBER 29, 1981

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

CASE 7116: (DE NOVO)

Application of Southland Royalty Company for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying portions of Township 31 and 32 North, Ranges 10, 11, 12, and 13 west, containing 93,860 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

Upon application of Consolidated Oil & Gas, Inc., this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7361: Application of Southland Royalty Company for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying all or portions of Township 31 North, Ranges 10 and 11 West, and Township 32 North, Ranges 10, 11, 12, and 13 West, containing 92,871 acres more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7362: Application of R. A. Mendenhall Associates, Ltd., for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Delaware Mountain Group formation underlying the NW/4 SE/4 of Section 10, Township 22 South, Range 27 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.

Docket No. 27-81

Dockets Nos. 29-81 and 30-81 are tentatively set for September 23 and October 7, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 9, 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:

CASE 7341: Application of Superior Oil Company for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of South Carlsbad Strawn and Morrow production in the wellbore of its Collatt State Com Well No. 1 located in Unit J of Section 1, Township 23 South, Range 26 East.

CASE 7342: Application of Arco Oil and Gas Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blinebry and Drinkard production in the wellbore of its State 367 Well No. 2 located in Unit L of Section 36 and its Roy Barton Well No. 2 located in Unit B of Section 23, both in Township 21 South, Range 37 East.

CASE 7343: Application of Caribou Four Corners, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Cha Cha Gallup - Oil Pool underlying the E/2 NW/4 of Section 18, Township 29 North, Range 14 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 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 7344: Application of Read & Stevens, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the W/2 of Section 19, Township 23 South, Range 28 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 7345: Application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Lovington Penn Pool underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 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 7346: Application of Cibola Energy Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp through Devonian formations underlying the W/2 of Section 19, Township 10 South, Range 29 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 7347: Application of Tenneco Oil Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the South Line and 860 feet from the West Line of Section 20, Township 16 South, Range 34 East, Kemnitz-Morrow Gas Pool, the W/2 of said Section 20 to be dedicated to the well.

CASE 7348: Application of Apollo Oil Company for salt water disposal, Lea County, New Mexico.
Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Abo formation in the interval from 8834 feet to 8968 feet in its Lovington State 9 Well No. 2 in Unit N of Section 9, Township 17 South, Range 37 East, Midway-Abo Pool.

CASE 7349: Application of Apollo Oil Company for salt water disposal, Lea County, New Mexico.
Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Bough C Formation in the interval from 9645 feet to 9654 feet in its Jack Markham Well No. 2 in Unit P of Section 11, Township 9 South, Range 35 East, Bough-Permo Pennsylvanian Pool.

CASE 7350: Application of Conoco, Inc. for salt water disposal, Eddy County, New Mexico.
Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Cisco formation in the interval from 8144 feet to 8160 feet in its Levers Federal Well No. 2 in Unit R of Section 2, Township 20 South, Range 25 East, Springs-Upper Penn Gas Pool.

CASE 7351: Application of Mid-America Petroleum, Inc. for compulsory pooling and the rescission of Order No. R-6722, Lea County, New Mexico.
Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formations underlying the W/2 of Section 12, Township 23 South, Range 34 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. Applicant further seeks rescission of Order No. R-6722 which approved an unorthodox location for the subject well based on dedication of the S/2 of said Section 12.

CASE 7352: Application of Yates Petroleum Corporation for designation of a tight formation, Eddy County, New Mexico.
Applicant, in the above-styled cause, pursuant to Section 107 of the Natural Gas Policy Act 18 - CFR Section 271.701-705, seeks the designation as a tight formation of the Permo-Penn and formation underlying all of the following townships:

Township 17 South, Ranges 24 thru 26 East;

18 South, 24 and 25 East;

19 South, 23 thru 25 East;

20 South, 21 thru 24 East;

20 ½ South, 21 and 22 East;

21 South, 21 and 22 East;

Also Sections 1 thru 12 in 22 South, 21 and 22 East,

All of the above containing a total of 315,000 acres more or less.

****

Docket No. 28-91

DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 16, 1981

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

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

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

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

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL C. 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

August 19, 1981

Case 7345

RECEIVED
AUG 19 1981
OIL CONSERVATION DIVISION
SANTA FE

Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Application of Bass Enterprises Production Company for Compulsory Pooling, Lea County, New Mexico

Dear Mr. Ramey;

Enclosed in triplicate is the application of Bass Enterprises Production Company in the above-referenced matter.

The applicant requests that this matter be included on the docket for the examiner hearing scheduled to be held on September 9, 1981.

Very truly yours,

William F. Carr

WFC:lr

Enclosures

cc: Jens Hansen

RECEIVED
AUG 19 1981
OIL CONSERVATION DIVISION
SANTA FE

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF BASS ENTERPRISES PRODUCTION
COMPANY FOR COMPULSORY POOLING
LEA COUNTY, NEW MEXICO

CASE 7345

APPLICATION

Comes now, BASS ENTERPRISES PRODUCTION COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in the Strawn formation Lovington Pennsylvanian Pool in an under the N/2 NE/4 of Section 13, Township 16 South, Range 36 East, N.M.P.M., Lea County, New Mexico, and in support thereof would show the Division:

1. Applicant is the owner of 26.62% of the working interest in and under the N/2 NE/4 of Section 13, and applicant has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to its State No. 13-1 Well to be drilled at an orthodox location 660 feet from the North line and 510 feet from the East line of said Section 13.

3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the N/2 NE/4 of said Section 13 except the following:

Roy G. Barton, Jr.	.234985% WI
Felmont Oil Corporation	5.625% WI
Heritage Resources	2.5% WI
Petroleum Corporation of Texas	3.33334% WI

Rebel Oil Company	.177002 WI
J.H. Van Zant II	.78125% WI
E.B. White, Jr.	1.236979% WI
Harry A. Miller, Jr.	1.236979% WI
William J. Parsons	1.04166% WI
Sunmark Exploration Co.	6.66667% WI
Transcontinental Oil Corp. (TREXCO 79.3)	25% WI
American Crude, Inc.	6.25% WI
The Evolution Corporation	6.25% WI
W.C. Blanks	9.375% WI
First National Bank of Midland Trustee for Trust #1190	1.5625% WI
First National Bank of Midland Trustee for Trust #1191	1.5625% WI
Fernanda de Mohrenschildt Hastie	.177002% WI
Bank of American National Trust & Savings Association, Trustee for Benefit of Faith McAdoo Merrick	.177002% WI
Dorothy Van Zant Sanders	.195313 WI

4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions

designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and assessing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By William F. Carr

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

RECEIVED
AUG 19 1981
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE APPLICATION
OF BASS ENTERPRISES PRODUCTION
COMPANY FOR COMPULSORY POOLING
LEA COUNTY, NEW MEXICO

CASE 7345

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By /s/ William F. Carr

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

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WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions

designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and assessing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By s/ William F. Carr

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

ROUGH

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 7345

Order No. R-6808

application of Bass Enterprises Production Company for compulsory pooling, Lea County, New Mexico.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 am on October 16, 1981, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this _____ day of October, 1981, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Bass Enterprises Production Company, seeks an order pooling all mineral interests in the San Andres, Bone Springs and Pennsylvanian formations underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 East, NMPM, Northeast Lovington Pennsylvanian Pool, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $ 3500.00 per month while drilling and $ 350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the San Andres, Bone Springs and Pennsylvanian formations underlying the N/2 NE/4 of Section 13, Township 16 South, Range 36 East, NMPM, Northeast Lovington Pennsylvanian Pool Lea County, New Mexico, are hereby pooled to form a standard 80 acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of February, 1981, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Rose Enterprises Production Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within ~~30~~ 20 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $ 3500.00 per month while drilling and $ 350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) 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.