

Case No.

7366

Application

Transcripts.

Small Exhibits

ETC



TONEY ANAYA
GOVERNOR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

50 YEARS



1935 - 1985

POST OFFICE BOX 2888
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5498

June 11, 1985

Mobil Producing Texas and New Mexico Inc.
P. O. Box 633
Midland, Tx 79702

Attention: G. E. Tate

RE: Bridges State Waterflood
Vacuum Field
Lea County, New Mexico

Dear Mr. Tate:

Pursuant to your request letter of May 15, 1985, the injection pressure is hereby increased to 900 psi on the Bridges State Wells Nos. 185, 186, 187, and 188, as it is within the pressure limitation of .2 psi/feet of depth.

Sincerely,

Larry Brooks
Geologist

cc: R. L. Stamets
Hobbs
Case file 7366

Attachments: 1

LB/bok

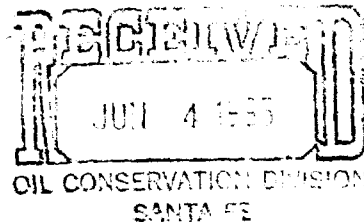
Mobil Producing Texas & New Mexico Inc.

May 15, 1985

P.O. BOX 633
MIDLAND, TEXAS 79702

Energy & Minerals Department
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Attn: Mr. R. L. Stamets
Director



7.01
AMENDMENT OF ORDER NO. R-7361
BRIDGES STATE WATERFLOOD
VACUUM FIELD
LEA COUNTY, NEW MEXICO

Dear Mr. Stamets:

Mobil Producing TX. & N.M. Inc., respectfully requests an amendment to Order No. R-7361 to increase injection pressure at the wellhead to 900 psi. This amendment would affect Bridges State Wells No. 185, 186, 187, and 188.

This request was verbally approved by Jerry Sexton, Supervisor, District I, on May 15, 1985. This increase in injection pressure at the wellhead is consistent with .2 psi per foot of depth, as these wells are injecting into the Grayburg-San Andres at approximately 4500 feet. = T.O. PERF'S.

We would appreciate your early attention on this request.

Yours very truly,

G. E. Tate
Env. & Reg. Manager

JMYeager:je

Mobil Producing Texas & New Mexico Inc.

May 15, 1985

P.O. BOX 833
MIDLAND, TEXAS 79702

Energy & Minerals Department
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Attn: Mr. R. L. Stamets
Director

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G. E. Tate
Env. & Reg. Manager

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Read & Stevens,
Inc., for compulsory pooling,
Eddy County, New Mexico.

CASE
7366

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:

James T. Jennings, Esq.
JENNINGS & CHRISTY
Roswell, New Mexico 87503

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I N D E X

RANDALL FORT

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DAVID HARLE

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MR. NUTTER: Call next Case 7366.

MR. PEARCE: Application of Read and Stevens, Inc., for compulsory pooling, Eddy County, New Mexico.

MR. JENNINGS: James T. Jennings of Jennings and Christy, appearing on behalf of the applicant, and I'll have two witnesses, Mr. Randall Fort and Mr. David Harle.

(Witnesses sworn.)

RANDALL FORT

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

DIRECT EXAMINATION

BY MR. JENNINGS:

Q Would you state your name, occupation, and place of residence, please, sir?

A Randall Fort. I'm a land representative of Read and Stevens in Roswell, New Mexico.

Q Mr. Fort, how long have you been employed by Read and Stevens?

A Eight months.

1
2 Q Are you familiar with the application
3 that has been filed by Read and Stevens in connection with
4 Case Number 7366?

5 A Yes, sir.

6 Q Will you just briefly tell us the pur-
7 pose of this application?

8 A It seeks to force pool some outstanding
9 parties who will be under this drilling unit, which is the
10 west half of 19, 23 South, 28 East, in Eddy County.

11 Q That has been dedicated to the proposed
12 well?

13 A Right.

14 Q What's the location of the well and
15 its projected depth?

16 A The well will be located 2310 from the
17 north line and 1947 feet from the west line of Section 19.
18 Depth is approximately 12,900 feet.

19 Q Is that an orthodox location?

20 A Yes, sir.

21 Q Please refer to what has been marked
22 Exhibit A and just briefly tell us what that is.

23 A Okay, --

24 Q Or Exhibit One, I'm sorry.

25 A Exhibit One. That's just a large scale

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map of the area with outlined in red the west half of 19,
and our little force pooled block up there is in yellow.
That's a 4.94-acre tract in yellow, and we're seeking to
force pool 2 acres out of that.

Q Again, Mr. Fort, would you refer to what
has been marked as Exhibit Two, and it is in two parts, and
first tell what the first sheet is and then the second pages.

A Okay, that first one is just another
plat of Section 19 showing the west half there. These are
Malaga tracts, they're referred to down there. They were
cut up as lots.

Q Basically five acre lots?

A Right, pretty much. As you can see, our
one we're concerned with, Tract 383, is 4.94 acres, so they're
pretty much all just divided lots, but except the south half
of the southwest quarter, which is approximately 80 acres,
79. --

Q All right. Now refer to the next part
of that exhibit and briefly --

A Okay. Right, this is just a listing
of all the leasehold owners and the landowners, the mineral
owners, and the people who hold the leases, the lessees.
Approximately 40 mineral owners and about ten working in-
terest owners.

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Q Do you or the other members -- or the other non-operators under the operating agreement have all of the acreage leased except the tract which is outlined in yellow?

A Yes, sir. Yes, sir.

Q What efforts have you made, Mr. Fort, to obtain leases from these parties in question? First of all, you might name the parties.

A Okay. We're dealing with four different parties here we've not been able to get to do anything, neither lease nor sell nor join us.

They're all heirs of one lady, Miss Ella Mae Aldridge, and a broker, independent broker, started working on this to begin with and I've got a list of his letters here where he started writing letters to them trying to get them to lease or to sell.

Q Over how long a period has this been going on?

A He started back in -- well, my letters go from April of '81, just my most recent letters, and he started back in the latter part of 19 -- 1980, October, November of 1980, writing to all the heirs.

He got all of them leased except these four people.

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Q And would you please name those ?

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A Okay. Imogene Tappana, is one lady.

4

Thelma --

5

Q Does she refuse to lease?

6

A Right. I have a letter here --

7

Q That's all right.

8

A Okay. Thelma Edwards, same thing. She

9

just refused to lease.

10

Belle Amunds. We have not been able to

11

locate. The gentleman who was trying to locate here, I have

12

a letter here from him just specifying what he did to locate

13

her, and wrote letters to her last address and called the

14

Chamber of Commerce and just simply can't locate her; talked

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to some of the other heirs and they don't know what happened

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to her.

17

And then last is our Cancer Hospital in

18

Columbia, Missouri. We've written them several times. Their

19

situation is a little different.

20

Their Board doesn't meet until after

21

the first of the year and they can't -- they won't give us

22

a lease or do anything until the Board meets to discuss it,

23

and that will be, like, say, in 1982 when they -- when they

24

meet.

25

Q

All right. Have the parties whose

addresses you have, namely, the Cancer Hospital, Thelma Edwards, and Imogene Tappana, been notified of this hearing by certified mail?

A Yes, sir, yes, sir.

Q Mr. Fort, have you -- have you prepared an AFE for this well?

A Yes, sir.

Q Would you refer to Exhibit Three and see if that is the AFE?

A Right, Exhibit Three is the AFE, the revised estimate that's been sent out to all the working interest owners.

Q Would you generally state what it shows the cost of drilling a well if it's successful or if it's a dry hole?

A Okay, a producer is estimated to cost \$2,023,000; a dry hole is \$1,600,000.

Q Is this, in your opinion, a reasonable cost for a well to this depth in this area?

A Yes, sir.

Q What are the proposed objectives in this well?

A Looking for the Morrow, Strawn, and Atoka. I believe there's three different objectives.

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Q And I believe that these formations are productive in the general area?

A Yes, sir.

Q Please refer to what -- oh, when do you propose to commence this?

A November 20th is the scheduled spud date.

Q Please refer to what has been marked as Exhibit Four and tell the Examiner what this is.

A Okay. Number Four is our -- just a standard AAPL Form 610, 1977, operating agreement, with the accounting procedures attached, as well as the other exhibits on gas balancing, et cetera.

Q Has this, or will it be executed by all the operators?

A It has been at this time.

Q Who is going to be the operator under the provisions of the operating agreement?

A Read and Stevens will be the operator.

Q And does this provide for a test well?

A Yes, sir.

Q That's the well that you mentioned a minute ago?

A Right. Right.

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Q Does the operating agreement cover the west half of Section 19?

A Correct; that's correct.

Q That's all?

A That's right.

Q Does this provide for overhead rates, Mr. Fort?

A Yes, sir, in the accounting form.

Q The COPAS form?

A COPAS form.

Q And would you tell us what these are, please?

A Okay. That's on page three of the COPAS form.

The drilling well rate is on a fixed rate basis, \$3,825.50; producing well rate is \$382.55.

Q Does it have a provision for operation by less than all the parties?

A Yes, sir.

Q A non-consent clause?

A Yes, sir, 300 percent non-consent.

Q Mr. Fort, what in your opinion would be a reasonable risk factor for the drilling of this well in this area?

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A 200 percent.

Q Do you think that the drilling of this well will be in the interest of conservation and prevent waste?

A Yes, sir.

Q Will it actually prevent the drilling of unnecessary wells?

A Yes, sir.

Q And protect the correlative rights of all parties having an interest under -- under this property?

A Yes, sir.

Q Were Exhibits One through Four prepared by you or under your supervision?

A Yes, sir.

MR. JENNINGS: I believe that's all the questions I have.

MR. NUTTER: Did you qualify Mr. Fort, and as what?

MR. JENNINGS: He's a landman; don't have to qualify him. He can testify as to land management.

MR. NUTTER: I was wondering.

MR. JENNINGS: I don't need to qualify him.

If the Examiner wishes me to qualify him as a landman, I will.

1
2 MR. NUTTER: Well, can he testify as to
3 well costs, Mr. Jennings?

4 Q Are you familiar with -- in the course
5 of your business are you familiar with well costs in the
6 area?

7 A I'd kind of like to defer that to our
8 geologist, David Harle. He's more familiar with that area.
9

10 CROSS EXAMINATION

11 BY MR. NUTTER:

12 Q Now you have all the working interest
13 signed up with the exception of these unleased interests in
14 this one lot, is that correct?

15 A Yes, sir, yes, sir, everyone is ready to go.

16 Q Okay, and all of the parties who have volun-
17 teered to join in this communitization have agreed to this COPAS rate
18 for combined fixed rates of \$3825 and \$382, is that it?

19 A Yes, sir. Yes, sir; all been sent to them.

20 Q Okay.

21 MR. NUTTER: Are there any further questions
22 of the witness? He may be excused.

23 MR. JENNINGS: Mr. Harle.
24
25

DAVID HARLE

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

DIRECT EXAMINATION

BY MR. JENNINGS:

Q Would you state your name, occupation,
please?

A I'm David Harle. I work for Read and
Stevens in Roswell, New Mexico, as an exploration geologist.

Q How long have you been employed by Read
and Stevens?

A About two years.

Q Before you were employed by Read and
Stevens by whom were you employed?

A I was employed three years by Yates
Petroleum Corporation in Artesia.

Q Mr. Harle, have you appeared before this
Commission many times in the past and made your qualifications
as a geologist accepted?

A Yes, sir, the most recent is about nine
months ago.

MR. NUTTER: He's qualified.

Q Mr. Harle, are you familiar with the

1
2 proposed well to be located in the west half of Section 19,
3 23 South, 28 East, in the North Loving Pool?

4 A Yes, sir, I am.

5 Q Tell me what are the objectives of this
6 well.

7 A The primary objectives are the Strawn,
8 the Atoka, and the Morrow.

9 Q Please refer to what has been marked as
10 Read and Stevens Exhibit Number Six and tell us what that is
11 and then explain it, if you will, please.

12 A This is a current activity and production
13 map that surrounds the proration unit that we are dealing
14 with.

15 To describe the current activity, the
16 wells that have been drilled in the area that are colored
17 green, coded green, are Morrow completions. The wells that
18 are coded blue are Atoka, and purple coding is Strawn.

19 The yellow locations are the proposed
20 locations that are either in the process of drilling at the
21 current time or are just a staked location.

22 Q What are the wells -- would you identify
23 the wells that are producing from the Morrow that are closest
24 to this property?

25 A Okay. In Section 19 the Belco Petroleum

Corporation No. 1 Guitar Estate, which is located in the east half of Section 19, is currently producing from the Morrow.

Also in Section 20, the No. 1 Lakey Com, also a Belco well, is producing from the Morrow.

In the west half of Section 29, the Belco Petroleum No. 1 Cassidy Com is producing from the Morrow.

Q And there is a Strawn well in Section 8?

A In Section 18 --

Q 18.

A -- in the south half of Section 18, the Cities Service No. 1 Polk "A" Com is producing -- I'm sorry. I'm sorry.

The Amoco Production No. 1 Carter in the south half of Section 18 is producing from the Atoka.

The nearest Strawn well is the Cities Service No. 1 Polk "A" Com in the north half of Section 17.

Q Is it a reasonably active area, Mr. --

A Yes, it's a very active area at this time.

Q Mr. Harle, are you familiar with drilling costs in the area and have you had experience in determining the cost of various wells in the area?

A Yes, I am.

Q Will you please refer to what has been

1
2 marked as Exhibit A -- or Exhibit Three? Do you have it?

3 A Yes, I do.

4 Q Is that a -- that's an AFE on that well?

5 A Yes, it is.

6 Q Does this indicate that the cost of a
7 dry hole would be approximately \$1,600,000? In your opinion
8 do you feel that's a reasonable --

9 A Yes, I do.

10 Q -- valuation? And for a dry hole -- for
11 a completed well would be \$2,023,000. Again, do you feel
12 that that would be a reasonable estimate of cost?

13 A Yes, sir.

14 Q For a well in that area?

15 A I do.

16 Q In light of all the factors you have
17 testified to and you've heard Mr. Fort testify, have you
18 formed an opinion as to what would be a reasonable risk
19 factor in connection with the drilling of this well to these
20 objective depths?

21 A Yes, 200 percent is -- is what I believe
22 it would be.

23 Q Do you believe that this well -- or that
24 the granting of the application herein would be in the interest
25 of conservation, prevent waste, and unnecessary drilling of

1
2 additional wells?

3 A Yes, I do.

4 Q Would this, in your opinion, protect
5 the interest, the correlative rights of all the parties having
6 interest under this tract?

7 A Yes.

8 Q Was Exhibit Number Six prepared by you
9 or under your supervision?

10 A Yes, it was.

11 Q Do you have anything else that you wish
12 to offer, Mr. Harle?

13 A No, I don't.

14 MR. JENNINGS: I believe that's all.

15
16 CROSS EXAMINATION

17 BY MR. NUTTER:

18 Q Mr. Harle, has Read and Stevens drilled
19 any other wells in this area in recent months?

20 A Read and Stevens has not operated re-
21 cently in this area but we have participated with other
22 operators in at least three wells in the last twelve months.

23 Q Of similar depth?

24 A Of similar depth, similar objectives,
25 similar geology, yes.

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2 Q And how do these costs on Exhibit Number
3 Three here compare with the costs on those wells?

4 A They are favorable to some; they're
5 higher than some; and lower than others. The main differences
6 in the AFE costs comes with the number of zones that are
7 required to be tested prior to finding a zone that's commer-
8 cial.

9 Q And you do have an objective of three
10 possible zones here.

11 A Yes. These are the three zones that are
12 the primary objectives. There are secondary objectives of
13 the Delaware, at about 3000 feet, and the Bone Springs from
14 about 6000 to 9000 feet.

15 So there are secondary objectives but
16 these are the primary objectives that require 320 acres to
17 be --

18 Q Well, now I notice here on the drilling
19 costs that there aren't any footage charges, that it's a
20 straight day work for the rig, and 80 days is given.

21 Now, is the 80 days based on the testing
22 of all these various zones as you go down?

23 A It's based upon the actual drilling
24 time plus time required for running casing and, as you have
25 stated, yes, testing the zones on the way down.

Q Well now, the well is going to be located in I believe Mr. Fort testified, in the southeast of the northwest of Section 19.

A Yes, sir.

Q And the poolees are located in the northwest of the northwest of Section 19. So if you're testing these other horizons, such as the Delaware, and some of those other formations, they wouldn't be participating in the production if you completed in those shallower formations, would they?

A If my understanding is correct on this, 40 acres would be dedicated to a Delaware.

Q Right.

A And the Bone Springs designation at this time I am not sure of.

Q I believe there are some 80-acre Bone Springs wells in the --

A I believe that's right.

Q -- vicinity, but --

A I believe that's right.

Q -- the spacing pattern would be 40 acres in the absence of an acreage agreement.

A Yes.

1
2 Q So these poolees are being asked to par-
3 ticipate in -- sharing well costs for zones that they wouldn't
4 even be participating in, I believe, isn't that correct?

5 MR. JENNINGS: May I? I think we've
6 only asked for those three zones. We have not asked for the
7 other zones.

8 MR. NUTTER: No, but if -- seeing as how
9 it's on day -- it's on day work, you'd be stopping and testing
10 all these various zones as you go down, Mr. Jennings, and that
11 day work counts up towards total cost, and unless there's some
12 means of deducting that prior to the time of sending the bill
13 to these poolees, they would be paying well costs for some-
14 thing they're not even participating in.

15 MR. JENNINGS: I don't -- I didn't anti-
16 cipate that they would test on the way down. They'll run
17 casing on the way down, and I think they would drill to total
18 depth. And it would only be in the event that there wasn't
19 anything at total depth, and I might ask Mr. --

20 A The current plans are the only drill stem
21 tests that -- we are not planning to drill stem test the
22 Delaware.

23 The drill stem tests are indicated on --
24 on one of our other exhibits here, and on the prognosis, and
25 I'm not sure that you entered that in, but we are not planning

1
2 on drill stem testing the Delaware. The Bone Springs we are
3 planning on running a single drill stem test, and we are
4 also planning on that to be 160-acre spacing. If that is
5 the -- I'm not sure that the Bone Springs in that area is 80-
6 acre spacing. I was assuming that it was 160.

7 Q Well, for gas, but oil would be 40,
8 and then as I mentioned, there are some 80-acre Bone Springs
9 pools in this area, I think, over towards Culebra Bluff area.
10 Over towards Culebra Bluff I believe there's 80 acres in the
11 Bone Springs.

12 A Okay.

13 Q Now, you stated that you felt that the
14 risk factor should be 200 percent. What do you base that
15 on, Mr. Harle?

16 A I base that on the geological risk of
17 obtaining a completion in the primary zones.

18 And also, not just a completion, but a
19 commercial completion, because there are noncommercial wells
20 in the area and because of the geological risk that is my
21 opinion as to the risk of the well obtaining a commercial
22 completion.

23 Q Well now, you've got three Morrow wells
24 to the east and southeast of the well. Do you have any idea,
25 is this a Morrow channel and in what direction is it running?

1
2 Do you have any geological evidence on that?

3 A I believe that it's -- it falls in line
4 with a lot of the geological -- well, that -- the geological
5 evidence points to there being a north/south trending channel
6 in the Morrow. There are multiple sands present, so it's not
7 a single channel. To this point we will be drilling the
8 furthest west of any well to find this channel.

9 As you can see in Section 12, the well
10 that's currently completed in the Atoka, the El Paso Explor-
11 ation No. 1 Bird Com, does not have the lower Morrow channel
12 in it.

13 The risk is present because somewhere
14 between that well in Section 12 and the well in Section 19,
15 the sand is present in Section 19 and is no longer present.
16 If that's a north/south trending channel, there is a western
17 boundary on that sand.

18 Q Uh-huh.

19 A And whether it occurs in the west half
20 of Section 19 is questionable and is what really sets up
21 the -- the risk involved, geological risk involved in this
22 prospect.

23 Q Now there's a drilling well shown in the
24 northeast quarter of Section 13. Do you have any idea how
25 deep that well is at the present time?

1
2 A Yes, I do. That is only a location.
3 El Paso staked that location after drilling the one in Section
4 12 and that well is not drilling. It's only a staked loca-
5 tion.

6 In fact, in personal conversations with
7 El Paso, they are having very great reservations about drilling
8 that well at this current time.

9 Q I see. So you're not going to be able
10 to wait to see what it does before you drill your well, then.

11 A We would love to, but we cannot do that.

12 Q Okay.

13 MR. NUTTER: Are there any further ques-
14 tions of Mr. Harle? He may be excused.

15 MR. JENNINGS: I would like to offer
16 Exhibit Number Six, and I would also like to offer another
17 exhibit, Exhibit Number Five, which is the return cards and
18 a copy of the notice that was sent.

19 MR. NUTTER: These are the force pooloes?

20 MR. JENNINGS: Yes.

21 MR. NUTTER: Okay, Exhibits One through
22 Six will be admitted in evidence.

23 Do you have anything further, Mr. Jennings?

24 MR. JENNINGS: Not today; nothing further.

25 MR. NUTTER: Does anyone have anything

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they wish to offer in Case Number 73667

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We'll take the case under advisement.

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(Hearing concluded.)

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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 Conserva-
tion 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. 7366,
heard by me on 10/7 19 81.
[Signature], Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

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

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CHARLES B. READ
PRESIDENT

NORMAN L. STEVENS, JR.
VICE-PRESIDENT

Read & Stevens, Inc.

Oil Producers

P. O. Box 1518

Roswell, New Mexico 88201

July 14, 1982

RECEIVED
JUL 16 1982

PHONE 505 622-3770

*Nothing
File*

To: Oil Conservation Division
and All Known Working Interest Owners

Re: #1 Kimbley
Actual Well Costs
Section 19 W/2-23S-28E
Eddy County, New Mexico
OCD Case #7366
OCD Order R-6804

Gentlemen:

Pursuant to the above referenced compulsory pooling order issued October 15, 1981, Read & Stevens, Inc. as operator of the above referenced well is to furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well. Attached hereto is a listing of the actual costs involved on the subject well.

If you have any questions, please advise.

Yours very truly,

READ & STEVENS, INC.

Joe Wigley, Land Manager

By: Randall Fort
Randall Fort
Land Representative

RF:tr

Attachment

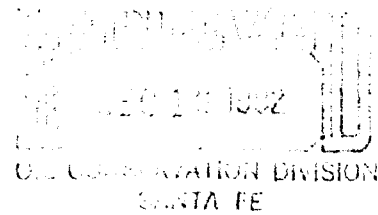
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WELL #: 05566 NAME: #1 KIMBLEY

		ESTIMATED	ACTUAL
-0100	SURFACE CASING	.00	19,195.80
-0200	PROTECTIVE CASING	.00	66,795.30
-0300	PRODUCTION CASING	.00	476,812.50
-0400	TUBING	.00	16,658.19
-0800	WELL HEAD EQUIPMENT	.00	67,201.96
-1000	OTHER SUB-SUR EQUIP	.00	9,298.57
-1200	OTHER SUR WELL EQUIP	.00	6,429.25
-1400	LINE PIPE	.00	402.13
-1800	TANK BATTERY EQUIP	.00	9,615.00
-2600	OTHER	.00	514.60
-2800	MISC FITTINGS	.00	11,944.47
	TANGIBLE EQUIPMENT	.00	684,867.79
-3200	DAY WORK	.00	920,143.85
-3300	LOCATION PREPARATION	.00	57,453.94
-3400	BITS AND REAMERS	.00	104,423.40
-3600	MUD & CHEMICALS	.00	195,165.69
-3800	EQUIPMENT RENTALS	.00	380,373.79
-4000	LOGGING AND TESTING	.00	68,167.65
-4200	MUD LOGGING	.00	41,699.26
-4400	HAULING AND FREIGHT	.00	41,599.82
-4600	WATER	.00	25,049.68
-4800	CEMENTING	.00	73,630.40
-5000	PERF, ACID, FRAC	.00	13,593.74
-5200	COMPLETION UNITS	.00	8,121.66
-5400	CONTRACT SERVICE	.00	91,873.48
-5600	SUPERVISION	.00	50,427.73
-5800	DRILLING OVERHEAD	.00	11,599.90
-6000	NON-REC EQUIPMENT	.00	546.00
-6200	MISCELLANEOUS	.00	43,991.20
	INTANGIBLE	.00	2,128,061.19

CHARLES B. READ
PRESIDENT
NORMAN L. STEVENS, JR.
VICE-PRESIDENT

Read & Stevens, Inc.
Oil Producers
P. O. Box 1518
Roswell, New Mexico 88201



December 14, 1982

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

Re: #1 Kimbley
Force-Pool Information
Section 19: 23S-28E
Eddy County, New Mexico
OCD Case No. 7366
OCD Order R-6804

Gentlemen:

Pursuant to the above referenced Force-Pool Order Read & Stevens, Inc. is hereby notifying the Commission concerning the disposition of funds for those parties who were Force-Pooled.

We were not able to locate Belle Amunds and accordingly, we have opened an account for her in the Carlsbad National Bank (Account No. 80-37067-5) P.O. Box 1359, Carlsbad, New Mexico, 88220. The first check for Ms. Amunds totaled \$12.44 and was sent for deposit on December 14, 1982.

We were able to locate and checks have been sent to the following parties along with a letter explaining their Force-Pool status:

Ellis Fischel State Cancer Hospital	\$174.15
Thelma Edwards	\$ 12.44
Imogene Tappana	\$ 49.76

Please advise if the Commission requires additional information concerning the status of the herein described parties or action.

Yours very truly,

READ & STEVENS, INC.

Joe Wigley, Land Manager

By Randall R. Fort
Randall Fort
Land Representative

RF/hh

XC: Belle Amunds, Carlsbad National Bank
Ellis Fischel State Cancer Hospital
Thelma Edwards
Imogene Tappana



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

December 29, 1981

POST OFFICE BOX 8088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

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

Re: Extension of Time
Order No. R-6804

Dear Mr. Jennings:

Reference is made to your letter dated December 23, 1981, requesting an extension of time in which to commence the drilling of a well on the lands pooled by Division Order No. R-6804.

Said order requires the unit well to be commenced on or before the first day of January, 1982, but you anticipate possible delays in such commencement resulting from rigging up and testing a brand new rig on the location.

Time for commencement of drilling operations under Order No. R-6804 is hereby extended to February 1, 1982.

Very truly yours,

JOE D. RAMEY,
Division Director

JDR/DSN/dr

cc: Oil Conservation Division - Artesia
Case File 7366 ✓

JAMES T. JENNINGS
SIM B. CHRISTY IX
PHILLIP T. BREWER

LAW OFFICES OF
JENNINGS & CHRISTY
1012 SECURITY NATIONAL BANK BUILDING
P. O. BOX 1180
ROSWELL, NEW MEXICO 88202-1180

TELEPHONE 622-8432
AREA CODE 505

December 23, 1981

Oil Conservation Division
Energy & Minerals Dept.
P. O. Box 2088
Santa Fe, NM 87501

Attention: Mr. Dan Nutter

Re: Case No. 7366
Order No. R-6804
Read & Stevens, Inc.

Dear Mr. Nutter:

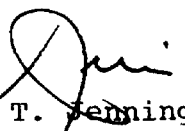
The Order entered in the above cause on October 15, 1981, provides that unless the operator commences drilling the well on or before the first day of January, 1982, the Order shall be null and void and of no effect unless the operator obtains a time extension.

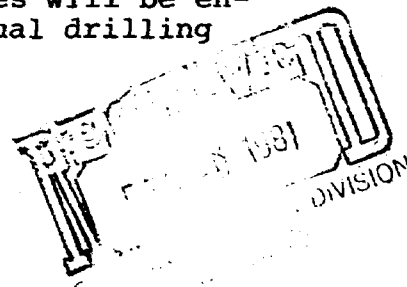
On behalf of Read & Stevens, Inc., the operator, we hereby request a thirty-day extension within which to commence the well, and as reason therefor state:

That the location has been prepared and is ready for a rig to move on and that the operator has obtained and contemplates moving a rig on location not later than Monday, December 28. However, the rig to be used in drilling the well is a new rig and it is possible that unforeseen difficulties will be encountered in rigging up and in commencing the actual drilling operations.

Yours very truly,

JENNINGS & CHRISTY


James T. Jennings
JTB/jb
cc: Read & Stevens, Inc.



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

EXAMINER HEARING

IN THE MATTER OF:

Application of Read & Stevens,
Inc., for compulsory pooling,
Eddy County, New Mexico.

CASE
7366

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:

James T. Jennings, Esq.
JENNINGS & CHRISTY
Roswell, New Mexico

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I N D E X

RANDALL FORT

Direct Examination by Mr. Jennings	3
Cross Examination by Mr. Nutter	12

DAVID HARLE

Direct Examination by Mr. Jennings	13
Cross Examination by Mr. Nutter	17

E X H I B I T S

Applicant Exhibit One, Plat	4
Applicant Exhibit Two, Plat & List	5
Applicant Exhibit Three, AFE	8
Applicant Exhibit Four, Operating Agreement	9
Applicant Exhibit Five, Return cards	24
Applicant Exhibit Six, Map	14

MR. NUTTER: Call next Case 7366.

MR. PEARCE: Application of Read and Stevens, Inc., for compulsory pooling, Eddy County, New Mexico.

MR. JENNINGS: James T. Jennings of Jennings and Christy, appearing on behalf of the applicant, and I'll have two witnesses, Mr. Randall Fort and Mr. David Harle.

(Witnesses sworn.)

RANDALL FORT

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

DIRECT EXAMINATION

BY MR. JENNINGS:

Q Would you state your name, occupation, and place of residence, please, sir?

A Randall Fort. I'm a land representative of Read and Stevens in Roswell, New Mexico.

Q Mr. Fort, how long have you been employed by Read and Stevens?

A. Eight months.

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Q Are you familiar with the application that has been filed by Read and Stevens in connection with Case Number 7366?

A Yes, sir.

Q Will you just briefly tell us the purpose of this application?

A It seeks to force pool some outstanding parties who will be under this drilling unit, which is the west half of 19, 23 South, 28 East, in Eddy County.

Q That has been dedicated to the proposed well?

A Right.

Q What's the location of the well and its projected depth?

A The well will be located 2310 from the north line and 1947 feet from the west line of Section 19. Depth is approximately 12,900 feet.

Q Is that an orthodox location?

A Yes, sir.

Q Please refer to what has been marked Exhibit A and just briefly tell us what that is.

A Okay, --

Q Or Exhibit One, I'm sorry.

A Exhibit One. That's just a large scale

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map of the area with outlined in red the west half of 19,

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and our little force pooled block up there is in yellow.

4

That's a 4.94-acre tract in yellow, and we're seeking to

5

force pool 2 acres out of that.

6

Q

Again, Mr. Fort, would you refer to what

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has been marked as Exhibit Two, and it is in two parts, and

8

first tell what the first sheet is and then the second pages.

9

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Okay, that first one is just another

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plat of Section 19 showing the west half there. These are

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Malaga tracts, they're referred to down there. They were

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cut up as lots.

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Q

Basically five acre lots?

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Right, pretty much. As you can see, our

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one we're concerned with, Tract 383, is 4.94 acres, so they're

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pretty much all just divided lots, but except the south half

17

of the southwest quarter, which is approximately 80 acres,

18

79. --

19

Q

All right. Now refer to the next part

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of that exhibit and briefly --

21

A

Okay. Right, this is just a listing

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of all the leasehold owners and the landowners, the mineral

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owners, and the people who hold the leases, the lessees.

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Approximately 40 mineral owners and about ten working in-

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terest owners.

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Q Do you or the other members -- or the other non-operators under the operating agreement have all of the acreage leased except the tract which is outlined in yellow?

A Yes, sir. Yes, sir.

Q What efforts have you made, Mr. Fort, to obtain leases from these parties in question? First of all, you might name the parties.

A Okay. We're dealing with four different parties here we've not been able to get to do anything, neither lease nor sell nor join us.

They're all heirs of one lady, Miss Ella Mae Aldridge, and a broker, independent broker, started working on this to begin with and I've got a list of his letters here where he started writing letters to them trying to get them to lease or to sell.

Q Over how long a period has this been going on?

A He started back in -- well, my letters go from April of '81, just my most recent letters, and he started back in the latter part of 19 -- 1980, October, November of 1980, writing to all the heirs.

He got all of them leased except these four people.

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Q And would you please name those ?

A Okay. Imogene Tappana, is one lady.

Thelma --

Q Does she refuse to lease?

A Right. I have a letter here --

Q That's all right.

A Okay. Thelma Edwards, same thing. She just refused to lease.

Belle Amunds. We have not been able to locate. The gentleman who was trying to locate here, I have a letter here from him just specifying what he did to locate her, and wrote letters to her last address and called the Chamber of Commerce and just simply can't locate her; talked to some of the other heirs and they don't know what happened to her.

And then last is our Cancer Hospital in Columbia, Missouri. We've written them several times. Their situation is a little different.

Their Board doesn't meet until after the first of the year and they can't -- they won't give us a lease or do anything until the Board meets to discuss it, and that will be, like, say, in 1982 when they -- when they meet.

Q All right. Have the parties whose

addresses you have, namely, the Cancer Hospital, Thelma Edwards, and Imogene Tappana, been notified of this hearing by certified mail?

A Yes, sir, yes, sir.

Q Mr. Fort, have you -- have you prepared an AFE for this well?

A Yes, sir.

Q Would you refer to Exhibit Three and see if that is the AFE?

A Right, Exhibit Three is the AFE, the revised estimate that's been sent out to all the working interest owners.

Q Would you generally state what it shows the cost of drilling a well if it's successful or if it's a dry hole?

A Okay, a producer is estimated to cost \$2,023,000; a dry hole is \$1,600,000.

Q Is this, in your opinion, a reasonable cost for a well to this depth in this area?

A Yes, sir.

Q What are the proposed objectives in this well?

A Looking for the Morrow, Strawn, and Atoka. I believe there's three different objectives.

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Q And I believe that these formations are productive in the general area?

A Yes, sir.

Q Please refer to what -- oh, when do you propose to commence this?

A November 20th is the scheduled spud date.

Q Please refer to what has been marked as Exhibit Four and tell the Examiner what this is.

A Okay. Number Four is our -- just a standard AAPL Form 610, 1977, operating agreement, with the accounting procedures attached, as well as the other exhibits on gas balancing, et cetera.

Q Has this, or will it be executed by all the operators?

A It has been at this time.

Q Who is going to be the operator under the provisions of the operating agreement?

A Read and Stevens will be the operator.

Q And does this provide for a test well?

A Yes, sir.

Q That's the well that you mentioned a minute ago?

A Right. Right.

1
2 Q Does the operating agreement cover the
3 west half of Section 19?

4 A Correct; that's correct.

5 Q That's all?

6 A That's right.

7 Q Does this provide for overhead rates,
8 Mr. Fort?

9 A Yes, sir, in the accounting form.

10 Q The COPAS form?

11 A COPAS form.

12 Q And would you tell us what these are,
13 please?

14 A Okay. That's on page three of the
15 COPAS form.

16 The drilling well rate is on a fixed
17 rate basis, \$3,825.50; producing well rate is \$382.55.

18 Q Does it have a provision for operation
19 by less than all the parties?

20 A Yes, sir.

21 Q A non-consent clause?

22 A Yes, sir, 300 percent non-consent.

23 Q Mr. Fort, what in your opinion would
24 be a reasonable risk factor for the drilling of this well
25 in this area?

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A. 200 percent.

Q Do you think that the drilling of this well will be in the interest of conservation and prevent waste?

A. Yes, sir.

Q Will it actually prevent the drilling of unnecessary wells?

A. Yes, sir.

Q And protect the correlative rights of all parties having an interest under -- under this property?

A. Yes, sir.

Q Were Exhibits One through Four prepared by you or under your supervision?

A. Yes, sir.

MR. JENNINGS: I believe that's all the questions I have.

MR. NUTTER: Did you qualify Mr. Fort, and as what?

MR. JENNINGS: He's a landman; don't have to qualify him. He can testify as to land management.

MR. NUTTER: I was wondering.

MR. JENNINGS: I don't need to qualify him.

If the Examiner wishes me to qualify him as a landman, I will.

1
2 MR. NUTTER: Well, can he testify as to
3 well costs, Mr. Jennings?

4 Q Are you familiar with -- in the course
5 of your business are you familiar with well costs in the
6 area?

7 A I'd kind of like to defer that to our
8 geologist, David Harle. He's more familiar with that area.
9

10 CROSS EXAMINATION

11 BY MR. NUTTER:

12 Q Now you have all the working interest
13 signed up with the exception of these unleased interests in
14 this one lot, is that correct?

15 A Yes, sir, yes, sir, everyone is ready to go.

16 Q Okay, and all of the parties who have volun-
17 teered to join in this communitization have agreed to this COPAS rate
18 for combined fixed rates of \$3825 and \$382, is that it?

19 A Yes, sir. Yes, sir; all been sent to them.

20 Q Okay.

21 MR. NUTTER: Are there any further questions
22 of the witness? He may be excused.

23 MR. JENNINGS: Mr. Harle.
24
25

DAVID HARLE

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

DIRECT EXAMINATION

BY MR. JENNINGS:

Q Would you state your name, occupation,
please?

A I'm David Harle. I work for Read and
Stevens in Roswell, New Mexico, as an exploration geologist.

Q How long have you been employed by Read
and Stevens?

A About two years.

Q Before you were employed by Read and
Stevens by whom were you employed?

A I was employed three years by Yates
Petroleum Corporation in Artesia.

Q Mr. Harle, have you appeared before this
Commission many times in the past and made your qualifications
as a geologist accepted?

A Yes, sir, the most recent is about nine
months ago.

MR. NUTTER: He's qualified.

Q Mr. Harle, are you familiar with the

1
2 proposed well to be located in the west half of Section 19,
3 23 South, 28 East, in the North Loving Pool?

4 A Yes, sir, I am.

5 Q Tell me what are the objectives of this
6 well.

7 A The primary objectives are the Strawn,
8 the Atoka, and the Morrow.

9 Q Please refer to what has been marked as
10 Read and Stevens Exhibit Number Six and tell us what that is
11 and then explain it, if you will, please.

12 A This is a current activity and production
13 map that surrounds the proration unit that we are dealing
14 with.

15 To describe the current activity, the
16 wells that have been drilled in the area that are colored
17 green, coded green, are Morrow completions. The wells that
18 are coded blue are Atoka, and purple coding is Strawn.

19 The yellow locations are the proposed
20 locations that are either in the process of drilling at the
21 current time or are just a staked location.

22 Q What are the wells -- would you identify
23 the wells that are producing from the Morrow that are closest
24 to this property?

25 A Okay. In Section 19 the Belco Petroleum

Corporation No. 1 Guitar Estate, which is located in the east half of Section 19, is currently producing from the Morrow.

Also in Section 20, the No. 1 Lakey Com, also a Belco well, is producing from the Morrow.

In the west half of Section 29, the Belco Petroleum No. 1 Cassidy Com is producing from the Morrow.

Q And there is a Strawn well in Section 8?

A In Section 18 --

Q 18.

A -- in the south half of Section 18, the Cities Service No. 1 Polk "A" Com is producing -- I'm sorry. I'm sorry.

The Amoco Production No. 1 Carter in the south half of Section 18 is producing from the Atoka.

The nearest Strawn well is the Cities Service No. 1 Polk "A" Com in the north half of Section 17.

Q Is it a reasonably active area, Mr. --

A Yes, it's a very active area at this time.

Q Mr. Harle, are you familiar with drilling costs in the area and have you had experience in determining the cost of various wells in the area?

A Yes, I am.

Q Will you please refer to what has been

1
2 marked as Exhibit A -- or Exhibit Three? Do you have it?

3 A Yes, I do.

4 Q Is that a -- that's an AFE on that well?

5 A Yes, it is.

6 Q Does this indicate that the cost of a
7 dry hole would be approximately \$1,600,000? In your opinion
8 do you feel that's a reasonable --

9 A Yes, I do.

10 Q -- valuation? And for a dry hole -- for
11 a completed well would be \$2,023,000. Again, do you feel
12 that that would be a reasonable estimate of cost?

13 A Yes, sir.

14 Q For a well in that area?

15 A I do.

16 Q In light of all the factors you have
17 testified to and you've heard Mr. Fort testify, have you
18 formed an opinion as to what would be a reasonable risk
19 factor in connection with the drilling of this well to these
20 objective depths?

21 A Yes, 200 percent is -- is what I believe
22 it would be.

23 Q Do you believe that this well -- or that
24 the granting of the application herein would be in the interest
25 of conservation, prevent waste, and unnecessary drilling of

1
2 additional wells?

3 A Yes, I do.

4 Q Would this, in your opinion, protect
5 the interest, the correlative rights of all the parties having
6 interest under this tract?

7 A Yes.

8 Q Was Exhibit Number Six prepared by you
9 or under your supervision?

10 A Yes, it was.

11 Q Do you have anything else that you wish
12 to offer, Mr. Harle?

13 A No, I don't.

14 MR. JENNINGS: I believe that's all.

15
16 CROSS EXAMINATION

17 BY MR. NUTTER:

18 Q Mr. Harle, has Read and Stevens drilled
19 any other wells in this area in recent months?

20 A Read and Stevens has not operated re-
21 cently in this area but we have participated with other
22 operators in at least three wells in the last twelve months.

23 Q Of similar depth?

24 A Of similar depth, similar objectives,
25 similar geology, yes.

1 Q And how do these costs on Exhibit Number
2 Three here compare with the costs on those wells?

3 A They are favorable to some; they're
4 higher than some; and lower than others. The main differences
5 in the AFE costs comes with the number of zones that are
6 required to be tested prior to finding a zone that's commer-
7 cial.
8

9 Q And you do have an objective of three
10 possible zones here.

11 A Yes. These are the three zones that are
12 the primary objectives. There are secondary objectives of
13 the Delaware, at about 3000 feet, and the Bone Springs from
14 about 6000 to 9000 feet.

15 So there are secondary objectives but
16 these are the primary objectives that require 320 acres to
17 be --

18 Q Well, now I notice here on the drilling
19 costs that there aren't any footage charges, that it's a
20 straight day work for the rig, and 80 days is given.

21 Now, is the 80 days based on the testing
22 of all these various zones as you go down?

23 A It's based upon the actual drilling
24 time plus time required for running casing and, as you have
25 stated, yes, testing the zones on the way down.

1 Q Well now, the well is going to be located
2 in I believe Mr. Fort testified, in the southeast of the
3 northwest of Section 19.
4

5 A Yes, sir.

6 Q And the poolees are located in the north-
7 west of the northwest of Section 19. So if you're testing
8 these other horizons, such as the Delaware, and some of those
9 other formations, they wouldn't be participating in the pro-
10 duction if you completed in those shallower formations, would
11 they?

12 A If my understanding is correct on this,
13 40 acres would be dedicated to a Delaware.

14 Q Right.

15 A And the Bone Springs designation at
16 this time I am not sure of.

17 Q I believe there are some 80-acre Bone
18 Springs wells in the --

19 A I believe that's right.

20 Q -- vicinity, but --

21 A I believe that's right.

22 Q -- the spacing pattern would be 40 acres
23 in the absence of an acreage agreement.

24 A Yes.

25

1
2 Q So these poolees are being asked to par-
3 ticipate in -- sharing well costs for zones that they wouldn't
4 even be participating in, I believe, isn't that correct?

5 MR. JENNINGS: May I? I think we've
6 only asked for those three zones. We have not asked for the
7 other zones.

8 MR. NUTTER: No, but if -- seeing as how
9 it's on day -- it's on day work, you'd be stopping and testing
10 all these various zones as you go down, Mr. Jennings, and that
11 day work counts up towards total cost, and unless there's some
12 means of deducting that prior to the time of sending the bill
13 to these poolees, they would be paying well costs for some-
14 thing they're not even participating in.

15 MR. JENNINGS: I don't -- I didn't anti-
16 cipate that they would test on the way down. They'll run
17 casing on the way down, and I think they would drill to total
18 depth. And it would only be in the event that there wasn't
19 anything at total depth, and I might ask Mr. --

20 A The current plans are the only drill stem
21 tests that -- we are not planning to drill stem test the
22 Delaware.

23 The drill stem tests are indicated on --
24 on one of our other exhibits here, and on the prognosis, and
25 I'm not sure that you entered that in, but we are not planning

1

21

2

on drill stem testing the Delaware. The Bone Springs we are

3

planning on running a single drill stem test, and we are

4

also planning on that to be 160-acre spacing. If that is

5

the -- I'm not sure that the Bone Springs in that area is 80-

6

acre spacing. I was assuming that it was 160.

7

Q Well, for gas, but oil would be 40,

8

and then as I mentioned, there are some 80-acre Bone Springs

9

pools in this area, I think, over towards Culebra Bluff area.

10

Over towards Culebra Bluff I believe there's 80 acres in the

11

Bone Springs.

12

A Okay.

13

Q Now, you stated that you felt that the

14

risk factor should be 200 percent. What do you base that

15

on, Mr. Harle?

16

A I base that on the geological risk of

17

obtaining a completion in the primary zones.

18

And also, not just a completion, but a

19

commercial completion, because there are noncommercial wells

20

in the area and because of the geological risk that is my

21

opinion as to the risk of the well obtaining a commercial

22

completion.

23

Q Well now, you've got three Morrow wells

24

to the east and southeast of the well. Do you have any idea,

25

is this a Morrow channel and in what direction is it running?

1
2 Do you have any geological evidence on that?

3 A I believe that it's -- it falls in line
4 with a lot of the geological -- well, that -- the geological
5 evidence points to there being a north/south trending channel
6 in the Morrow. There are multiple sands present, so it's not
7 a single channel. To this point we will be drilling the
8 furthest west of any well to find this channel.

9 As you can see in Section 12, the well
10 that's currently completed in the Atoka, the El Paso Explor-
11 ation No. 1 Bird Com, does not have the lower Morrow channel
12 in it.

13 The risk is present because somewhere
14 between that well in Section 12 and the well in Section 19,
15 the sand is present in Section 19 and is no longer present.
16 If that's a north/south trending channel, there is a western
17 boundary on that sand.

18 Q Uh-huh.

19 A And whether it occurs in the west half
20 of Section 19 is questionable and is what really sets up
21 the -- the risk involved, geological risk involved in this
22 prospect.

23 Q Now there's a drilling well shown in the
24 northeast quarter of Section 13. Do you have any idea how
25 deep that well is at the present time?

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A Yes, I do. That is only a location.

El Paso staked that location after drilling the one in Section 12 and that well is not drilling. It's only a staked location.

In fact, in personal conversations with El Paso, they are having very great reservations about drilling that well at this current time.

Q I see. So you're not going to be able to wait to see what it does before you drill your well, then.

A We would love to, but we cannot do that.

Q Okay.

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

MR. JENNINGS: I would like to offer Exhibit Number Six, and I would also like to offer another exhibit, Exhibit Number Five, which is the return cards and a copy of the notice that was sent.

MR. NUTTER: These are the force poolees?

MR. JENNINGS: Yes.

MR. NUTTER: Okay, Exhibits One through Six will be admitted in evidence.

Do you have anything further, Mr. Jennings?

MR. JENNINGS: Not today; nothing further.

MR. NUTTER: Does anyone have anything

1
2 - they wish to offer in Case Number 7366?

3 We'll take the case under advisement.

4
5 (Hearing concluded.)
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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. 7366, heard by me on 10/7 1981.
[Signature], Examiner
 Oil Conservation Division

SALLY W. BOYD, C.S.R.

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

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

October 16, 1981

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

Re: CASE NO. 7366
ORDER NO. R-6804

Applicant:

Read & Stevens, Inc.

Dear Sir:

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

~~Yours very truly,~~

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7366
Order No. R-6804

APPLICATION OF READ & STEVENS, INC.
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 7, 1981,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of October, 1981, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

- (1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the subject
matter thereof.
- (2) That the applicant, Read & Stevens, Inc., seeks an order
pooling all mineral interests in the Strawn, Atoka and Morrow forma-
tions underlying the W/2 of Section 19, Township 23 South, Range
28 East, NPM, North Loving Field, Eddy 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 cumulative rights, and to afford to the owner of each interest in said well 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.

Case No. 7366
Order No. R-6804

(11) That \$ 3,825.50 per month while drilling and \$382.55 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 each 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 January 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 Strawn, Aboka and Morrow formations underlying the W/2 of Section 19, Township 23 South, Range 28 East, NPM, North Loving Field, Bddy County, New Mexico, are hereby pooled to form a standard 320-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 first day of January, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of January, 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.

Case No. 7366
Order No. R-6804

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 Read & Stevens, Inc. 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 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.

Case No. 7366
Order No. R-6804

(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 \$3,825.50 per month while drilling and \$382.55 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.

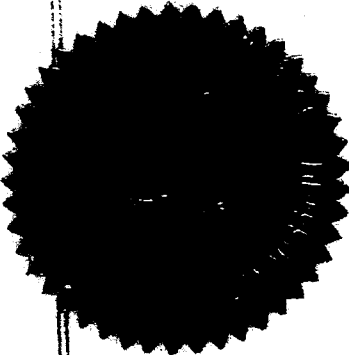
-6-

Case No. 7366
Order No. R-6804

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy 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.

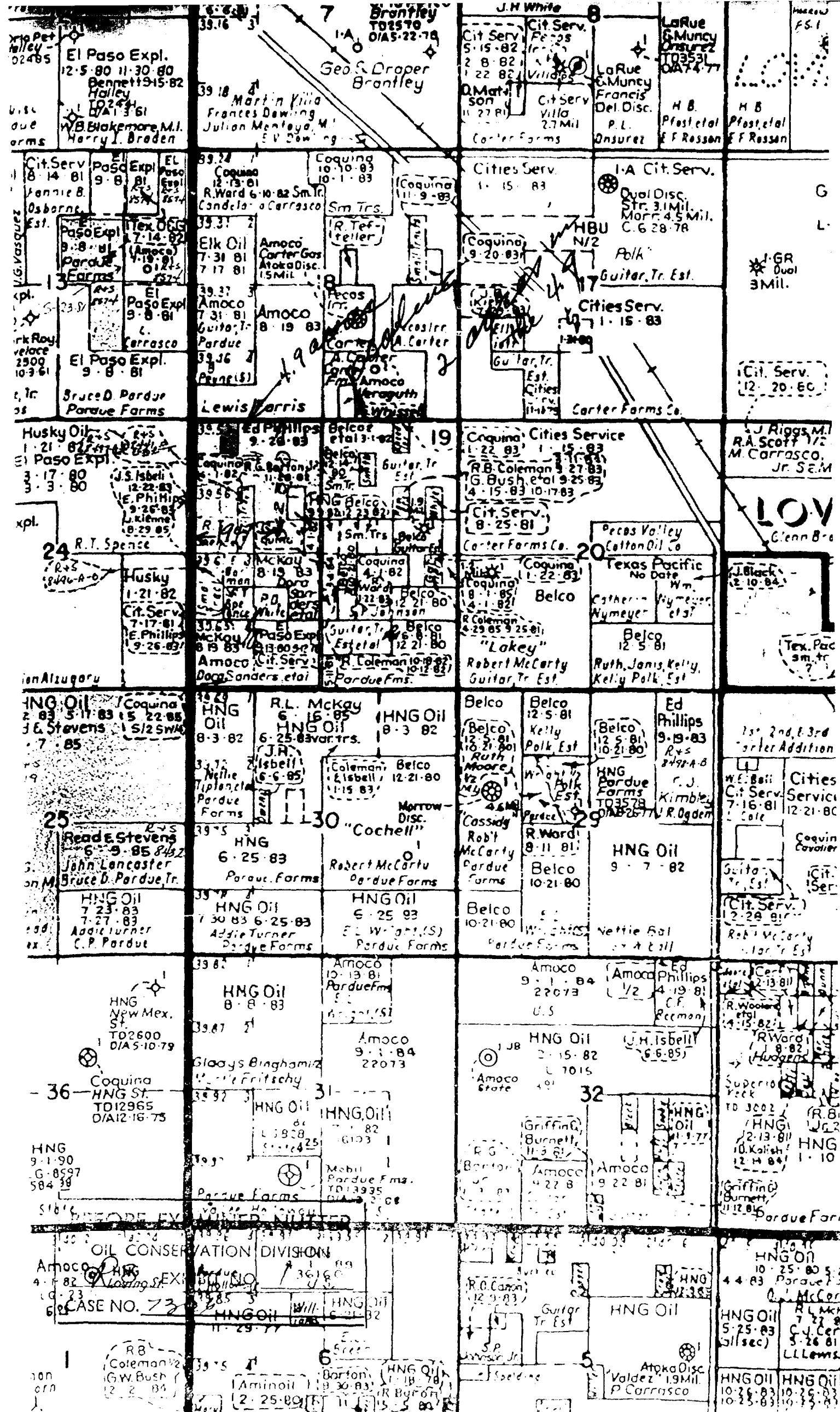
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY
Director

S E A L



SECRET

RANGE 28 East

[illegible]

CASE NO. 7366

EXHIBIT "A"

TOWNSHIP 23 SOUTH, RANGE 28 EAST, N.M.P.M.
 Section 19: Lots 1,2,3,4, E/2W/2

Containing 318.34 acres, more or less
 Eddy County, New Mexico

<u>Tract #</u>	<u>Acres in Tract</u>	<u>Tract Royalty Owner</u>	<u>Tract Leasehold Owner</u>
381	4.94 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.
382	4.94 ac.	"	"
383	4.94 ac.	Royalty and leasehold owners for Tract 383 are listed on Page 3	
384	4.94 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.
385	5.00 ac.	"	"
386	5.00 ac.	"	"
387	5.00 ac.	"	"
388	5.00 ac.	"	"
405	5.00 ac.	"	"
406	5.00 ac.	"	"
407	5.00 ac.	"	"
408	5.00 ac.	"	"
409	4.94 ac.	"	"
410	4.94 ac.	"	"
411	4.94 ac.	"	"
412	4.94 ac.	"	"
413	4.945 ac.	"	"
414	4.945 ac.	"	"
415	4.945 ac.	"	"
416	4.945 ac.	Leon Lucas	"
417	5.00 ac.	Margaret Spence T.J. and Doris Kimbley	"
418	5.00 ac.	"	"
419	5.00 ac.	Opal R. Nelson	Roy Barton
420	5.00 ac.	Margaret Spence T. J. and Doris Kimbley	Read & Stevens, Inc.
437	5.00 ac.	Aubrey B. & Edith Covault	Coquina Oil Corp
438	5.00 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.

EXHIBIT "A"

<u>Tract #</u>	<u>Acres in Tract</u>	<u>Tract Royalty Owner</u>	<u>Tract Leasehold Owner</u>
439	5.00 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.
440	5.00 ac.	"	"
441	4.945 ac.	Stephen Knowles Quinn	Coquina Oil Corp.
442	4.945 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.
443	4.945 ac.	"	"
444	4.945 ac.	"	"
445	4.95125 ac.	"	"
446	4.95125 ac.***Listed Below		Roy McKay
447	9.90250 ac.	E.L. and Maxine Dornan	J.R. Rowan
448	10.000 ac. ***Listed Below		Roy McKay
449	5.00 ac.	"	"
450	5.00 ac.	"	"
467	5.00 ac.	"	"
468	5.00 ac.	"	"
469	10.00 ac.	Everett D. and Beulah M. Hardesty	Cities Service
470	9.90250 ac.	Margaret Spence and T.J. and Doris Kimbley	Read & Stevens, Inc.
471	4.95125 ac. **Listed Below		James E. Kiehne
472	4.95125 ac.	Ruth M. Campbell	James Isbell
Lot 4 and SE/4SW/4	79.65 ac.	*Listed below	Coquina Oil Corp.
TOTAL	318.34 ac.		

*R.M. Williams and his wife
Jacquelyn C. Williams
Jim L. Sharp, and his wife, Kathryn Sharp
H.W. Smith and his wife,
Evelyn Smith
Barry L. Antweil
Mark R. Antweil
Donald E. Blackmar and his wife, Nell L. Blackmar
Brenda Ann Moran
Alan Antweil Trustee of the Trust Estate known
as the Alan Antweil and Mary Frances Antweil
Trust.

**Harold W. Barnes and his wife
Delia Barnes, David L.
Barnes and his wife Dorothea S.
Barnes and Talmadge Gleaton,
Individually and as Independent
executor of the Estate of Ruth
M. Gleaton

*** Dr. Leland L. Fellows, Doralea Sanders Bean,
Dora S. McKnight, Trustees of the Estates of
L.T. Lewis and Nellie Lewis.
Dora L. Sanders, and Leland L. Fellows and Doralea
S. Bean, Trustees of the Dora Lewis Sanders Trust,
Leland Lewis Fellows Trust and Doralea Sanders Bean Trust.

TRACT 383, 4.94 acres

Acres owned Under Tract 383	Tract Royalty Owner	Tract Leasehold Owner
1.3832000	University of Missouri	Ronnie Ward
1.3832000	Ellis Fischel State Cancer Hospital	unleased
.0658996	Catherine B. Sanders	Ronnie Ward
.0658996	Helen M. Cox	Ronnie Ward
.0658996	Veva J. Isreal	Ronnie Ward
.0658996	R.K. McEwen	Ronnie Ward
.0658996	Fred McNabb	Ronnie Ward
.0329004	Goldie M. Kirk	Ronnie Ward
.0164008	Lois Jane Yantis	Ronnie Ward
.0164008	Whitson J. Kirk, Jr.	Ronnie Ward
1.1856000	Ronnie Ward	Ronnie Ward
.0988000	Belle Amunds	unleased
.0988000	Thelma Edwards	unleased
.3952000	Imogene Tappana	unleased
4.9400000 acres		

*can't be without board
board has
not met
won't meet
til '82*

*no address
won't be
won't be*

READ & STEVENS, INC.
WELL COST ESTIMATE
AUTHORIZATION FOR EXPENDITURES

505/622-8770

AFE NO. 2 Prepared By: Bruce Stubbs
 Date June 3, 1981
 Well Name Kimbley #1 Prospect Name -
 Location W/2 Sec. 19-23S-28E County Eddy State NM
 Est. Total Depth 12,900 Formation Morrow
 Drill: Wildcat X Development - Original - Supplement - Revised -
 Workover: Recompletion Maintenance - Estimate - Estimate - Estimate X

Description of Work:

INTANGIBLES

	GROSS COSTS	
	Dry Hole	Producer
Location preparation and damages	\$ 30,000	\$ 30,000
Contractor's footage charge - ft. @ \$ - per ft.	-	-
Contractor's day work 80 days @ \$ 8550 per day	685,392	685,392
Bits and reamers	75,000	75,000
Mud, chemicals and mud services	125,000	125,000
Equipment rentals	90,000	90,000
Logging and testing	55,000	55,000
Mud logging	18,000	18,000
Hauling and freight	20,000	20,000
Supervision	15,000	15,000
Cement and cementing services	45,000	60,000
Perforating, acidizing and fracturing	-	80,000
Completion workover and swabbing units	-	30,000
Contract services	4,500	4,500
Non-recoverable equipment	-	-
Administrative overhead	3,000	3,000
Miscellaneous expenditures	20,000	20,000
Plugging and abandonment	10,000	-
Water	35,000	35,000
Contingencies	-	-
Sales tax	-	-
TOTAL INTANGIBLES	\$ 1,230,892	\$ 1,345,892

WELL TANGIBLES

Surface casing 400 ft. of 16 in. @ \$ 39.66 /ft.	\$ 15,864	\$ 15,864
Protective casing 3000 ft. of 10 3/4 in. @ \$ 22.02 /ft.	66,060	66,060
Production casing 9600 ft. of 7 5/8 in. @ \$ 29.96 /ft.	287,616	287,616
Tubing 12,600 ft. of 2 7/8 in. @ \$ 6.39 /ft.	-	80,514
Liner 3500 ft. of 5 in. @ \$ 28.75 /ft.	-	100,625
Well head equipment	-	48,000
Other sub-surface equipment	-	15,000
Other surface well equipment	-	10,000
TOTAL TANGIBLES	\$ 369,540	\$ 623,679
TOTAL WELL COST	\$ 1,600,432	\$ 1,969,571

(A) Well cost to casing point \$ 1,600,432
 (B) Well cost after casing point \$ 457,639

PRODUCTION EQUIPMENT

Hauling and freight	\$ -	\$ 5,000
Supervision, labor, contract services	-	4,000
Miscellaneous connections, fittings	-	3,000
Line pipe	-	1,500
Pumping equipment	-	-
Tankage 2 - 300 lbs	-	15,000
Separator	-	25,000
Dehydrator	-	-
Heater-treater	-	-
Other	-	-

TOTAL PRODUCTION EQUIPMENT \$ - \$ 53,500
 TOTAL AFE \$ 1,600,432 \$ 2,023,071

TOTAL PREVIOUS ESTIMATES \$ - \$ -
 TOTAL THIS ESTIMATE \$ 1,600,432 \$ 2,023,071

BEFORE EXAMINER NUTTER

APPROVAL
 COMPANY: OIL CONSERVATION DIVISION
 SIGNATURE: R-S

EXHIBIT NO. 3

CASE NO. 7366

TITLE:

DATE:

INTEREST:

*Looking for:
 Alaska
 stream
 Morrow
 will spend
 11/20*

PS Form 3800, Apr. 1976

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
☐ RESTRICTED DELIVERY
 Show to whom and date delivered
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Shelma Edwards
218 North Main Street
Marion, Iowa 52572

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
P23 3201262

I have received the article described above.
☐ Addressee ☒ Authorized agent

4. DATE OF DELIVERY
9/1/81

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE

CLERK'S INITIALS
P.F.

☆ GPO: 1976-272-382

P23 3201262

RECEIPT FOR CERTIFIED MAIL

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

SENT TO
Shelma Edwards
218 North Main St.
Marion, Iowa 52572

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
R+L OCL
9-1-81

PS Form 3800, Apr. 1976

PS Form 3800, Apr. 1976

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
☐ RESTRICTED DELIVERY
 Show to whom and date delivered
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Ellis Leichel State Cancer Hospital
115 Business Loop 70 West
Columbia, Missouri 65211
Attn: Joseph C. Green

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
P23 3201264

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☒ Authorized agent
E. Gray

4. DATE OF DELIVERY
9/5/81

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE

CLERK'S INITIALS
P.F.

☆ GPO: 1976-272-382

P23 3201264

RECEIPT FOR CERTIFIED MAIL

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

SENT TO
Ellis Leichel State Cancer Hospital
115 Business Loop 70 West
Columbia, Missouri 65211
Attn: Joseph C. Green

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
R+L OCL
9-1-81

PS Form 3800, Apr. 1976

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

1. If you want a receipt postmarked, stick the gummed stub on the left portion of the address side of the article, leaving the receipt attached, and present the article at a post office service window or hand it to your rural carrier. (no extra charge)
2. If you do not want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, date, detach and retain the receipt, and mail the article.
3. If you want a return receipt, write the certificate number and your name and address on a return receipt card, Form 3811, and attach it to the front of the article by means of the gummed ends. If space permits, otherwise affix to back of article. Endorse front of article **RETURN RECEIPT REQUESTED** adjacent to the number.
4. If you want delivery restricted to the addressee, or to an authorized agent of the addressee, endorse **RESTRICTED DELIVERY** on the front of the article.
5. Enter fees for the services requested in the appropriate spaces on the front of this receipt. If return receipt is requested, check the applicable blocks in Item 1 of Form 3811.
6. Save this receipt and present it if you make inquiry.


U.S. GPO: 1979 302-878

Ps & acc

**UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS**

SENDER INSTRUCTIONS
Print your name, address, and ZIP Code in the space below.
• Complete items 1, 2, and 3 on the reverse.
• Attach to front of article if space permits. Otherwise affix to back of article.
• Endorse article "Return Receipt Requested" adjacent to number.

**PENALTY FOR PRIVATE
USE TO AVOID PAYMENT
OF POSTAGE, \$300**



Jennings & Christy
(Name of Sender)

P.O. Box 1180
(Street or P.O. Box)

Laswell, New Mexico 88201
(City, State, and ZIP Code)

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

1. If you want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, leaving the receipt attached, and present the article at a post office service window or hand it to your rural carrier. (no extra charge)
2. If you do not want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, date, detach and retain the receipt, and mail the article.
3. If you want a return receipt, write the certificate number and your name and address on a return receipt card, Form 3811, and attach it to the front of the article by means of the gummed ends. If space permits, otherwise affix to back of article. Endorse front of article **RETURN RECEIPT REQUESTED** adjacent to the number.
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**PENALTY FOR PRIVATE
USE TO AVOID PAYMENT
OF POSTAGE, \$300**



RETURN TO

Jennings & Christy
(Name of Sender)

P.O. Box 1180
(Street or P.O. Box)

Laswell, New Mexico 88201
(City, State, and ZIP Code)

P23 3201263

RECEIPT FOR CERTIFIED MAIL

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

SENT TO		Emogene Lappana	
STREET AND NO.		504 North Ball	
P.O., STATE AND ZIP CODE		Webb City, Missouri 64870	
POSTAGE		54870	
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE		c
	SPECIAL DELIVERY		c
	RESTRICTED DELIVERY		c
	SHOW TO WHOM AND DATE DELIVERED		c
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY		c
OPTIONAL SERVICES	RETURN RECEIPT SERVICE		c
	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY		c
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY		c
TOTAL POSTAGE AND FEES			\$
POSTMARK OR DATE		R-S-occ 9-1-81	

PS Form 3800, Apr. 1976

Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. Name and address of addressee (if different from above):

2. Name and address of sender (if different from above):

3. Name and address of return addressee (if different from above):

4. I have received the article described above.

5. I have not received the article described above.

BEFORE EXAMINER

OIL CONSERVATION DIVISION

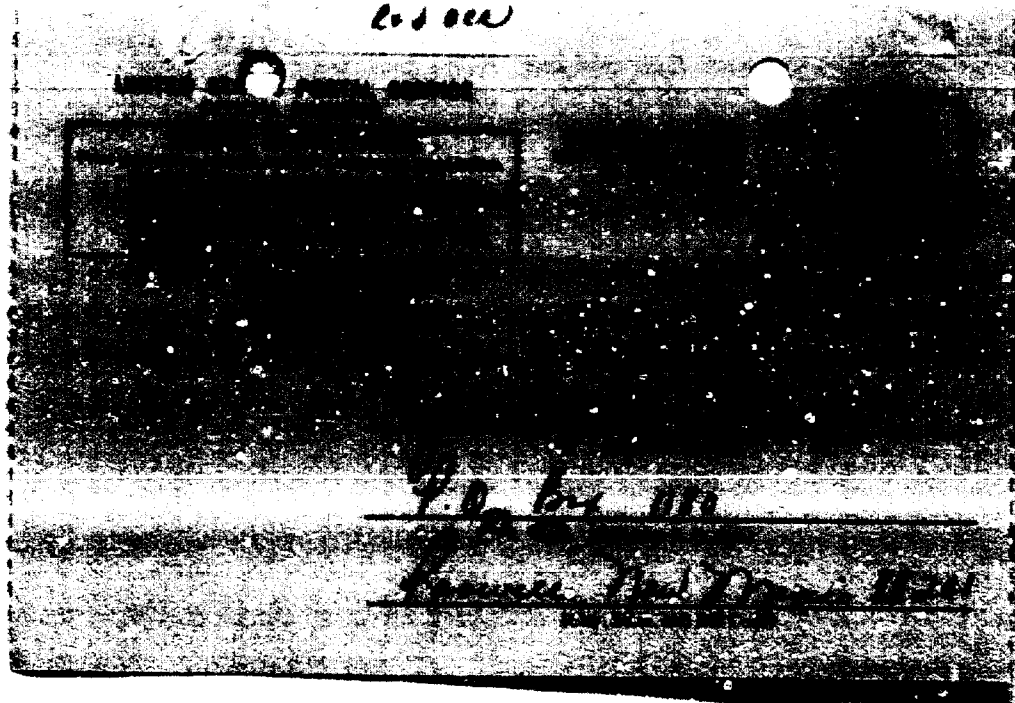
R-S EXHIBIT NO. 5

CASE NO. 7366

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

1. If you want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, leaving the receipt attached, and present the article at a post office service window or hand it to your rural carrier. (no extra charge)
2. If you do not want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, date, detach and retain the receipt, and mail the article.
3. If you want a return receipt, write the certified-mail number and your name and address on a return receipt card, Form 3811, and attach it to the front of the article by means of the gummed ends if space permits. Otherwise, affix to back of article. Endorse front of article **RETURN RECEIPT REQUESTED** adjacent to the number.
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6. Save this receipt and present it if you make inquiry.

U.S. GPO 1979 302-878



BEFORE EXAMINER WATER

OIL CONSERVATION DIVISION

P-5 EXHIBIT NO. 5

CASE NO. 7366

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

#1 KIMBLEY

OPERATING AGREEMENT

DATED

April 7 , 19 81 ,

OPERATOR READ & STEVENS, INC.

CONTRACT AREA Township 23 South, Range 28 East

Section 19: W/2

COUNTY ~~OR-PARISH~~ OF Eddy 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
ARTIFICIAL PRODUCTIONS BOX 870 DALLAS, TX 75201

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
<u>R-S</u> EXHIBIT NO. <u>4</u>
CASE NO. <u>7366</u>

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between **READ & STEVENS, INC.**,
P.O. Box 1518, Roswell, New Mexico 88201, 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 in-
 terests 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 cov-
 ering 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 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

1 or operating costs which it may have theretofore paid, but there shall be no monetary liability on its
 2 part to the other parties hereto for drilling, development, operating or other similar costs by reason of
 3 such title failure; and

4 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the
 5 operation of the interest which has been lost, but the interests of the parties shall be revised on an acre-
 6 age basis, as of the time it is determined finally that title failure has occurred, so that the interest of
 7 the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
 8 Area by the amount of the interest lost; and

9 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled
 10 on the Contract Area is increased by reason of the title failure, the party whose title has failed shall
 11 receive the proceeds attributable to the increase in such interests (less costs and burdens attributable
 12 thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;
 13 and

14 (d) Should any person not a party to this agreement, who is determined to be the owner of any in-
 15 terest in the title which has failed, pay in any manner any part of the cost of operation, development,
 16 or equipment, such amount shall be paid to the party or parties who bore the costs which are so refund-
 17 ed; and

18 (e) Any liability to account to a third party for prior production of oil and gas which arises by
 19 reason of title failure shall be borne by the party or parties in the same proportions in which they shared
 20 in such prior production; and

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection
 22 with the defense of the interest claimed by any party hereto, it being the intention of the parties
 23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.

24
 25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,
 26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously
 27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against
 28 the party who failed to make such payment. Unless the party who failed to make the required payment
 29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-
 30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of
 31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-
 32 volved, and the party who failed to make proper payment will no longer be credited with an interest in
 33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event
 34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of
 35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an
 36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it
 37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the
 38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following
 39 as is necessary to effect reimbursement:

40 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost
 41 interest, on an acreage basis, up to the amount of unrecovered costs;

42 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an
 43 acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production
 44 from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable
 45 to the lost interest on an acreage basis, up to the amount of unrecovered costs; the proceeds of said
 46 portion of the oil and gas to be contributed by the other parties in proportion to their respective in-
 47 terests; and

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or
 49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-
 50 coming a party to this agreement.

51
 52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
 53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
 54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
 55 the Contract Area.

56 57 ARTICLE V. 58 OPERATOR

59 60 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

61
 62 READ & STEVENS, INC. shall be the
 63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on
 64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
 65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
 66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
 67 negligence or willful misconduct.

1 B. Resignation or Removal of Operator and Selection of Successor:

2
3 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice
4 thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the
5 Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any
6 action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or
7 refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership,
8 by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on owner-
9 ship as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting
10 interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M.
11 on the first day of the calendar month following the expiration of ninety (90) days after the giving of
12 notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor
13 Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effect-
14 ive date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of
15 a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary,
16 parent or successor corporation shall not be the basis for removal of Operator.

17
18 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Op-
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the
22 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown
23 on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the
24 Operator that was removed.

25
26 C. Employees:

27
28 The number of employees used by Operator in conducting operations hereunder, their selection,
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,
30 and all such employees shall be the employees of Operator.

31
32 D. Drilling Contracts:

33
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-
38 menced, and such work shall be performed by Operator under the same terms and conditions as are
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-
40 ilar nature.

41
42 **ARTICLE VI.**
43 **DRILLING AND DEVELOPMENT**44
45 A. Initial Well:

46
47 On or before the 20th day of November, 1981, Operator shall commence the drill-
48 ing of a well for oil and gas at the following location:

49 2310' FNL and 1947' FWL Section 19-23S-28E

50
51
52
53 and shall thereafter continue the drilling of the well with due diligence to

54 Adequately test the Morrow formation at Approximately 12,900' from the surface.

55
56
57
58 unless granite or other practically impenetrable substance or condition in the hole, which renders
59 further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or
60 abandon the well at a lesser depth.

61
62 Operator shall make reasonable tests of all formations encountered during drilling which give in-
63 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited
64 in its application to a specific formation or formations, in which event Operator shall be required to
65 test only the formation or formations to which this agreement may apply.

66
67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes
68 to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall
69 plug and abandon same as provided in Article VI.E.I. hereof.

70

1 B. Subsequent Operations:

2
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
29 and conditions of this agreement.

30
31 If less than all parties approve any proposed operation, the proposing party, immediately after the
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
39 all parties of such decision.

40
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions
47 of this Article results in a producer of oil and or gas in paying quantities, the Consenting Parties shall
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,
55 calculated at the well, or market value thereof if such share is not sold (after deducting production
56 taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of
57 or measured by the production from such well accruing with respect to such interest until it reverts)
58 shall equal the total of the following:

59
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68
69 (b) 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging
70 back, testing and completing, after deducting any cash contributions received under Article VII.C., and

1 300% of that portion of the cost of newly acquired equipment in the well (to and including the well-
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
3 pated therein.

4
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other
17 burdens applicable to Non-Consenting Party's share of production.

18
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
24 salvage.

25
26 Within sixty (60) days after the completion of any operation under this Article, the party con-
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
35 amount of proceeds realized from the sale of the well's working interest production during the preceding
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
39 such operation which would have been owned by a Non-Consenting Party had it participated therein
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
56 well spacing pattern for such source of supply.

57
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
62 VI.A.

63 C. Right to Take Production in Kind:

64
65 Each party shall have the right to take in kind or separately dispose of its proportionate share of
66 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-
67 velopment and producing operations and in preparing and treating oil for marketing purposes and
68 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-
69 sition by any party of its proportionate share of the production shall be borne by such party. Any
70

1 party taking its share of production in kind shall be required to pay for only its proportionate share
2 of such part of Operator's surface facilities which it uses.

3
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled
6 to receive payment direct from the purchaser thereof for its share of all production.

7
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-
13 erator shall be subject always to the right of the owner of the production to exercise at any time its
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's
19 share of gas production without first giving such other party thirty (30) days notice of such intended
20 sale.

21
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-
23 liveries to separate pipelines and or deliveries which on a day-to-day basis for any reason are not
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the
25 balancing or accounting between the respective accounts of the parties shall be in accordance with
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as
27 Exhibit "E", or is a separate Agreement.

28 29 **D. Access to Contract Area and Information:**

30
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the
39 information.

40 41 **E. Abandonment of Wells:**

42
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent
46 effort be unable to contact any party, or should any party fail to reply within forty-eight (48) hours
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct
52 further operations in search of oil and or gas subject to the provisions of Article VI.B.

53
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the
67 formation or formations then open to production. If the interest of the abandoning party is or includes
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-
70 tion, 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 Ten-Thousand Dollars (\$ 10,000) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "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).

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 25% 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

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

3
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter
7 be subject to the terms and provisions of this agreement.

8
9 **B. Renewal or Extension of Leases:**

10
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area

17
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its
25 proportionate interest therein by the acquiring party.

26
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal
32 lease and shall not be subject to the provisions of this agreement.

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases.

36
37 **C. Acreage or Cash Contributions:**

38
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or
49 any other operation on the Contract Area.

50
51 If any party contracts for any consideration relating to disposition of such party's share of substances
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
53 Article VIII.C.

54
55 **D. Subsequently Created Interest:**

56
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as
61 follows:

62
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the
64 party conducting such operations becomes entitled to receive the production attributable to the interest
65 out of which the subsequently created interest is derived, such party shall receive same free and clear
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and
68 all liability resulting therefrom.

69
70

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

1 such party shall give any notices or take any other action inconsistent with the election made hereby.
 2 If any present or future income tax laws of the state or states in which the Contract Area is located or
 3 any future income tax laws of the United States contain provisions similar to those in Subchapter "K",
 4 Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that
 5 provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as
 6 may be permitted or required by such laws. In making the foregoing election, each such party states that
 7 the income derived by such party from Operations hereunder can be adequately determined without the
 8 computation of partnership taxable income.

10 **ARTICLE X.** 11 **CLAIMS AND LAWSUITS**

13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-
 14 penditure does not exceed Ten-Thousand Dollars
 15 (\$ 10,000) and if the payment is in complete settlement of such claim or suit. If the amount
 16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the
 17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-
 18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense
 19 of the parties. If a claim is made against any party or if any party is sued on account of any matter
 20 arising from operations hereunder over which such individual has no control because of the rights given
 21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall
 22 be treated as any other claim or suit involving operations hereunder.

24 **ARTICLE XI.** 25 **FORCE MAJEURE**

27 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations
 28 under this agreement, other than the obligation to make money payments, that party shall give to all
 29 other parties prompt written notice of the force majeure with reasonably full particulars concerning it;
 30 thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,
 31 shall be suspended during, but no longer than, the continuance of the force majeure. The affected party
 32 shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not
 35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its
 36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party
 37 concerned.

39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other
 40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,
 41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,
 42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not
 43 reasonably within the control of the party claiming suspension.

45 **ARTICLE XII.** 46 **NOTICES**

48 All notices authorized or required between the parties, and required by any of the provisions of
 49 this agreement, unless otherwise specifically provided, shall be given in writing by United States mail
 50 or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to
 51 whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any
 52 provision hereof shall be deemed given only when received by the party to whom such notice is directed,
 53 and the time for such party to give any notice in response thereto shall run from the date the originat-
 54 ing notice is received. The second or any responsive notice shall be deemed given when deposited in
 55 the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid,
 56 or when sent by teletype. Each party shall have the right to change its address at any time, and from
 57 time to time, by giving written notice hereof to all other parties.

59 **ARTICLE XIII.** 60 **TERM OF AGREEMENT**

62 This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas in-
 63 terests subjected hereto for the period or time selected below; provided, however, no party hereto shall
 64 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-
 65 tributed by any other party beyond the term of this agreement.

67 ☒ Option No. 1. So long as any of the oil and gas leases subject to this agreement remain or are con-
 68 tinued in force as to any part of the Contract Area, whether by production, operation, renewal or other-
 69 wise, and/or so long as oil and/or gas production continues from any lease, or oil and gas interest,

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within _____ days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV. OTHER PROVISIONS

A. 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 interpretation 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 rulings, rules, regulations or orders, together with the Non-Operators' 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.

B. If, in the drilling of the initial well Operator loses the hole or encounters mechanical difficulties rendering it impractical, in the opinion of the Operator to drill the well to the objective depth, then and in any such event, on or before 30 days after abandonment of the initial well, Operator shall have the option to commence the actual drilling of another well, ("Substitute Well") at a lawful location of Operator's selection on the Contract Area, and prosecute the drilling of said well with due diligence and in a good workmanlike manner to the objective depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

C. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.

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 10th day of August, 1981.

OPERATOR

ATTEST:

READ & STEVENS, INC.

Joe Wigley, Secretary

BY:

Norman L. Stevens, Jr., Vice-President

NON-OPERATORS

EXHIBIT "A" (1)

Attached and made a part of Operating Agreement dated April 7, 1981,
between Read & Stevens, Inc., Operator and
Coquina Oil Corporation, et al, Non-Operator.

LANDS SUBJECT TO THIS AGREEMENT:

Township 23 South, Range 28 East
Section 19: Lots 1,2,3,4 E $\frac{1}{2}$ W $\frac{1}{2}$
Containing 318.34 acres, more or less

DEPTH LIMITATION

NONE

INTEREST OF PARTIES UNDER THIS AGREEMENT:

Coquina Oil Corporation	28.1444%
James E. Keihne	1.5553%
James Isbell	1.5553%
J.R. Rowan	2.0738%
Don D. Matson	1.0369%
Cities Service Oil Company	3.1413%
Roy Barton, Jr.	1.5707%
Roy McKay	10.9792%
Ronnie Ward	1.3656%
Read & Stevens, Inc.	48.3913%
Unleased	.1862%
	<u>100.0000%</u>

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Margaret S. Spence
Lessee: Ed Phillips (Read & Stevens, Inc.)
Dated: September 26, 1980
Expiration Date: September 26, 1983
Landowner's Royalty: 1/4
Description: Township 23 South, Range 28 East, NMPM
Section 19: SE/4NW/4SW/4, W/2NW/4NW/4SW/4

Acres: 15 Gross acres, 7.5 net acres
Interest: 100%
Annual Rental: \$15.00
Recorded: Book 191, page 637

Lessor: T.J. and Doris Odgen Kimbley
Lessee: Ed Phillips (Read & Stevens, Inc.)
Dated: September 26, 1980
Expiration Date: September 26, 1983
Landowner's Royalty: 1/4
Description: Township 23 South, Range 28 East, NMPM
Section 19: SE/4NW/4SW/4, W/2NW/4NW/4SW/4

Acres: 15 gross acres, 7.5 net acres
Interest: 100%
Annual Rental: \$15.00
Recorded: Book 191, page 630

Lessor: T.J. and Doris Odgen Kimbley
Lessee: Ed Phillips (Read & Stevens, Inc.)
Dated: September 26, 1980
Expiration Date: September 26, 1983
Landowner's Royalty: 1/4
Description: Township 23 South, Range 28 East, NMPM
Section 19: W/2NW/4NW/4, W/2SE/4NW/4NW/4, E/2E/2NW/4NW/4, NE/4NW/4,
W3/4SW/4NW/4, E/2NE/4SE/4NW/4, W3/4SE/4NW/4, Less
Minerals under the W/2NE/4SE/4NW/4
Acres: 135 gross acres, 67.5 net acres
Interest: 100%
Annual Rental: \$135.00
Recorded: Book 191, page 628

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Margaret S. Spence

Lessee: Ed Phillips (Read & Stevens, Inc.)

Dated: September 26, 1980

Expiration Date: September 26, 1983

Landowner's Royalty: 1/4

Description: Township 23 South, Range 28 East, NMPM

Section 19: W/2NW/4NW/4, W/2SE/4/NW/4NW/4, E/2E/2NW/4NW/4, NE/4NW/4,
W3/4SW/4NW/4, E/2NE/4SE/4NW/4, W3/4SE/4NW/4, Less Minerals
under the W/2NE/4SE/4NW/4

Acres: 135 gross acres, 67.5 net acres

Interest: 100%

Annual Rental: \$135.00

Recorded: Book 191, page 634

Lessor: Aubrey B. Covault et ux., Edith M. Covault

Lessee: Ronnie Ward

Dated: January 22, 1979

Expiration Date: January 22, 1983

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East, NMPM

Section 19: E/2SE/4SE/4NW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 170, page 476

Lessor: Stephen Knowles Quinn

Lessee: Ronnie Ward

Dated: January 22, 1979

Expiration Date: January 22, 1983

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East, NMPM

Section 19: E/2SE/4SW/4NW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 170, page 483

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: R.M. Williams, et al

Lessee: Coquina Oil Corporation

Dated: May 22, 1980

Expiration Date: May 22, 1985

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East, NMPM
Section 19: S/2SW/4

Acres: 79.65 acres, more or less

Interest: 100%

Annual Rental: \$79.65

Recorded: Book 186, page 618

Lessor: E.L. Dornan and Maxine Dornan

Lessee: J.R. Rowan

Dated: February 13, 1978

Expiration Date: February 13, 1983

Landowner's Royalty: 1/8

Description: Township 23 South, Range 28 East, NMPM
Section 19: NE/4NW/4SW/4

Acres: 10.00 acres, mor or less

Interest: 100%

Annual Rental: \$10.00

Recorded: Book 154, page 410

Lessor: Everett D. Hardesty and Beulah M. Hardesty

Lessee: Cities Service Company

Dated: July 18, 1981

Expiration Date: July 18, 1984

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East, NMPM
Section 19: SW/4NE/4SW/4

Acres: 10.00 acres, more or less

Interest: 100%

Annual Rental: \$10.00

Recorded:

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Harold W. Barnes, et al

Lessee: James E. Kiehne

Dated: August 29, 1980

Expiration Date: August 29, 1985

Landowner's Royalty: 1/8

Description: Township 23 South, Range 28 East, NMPM
Section 19: E/2SE/4NW/4SW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 189, page 784

Lessor: Ruth M. Campbell

Lessee: James H. Isbell

Dated: December 22, 1980

Expiration Date: December 22, 1983

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East, NMPM
Section 19: W/2SW/4NW/4SW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 193, page 596

Lessor: Opal R. Nelson

Lessee: Roy G. Barton

Dated: November 28, 1972

Expiration Date: November 28, 1982

Landowner's Royalty: 1/8

Description: Township 23 South, Range 28 East, NMPM
Section 19: W/2NE/4SW/4NW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 92, page 49

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Leona Lucas and Gordon Lucas

Lessee: R.F. Fort

Dated: August 18, 1980

Expiration Date: August 18, 1985

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: E/2NE/4SW/4NW/4

Acres: 5.00 gross acres, 2.50 net acres, more or less

Interest: 50%

Annual Rental: Paid up

Recorded: Book 196, Page 591

Lessor: Hazel T. Ruckman, widow of Vernon L. Ruckman

Lessee: Read & Stevens, Inc.

Dated: May 12, 1981

Expiration Date: May 12, 1986

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: E/2NE/4SW/4NW/4

Acres: 4.945 gross acres, .618125 net acres, more or less

Interest: 12.5%

Annual Rental: Paid up

Recorded: Book 199, Page 582

Lessor: Vernon L. Ruckman, Jr., dealing in his sole and separate property

Lessee: Read & Stevens, Inc.

Dated: May 12, 1981

Expiration Date: May 12, 1986

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: E/2NE/4SW/4NW/4

Acres: 4.945 gross acres, .9271875 net acres, more or less

Interest: 18.75%

Annual Rental: Paid up

Recorded: Book 199, Page 1028

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Laverne Martin, dealing in her sole and separate property

Lessee: Read & Stevens, Inc.

Dated: May 12, 1981

Expiration Date: May 12, 1986

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: E/2NE/4SW/4NW/4

Acres: 4.945 gross acres, .9271875 net acres, more or less

Interest: 18.75%

Annual Rental: Paid up

Recorded: Book 199, Page 580

Lessor: University of Missouri

Lessee: Ronnie Ward

Dated: April 20, 1981

Expiration Date: April 20, 1982

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, 1.40 net acres, more or less

Interest: 28%

Annual Rental: Paid up

Recorded:

Lessor: Ellis Fischel State Cancer Hospital

Lessee: Ronnie Ward

Dated: April 20, 1981

Expiration Date: April 20, 1982

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, 1.40 net acres, more or less

Interest: 28%

Annual Rental: Paid up

Recorded:

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Catherine B. Sanders, Guardian for William Aaron Bilderback

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334%

Annual Rental: Paid up

Recorded:

Lessor: Helen M. Cox

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334%

Annual Rental: Paid up

Recorded:

Lessor: Veva J. Isreal

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334 %

Annual Rental: Paid up

Recorded:

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: R.K. McEwen

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334 %

Annual Rental: Paid up

Recorded:

Lessor: Fred McNabb

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334%

Annual Rental: Paid up

Recorded:

Lessor: Goldie M. Kirk

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0333 net acres, more or less

Interest: .666%

Annual Rental: Paid up

Recorded:

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Lois Jane Yantis

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0166 net acres, more or less

Interest: .332%

Annual Rental: Paid up

Recorded:

Lessor: Whitson J. Kirk, Jr.

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0166 net acres, more or less

Interest: .332%

Annual Rental: Paid up

Recorded:

Lessor:

Lessee:

Dated:

Expiration Date:

Landowner's Royalty:

Description:

Acres:

Interest:

Annual Rental:

Recorded:

ADDRESSES OF PARTIES:

Read & Stevens, Inc.
P.O. Box 1518
Roswell, New Mexico 88201

Coquina Oil Corporation
P.O. Drawer 2960
Midland, Texas 79701
Attn: L.E. Operman

James E. Kiehne
P.O. Box 3855
Midland, Texas 79702

James H. Isbell
727 Midland Tower Building
Midland, Texas 79701

J. Richard Rowan
P.O. Box 162
Midland, Texas 79702

Roy McKay
P.O. Box 2014
Roswell, New Mexico 88201

Roy Barton
300 West Taylor
Hobbs, New Mexico 88240

Cities Service Company
P.O. Box 1919
Midland, Texas 79701

Ronnie Ward
P.O. Box 2371
Midland, Texas 79701

Don D. Matson
3622 Imperial
Midland, Texas 79701

OIL & GAS LEASE

THIS AGREEMENT made this _____ day of _____, 19____, Between _____

(Post Office Address)

herein called lessor (whether one or more) and

1. Lessor, in consideration of TEN AND OTHER OIL LAIRS in Land paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in _____ County, New Mexico, to wit:

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.
2. Subject to the other provisions herein contained, this lease shall remain in force for a term of _____ years from this date (called "primary term"), and as long thereafter as oil or gas is produced from said land or land with which said land is pooled.

3. The royalty to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, _____ of that produced and saved from said land, same to be delivered at the well or to the credit of lessee in the pipe line to which the well may be connected; (b) on gas, including casinghead gas and all gaseous substance produced from said land and sold or used off the premises or used in the manufacture of gasoline or other product therefrom, the market value at the well of _____ of the gas used, provided that on gas sold on or off the premises the royalty shall be _____ of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$ _____ which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during

the primary term. Payment or tender may be made to the lessor or to the credit of the lessor in the _____ Bank

at _____ which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository change is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit. Lessee is further granted the right and power to commit this lease as to all or any portion of the above described lands or horizons thereof to any unit agreement for the purpose of conserving the natural resources of any oil or gas pool, field or area covered thereby; provided, such unit agreement contains usual and customary provisions for the allocation of oil and gas produced from the unit area and upon such commitment the provisions of this lease shall be conformed to the unit agreement.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or (if it be within the primary term) commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil and gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of production for more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished, shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratable according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, rental and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

STATE OF _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____

Notary Public

No. _____	
OIL AND GAS LEASE	
NEW MEXICO	
FROM	TO
Date _____, 19____	
Section _____, Township _____, Range _____	
No. of Acres _____	
County, New Mexico	
Term _____	
STATE OF NEW MEXICO	
COUNTY OF _____	
I hereby certify that this instrument was filed for	
record on the _____ day of _____	
A. D. 19____, at _____ o'clock _____ m., and	
was duly recorded in Book _____ at Page _____	
of the Records of said County.	
By _____	County Clerk.
Deputy.	

STATE OF NEW MEXICO

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____

Notary Public

STATE OF _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____

Notary Public

COPAS

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated April 7, 1981, by and between Read & Stevens, Inc., as Operator, and Coquina Oil Corporation, et al, as Non-Operator

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%)~~ twenty-three per cent (23%) or the per cent most

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:

- (☒) 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 (☒) 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 \$ 3,825.50

Producing Well Rate \$ 382.55

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
 - [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~~~(1) Operator shall charge the Joint Account at the following rates:~~~~(a) Development~~~~Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.~~~~(b) Operating~~~~Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~~~(2) Application of Overhead - Percentage Basis shall be as follows:~~~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.~~**2. Overhead - Major Construction**

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

- 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 and made a part of Operating Agreement dated
April 7, 1981, by and between READ & STEVENS, INC.
Operator and Coquina Oil Corporation
et al, as Non-Operator.

INSURANCE

Operator and Operator's contractors and subcontractors shall, during the drilling and completing of any and all well or wells drilled on the Unit Area and during the performance of all operations, carry the following described minimum insurance coverage on the Unit Area.

- A. Employer's Liability and Workmen's Compensation Insurance covering Operator's employees and the employees of Operator's contractors and subcontractors engaged in operations under this Agreement, in compliance with the laws of the State where the work is to be performed.
- B. General Public Liability Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors with Bodily Injury or Death limit of not less than One Hundred Thousand Dollars (\$100,000.00) for injury to or death of any one person; not less than Three Hundred Thousand Dollars (\$300,000.00) for injury to or death of more than one person resulting from any one accident and for Property Damage with a limit of not less than Fifty Thousand Dollars (\$50,000.00) for damage to property for each accident; and
- C. Automobile Public Liability and Property Damage Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors with Bodily Injury or Death limit of not less than One Hundred Thousand Dollars (\$100,000.00) for injury to or death of any one person; not less than Three Hundred Thousand Dollars (\$300,000.00) for injury to or death of more than one person resulting from any one accident; and for Property Damage with a limit of not less than Fifty Thousand Dollars (\$50,000.00) for damage to property for each accident.

EXHIBIT "E"
ATTACHED AND MADE A PART OF
OPERATING AGREEMENT DATED
April 7, 1981, BETWEEN
READ & STEVENS, INC. AS OPERATOR,
AND Coquina Oil Co., et al AS,
NON-OPERATOR.

GAS BALANCING AGREEMENT

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take in kind its share of gas produced from the Unit Area to market or otherwise dispose of the same. In the event any party hereto is not at any time taking or marketing its share of gas, or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become operative.

During the period when any party hereto is not marketing or otherwise disposing of its share of gas produced from any proration unit within the Unit Area, the other parties hereto shall be entitled to produce, in addition to their own share of production, that portion of such other party's share of production which said party is unable to market or otherwise dispose of and shall be entitled to take such gas production and deliver same to its or their purchaser (s). 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 aforesaid Operating Agreement, but the party or parties taking such gas shall own all of such gas delivered to its or their purchaser (s).

An account shall be established for each party not marketing or otherwise disposing of its share of the gas produced, which account shall be credited with an amount of gas equal to such party's full share of the gas produced, less its share of gas used in lease operations, vented or lost, and less that portion marketed or otherwise disposed of by such party. The Operator will maintain a current over and under account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

Each party hereto will make settlement with royalty owners to whom it is accountable, just as if such party were marketing or otherwise disposing of its share, and its share only, of such gas production. Each party hereto agrees to hold each other harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After notice to the Operator, any party at any time may begin marketing or otherwise disposing of its share of the gas produced from a proration unit with respect to which it has an under account balance. In addition to such share, said party, until it has balanced the gas account as to its interest, shall be entitled to take a share of gas determined by multiplying thirty-three and one-third percent (33 1/3%) of the interest in the current gas production of the party or parties having an over account balance by a fraction the numerator of which is the interest in the proration unit of such party with the under account balance and the denominator of which is the total percentage interest in such proration unit of all parties having an under account balance and who are currently marketing or otherwise disposing of a portion of their under account balance in addition to their share of gas.

Each party marketing or otherwise disposing of gas shall pay the production taxes due on such gas.

Nothing herein shall be construed to deny any party the right, from time to time to produce and deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between those parties credited with under account and over account balances. In making such settlement, the party or parties credited with an under account balance will be paid by the party or parties credited with an over account balance a sum of money equal to that received attributable to such over account, less applicable taxes theretofore paid. For gas sold or delivered into intrastate commerce said sum shall be computed at the price received for sale of the gas. For gas sold or delivered into interstate commerce said sum shall be computed at the rate collected, not subject to possible refund, as provided by the Federal Power Commission, plus any additional collected amount which is ultimately not required to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as provided in the aforesaid Operating Agreement.

This agreement shall constitute a separate agreement as to each proration unit within the Unit Area. It shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns. It 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.

END OF EXHIBIT "E"

EXHIBIT "F"
continued

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

The Contractor, unless exempt, agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this agreement or the award of any such purchase order, as the case may be, (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually, on or before March 31st. (4) CFR 60-1.7 (a))

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The Contractor agrees to develop and maintain a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended. (41 CFR 60-1.40)

D. VETERAN'S EMPLOYMENT

In the event the agreement to which this exhibit is attached is for the purpose of carrying out a contract with any department or agency of the United States for the procurement of personal property and non-personal services (including construction) for the United States as provided by Section 2012 of Title 38 USC, Contractor agrees to give special emphasis to the employment of qualified disabled veterans and veterans of the Vietnam era and to list immediately with the appropriate local employment service all of its suitable employment openings.

E. EQUAL OPPORTUNITY IN EMPLOYMENT CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into the contract to which this Exhibit "F" is attached, certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, sex or national origin, because of habit, local custom, or otherwise. He further agrees that (except where he has obtained identical certification from proposed subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity clause; that he will retain such certifications in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES A Certification of Nonsegregated Facilities, as required by the May 9, 1967, Order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i. e., quarterly, semi-annually, or annually).

EXHIBIT "F"

Attached and made a part of Operating Agreement
dated April 7, 1981 by and between Read & Stevens,
Inc., as Operator and
Coquina Oil Co., et al, as Non-Operator.

Definition: The word "Contractor" wherever used below shall mean "Operator" when this exhibit form is attached to an Operating Agreement and shall mean "Farmee" when attached to a Farmout Agreement.

A. During the performance of this contract, the Contractor agrees as follows:

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

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

3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representatives of the Contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

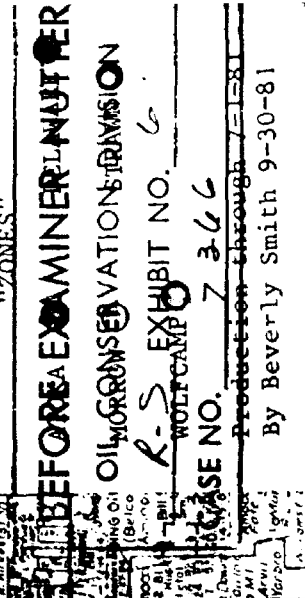
4. The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

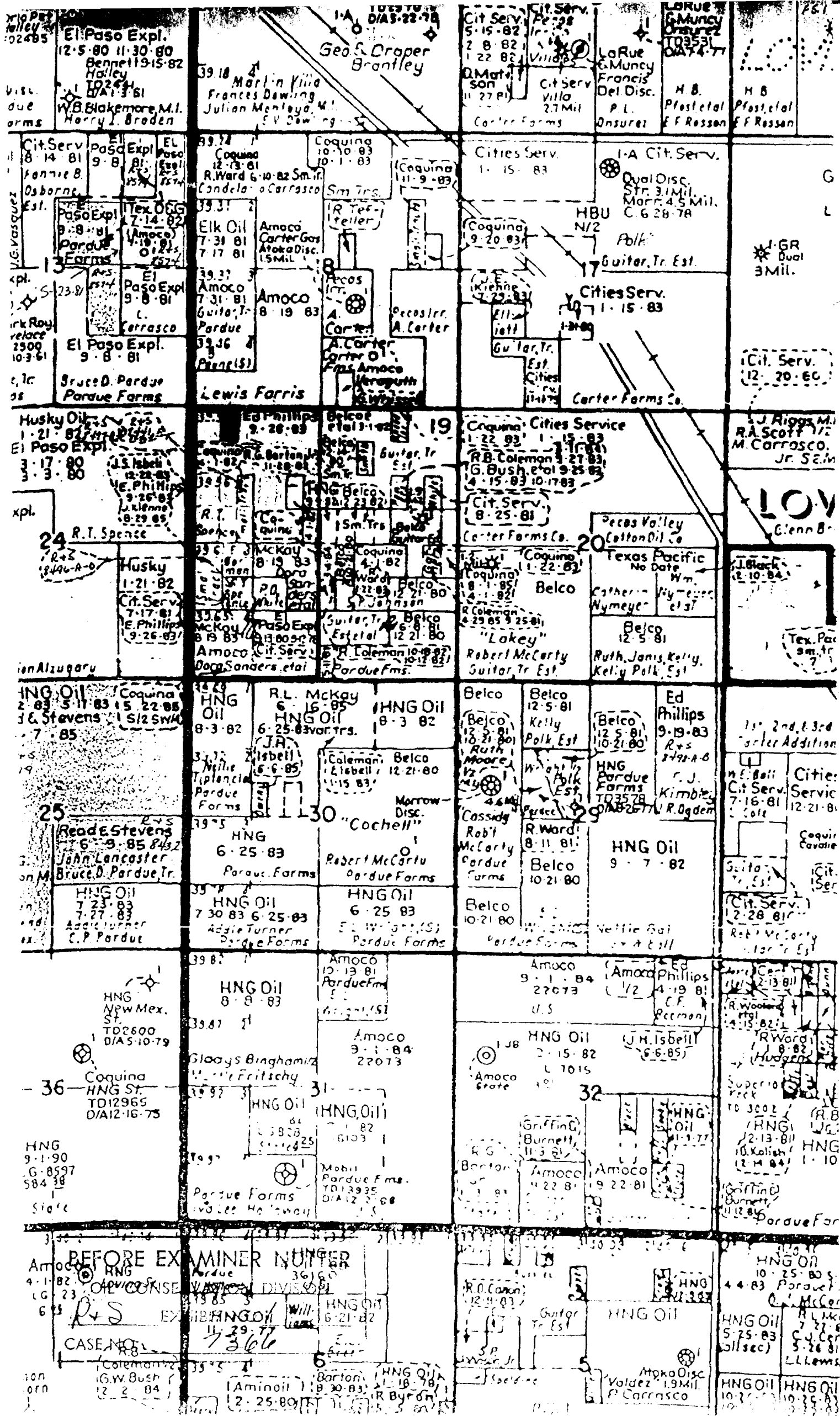
5. The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

6. In the event of Contractor's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for the further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rules, regulation or order of the Secretary of Labor, or a otherwise provided by law.

7. The Contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event the Contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interest of the United States.

Morrow 12/21/66 Perts: 12, 116-338
 TPCADP: 4w70 macropo Field: N. Lowing
 Comp: 12/30
 Cum/mon. 159,431 mcf 18,179 mcf June 81





SCALE 1 IN. = 100 FT.

SECTION 19: W/2

TOWNSHIP. 23 South

RANGE 28 East.....

TR 394	TR 395	TR 396	TR 397	TR 398
4.94 ac.	5.00 ac.	5.00 ac.	5.00 ac.	5.00 ac.
TR 402	TR 403	TR 404	TR 405	TR 406
5.00 ac.	5.00 ac.	5.00 ac.	5.00 ac.	5.00 ac.
TR 416	TR 417	TR 418	TR 419	TR 420
4.94 ac.	5.00 ac.	5.00 ac.	5.00 ac.	5.00 ac.
TR 442	TR 443	TR 444	TR 445	TR 446
4.9025 ac.	4.9025 ac.	10.00 ac.	5.00 ac.	5.00 ac.
TR 445	TR 446	TR 447	TR 448	TR 449
4.75125 ac.	4.75125 ac.	9.9025 ac.	10.00 ac.	5.00 ac.
TR 472	TR 473	TR 474	TR 475	TR 476
TR 477	TR 478	TR 479	TR 480	TR 481

BEFORE EXAMINER NUTTER
OIL CONSERVATION

OIL CONSERVATION DIVISION
R.S.

EXHIBIT NO. 2

CASE NO. 7866

EXHIBIT "A"

TOWNSHIP 23 SOUTH, RANGE 28 EAST, N.M.P.M.
 Section 19: Lots 1,2,3,4, E/2W/2

Containing 318.34 acres, more or less
 Eddy County, New Mexico

<u>Tract #</u>	<u>Acres in Tract</u>	<u>Tract Royalty Owner</u>	<u>Tract Leasehold Owner</u>
381	4.94 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.
382	4.94 ac.	"	"
383	4.94 ac.	Royalty and leasehold owners for Tract 383 are listed on Page 3	
384	4.94 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.
385	5.00 ac.	"	"
386	5.00 ac.	"	"
387	5.00 ac.	"	"
388	5.00 ac.	"	"
405	5.00 ac.	"	"
406	5.00 ac.	"	"
407	5.00 ac.	"	"
408	5.00 ac.	"	"
409	4.94 ac.	"	"
410	4.94 ac.	"	"
411	4.94 ac.	"	"
412	4.94 ac.	"	"
413	4.945 ac.	"	"
414	4.945 ac.	"	"
415	4.945 ac.	"	"
416	4.945 ac.	Leona Lucas	"
417	5.00 ac.	Margaret Spence T.J. and Doris Kimbley	"
418	5.00 ac.	"	"
419	5.00 ac.	Opal R. Nelson	Roy Barton
420	5.00 ac.	Margaret Spence T. J. and Doris Kimbley	Read & Stevens, Inc.
437	5.00 ac.	Aubrey B. & Edith Covault	Coquina Oil Corp
438	5.00 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.

EXHIBIT "A"

<u>Tract #</u>	<u>Acres in Tract</u>	<u>Tract Royalty Owner</u>	<u>Tract Leasehold Owner</u>
439	5.00 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.
440	5.00 ac.	"	"
441	4.945 ac.	Stephen Knowles Quinn	Coquina Oil Corp.
442	4.945 ac.	Margaret Spence T.J. and Doris Kimbley	Read & Stevens, Inc.
443	4.945 ac.	"	"
444	4.945 ac.	"	"
445	4.95125 ac.	"	"
446	4.95125 ac.***Listed Below		Roy McKay
447	9.90250 ac.	E.L. and Maxine Dornan	J.R. Rowan
448	10.000 ac. ***Listed Below		Roy McKay
449	5.00 ac.	"	"
450	5.00 ac.	"	"
467	5.00 ac.	"	"
468	5.00 ac.	"	"
469	10.00 ac.	Everett D. and Beulah M. Hardesty	Cities Service
470	9.90250 ac.	Margaret Spence and T.J. and Doris Kimbley	Read & Stevens, Inc.
471	4.95125 ac. **Listed Below		James E. Kiehne
472	4.95125 ac.	Ruth M. Campbell	James Isbell
Lot 4 and SE/4SW/4	79.65 ac.	*Listed below	Coquina Oil Corp.
TOTAL	318.34 ac.		

*R.M. Williams and his wife
Jacquelyn C. Williams
Jim L. Sharp, and his wife, Kathryn Sharp
H.W. Smith and his wife,
Evelyn Smith
Barry L. Antweil
Mark R. Antweil
Donald E. Blackmar and his wife, Nell L. Blackmar
Brenda Ann Moran
Alan Antweil Trustee of the Trust Estate known
as the Alan Antweil and Mary Frances Antweil
Trust.

**Harold W. Barnes and his wife
Delia Barnes, David L.
Barnes and his wife Dorothea S
Barnes and Talmadge Gleaton,
Individually and as Independent
executor of the Estate of Ruth
M. Gleaton

*** Dr. Leland L. Fellows, Doralea Sanders Bean,
Dora S. McKnight, Trustees of the Estates of
L.T. Lewis and Nellie Lewis.
Dora L. Sanders, and Leland L. Fellows and Doralea
S. Bean, Trustees of the Dora Lewis Sanders Trust,
Leland Lewis Fellows Trust and Doralea Sanders Bean Trust.

TRACT 383, 4.94 acres

<u>Acres owned Under Tract 383</u>	<u>Tract Royalty Owner</u>	<u>Tract Leasehold Owner</u>
1.3832000	University of Missouri	Ronnie Ward
1.3832000	Ellis Fischel State Cancer Hospital	unleased
.0658996	Catherine B. Sanders	Ronnie Ward
.0658996	Helen M. Cox	Ronnie Ward
.0658996	Veva J. Isreal	Ronnie Ward
.0658996	R.K. McEwen	Ronnie Ward
.0658996	Fred McNabb	Ronnie Ward
.0329004	Goldie M. Kirk	Ronnie Ward
.0164008	Lois Jane Yantis	Ronnie Ward
.0164008	Whitson J. Kirk, Jr.	Ronnie Ward
1.1856000	Ronnie Ward	Ronnie Ward
.0988000	Belle Amunds	unleased <i>collected</i>
.0988000	Thelma Edwards	unleased <i>refuse</i>
<u>.3952000</u>	Imogene Tappana	unleased <i>refuse</i>
4.9400000 acres		

READ & STEVENS, INC.
WELL COST ESTIMATE
AUTHORIZATION FOR EXPENDITURES

505/622-3770

AFE NO. 2 Prepared By: Bruce Stubbs
 Date June 3, 1981
 Well Name Kimbley #1 Prospect Name -
 Location W/2 Sec. 19-23S-28E County Eddy State NM
 Est. Total Depth 12,900 Formation MORROW
 Drill: Wildcat X Development - Original - Supplement - Revised -
 Workover: Recompletion Maintenance - Estimate - Estimate - Estimate X

Description of Work:

INTANGIBLES

	GROSS COSTS	
	Dry Hole	Producer
Location preparation and damages	\$ 30,000	\$ 30,000
Contractor's footage charge <u>-</u> ft. @ \$ <u>-</u> per ft.	-	-
Contractor's day work <u>80</u> days @ \$ <u>8550</u> per day	685,392	685,392
Bits and reamers	75,000	75,000
Mud, chemicals and mud services	125,000	125,000
Equipment rentals	90,000	90,000
Logging and testing	55,000	55,000
Mud logging	18,000	18,000
Hauling and freight	20,000	20,000
Supervision	15,000	15,000
Cement and cementing services	45,000	60,000
Perforating, acidizing and fracturing	-	80,000
Completion workover and swabbing units	-	30,000
Contract services	4,500	4,500
Non-recoverable equipment	-	-
Administrative overhead	3,000	3,000
Miscellaneous expenditures	20,000	20,000
Plugging and abandonment	10,000	-
Water	35,000	35,000
Contingencies	-	-
Sales tax	-	-
TOTAL INTANGIBLES	\$ 1,230,892	\$ 1,345,892

WELL TANGIBLES

Surface casing <u>400</u> ft. of <u>16</u> in. @ \$ <u>39.66</u> /ft.	\$ 15,864	\$ 15,864
Protective casing <u>3000</u> ft. of <u>10 3/4</u> in. @ \$ <u>22.02</u> /ft.	66,060	66,060
Production casing <u>9600</u> ft. of <u>7 5/8</u> in. @ \$ <u>29.96</u> /ft.	287,616	287,616
Tubing <u>12,600</u> ft. of <u>2 7/8</u> in. @ \$ <u>6.39</u> /ft.	-	80,514
Liner <u>3500</u> ft. of <u>5</u> in. @ \$ <u>28.75</u> /ft.	-	100,625
Well head equipment	-	48,000
Other sub-surface equipment	-	15,000
Other surface well equipment	-	10,000
TOTAL TANGIBLES	\$ 369,540	\$ 623,679
TOTAL WELL COST	\$ 1,600,432	\$ 1,969,571

(A) Well cost to casing point \$ 1,600,432
 (B) Well cost after casing point \$ 457,639

PRODUCTION EQUIPMENT

Hauling and freight	\$ -	\$ 5,000
Supervision, labor, contract services	-	4,000
Miscellaneous connections, fittings	-	3,000
Line pipe	-	1,500
Pumping equipment	-	-
Tankage <u>2 - 300</u> lbs	-	15,000
Separator	-	25,000
Dehydrator	-	-
Heater-treater	-	-
Other	-	-

TOTAL PRODUCTION EQUIPMENT \$ - \$ 53,500
 TOTAL AFE \$ 1,600,432 \$ 2,023,071
 TOTAL PREVIOUS ESTIMATES \$ - \$ -
 TOTAL THIS ESTIMATE \$ 1,600,432 \$ 2,023,071

BEFORE EXAMINER NUTTER

APPROVAL
 COMPANY: CONSERVATION DIVISION
 SIGNATURE: R-S EXHIBIT NO. 3
 CASE NO. 7366

TITLE:

DATE:

INTEREST:

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between READ & STEVENS, INC.,
P.O. Box 1518, Roswell, New Mexico 88201, 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 in-
terests 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 cov-
ering 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 land, 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 interest, 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 "drill site" 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 formation,
- (3) Percentages or fractional interests of parties to the agreement,
- (4) Oil and gas leases and or oil and gas interests subject to the agreement,
- (5) Addresses of parties for notice purpose.

☒ 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-associated Facilities.

If any provision of any exhibit is inconsistent with any provision contained
in the body of this agreement, the provision 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 leases, to the extent that it owns the lease 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 part of the administrative overhead as provided in Exhibit "C" and shall not be a direct charge, whether incurred 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 Declaration or Declarations as well as the conduct of hearings before Governmental Agencies for the issuance 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 a title to the drillsite or drilling unit has been examined as above provided, and (1) the title has been approved by the examining attorney or title has been accepted by all of the parties who are participating in the drilling of the well.

B. Loss of Title:

1. Failure of Title Should any oil and gas interest included in the unit be lost through failure of title, which be result of negligence or other fault of the party owning the interest, the agreement, nevertheless, shall continue in full force and effect as to all other interests and

(a) The party whose oil and gas interest is lost shall not be entitled to share in the production from the entire well and it shall not be entitled to receive any other benefits from the other parties and development

1 or operating costs which it may have theretofore paid, but there shall be no monetary liability on its
2 part to the other parties hereto for drilling, development, operating or other similar costs by reason of
3 such title failure; and

4 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the
5 operation of the interest which has been lost, but the interests of the parties shall be revised on an acre-
6 age basis, as of the time it is determined finally that title failure has occurred, so that the interest of
7 the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
8 Area by the amount of the interest lost; and

9 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled
10 on the Contract Area is increased by reason of the title failure, the party whose title has failed shall
11 receive the proceeds attributable to the increase in such interests (less costs and burdens attributable
12 thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;
13 and

14 (d) Should any person not a party to this agreement, who is determined to be the owner of any in-
15 terest in the title which has failed, pay in any manner any part of the cost of operation, development,
16 or equipment, such amount shall be paid to the party or parties who bore the costs which are so refund-
17 ed; and

18 (e) Any liability to account to a third party for prior production of oil and gas which arises by
19 reason of title failure shall be borne by the party or parties in the same proportions in which they shared
20 in such prior production; and

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.

24
25 2. Loss by Non-Payment or Erroneous Payment of Amount Due. If, through mistake or oversight,
26 any rental, shut-in well payment, minimum royalty or any other payment, is not paid or is erroneously
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against
28 the party who failed to make such payment. Unless the party who failed to make the required payment
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-
30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event
34 the party who failed to make the required payment, had not have been fully reimbursed, at the time of
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following
39 as is necessary to effect reimbursement:

40 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost
41 interest, on an acreage basis, up to the amount of unrecovered costs;

42 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an
43 acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production
44 from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable
45 to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said
46 portion of the oil and gas to be contributed by the other parties in proportion to their respective in-
47 terests; and

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-
50 coming a party to this agreement.

51
52 3. Other Losses. All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be paid for, and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.

57 ARTICLE V. 58 OPERATOR

59 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR.

60
61 READ & STEVENS, INC. shall be the
62 Operator of the Contract Area, and shall conduct and direct, and have full control of all operations on
63 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
64 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
65 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
66 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-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", 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 rendered, 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 20th day of November 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

2310' FWL and 1947' FWL, Section 1-24N-26E

and shall thereafter continue the drilling of the well until it is abandoned.

Adequately test the Morrow formation at approximately 12,950' from the surface.

unless granite or other practically impenetrable conditions in the hole which renders further drilling impractical or encounters a subsurface condition which shall permit or require to abandon the well at a lesser depth.

Operator shall make reasonable efforts to determine the nature and extent of the hydrocarbon content of formations, oil and gas, and other substances, other than water, in the Contract Area, as limited in its application to a specific formation or formation, and to the extent Operator shall be required to test only the formation or formations to which it applies.

If, in Operator's judgment, the well is not profitable, it may, at its option, and at its sole expense, to plug and abandon the well as a dry hole. It shall be the duty of all parties and shall plug and abandon same as provided in Article VII hereof.

1 **B. Subsequent Operations:**

2
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI A., or to rework, deepen or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI B.2, shall comply with all terms
29 and conditions of this agreement.

30
31 If less than all parties approve any proposed operation, the proposing party, immediately after the
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
39 all parties of such decision.

40
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,
55 calculated at the well, or market value thereof if such share is not sold (after deducting production
56 taxes, royalty, overriding royalty and other interests payable on the effective date hereof, payable out of
57 or measured by the production from such well accruing with respect to such interest until it reverts)
58 shall equal the total of the following:

59
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connection (including, but not limited to, stock tanks, separator,
62 treaters, pumping equipment and pipeline) plus 100% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until such such Non-
64 Consenting Party's relinquished interest shall revert to a lessee under provision of this Article, it being
65 agreed that each Non-Consenting Party's interest in such well and its operation shall be that interest which
66 would have been chargeable to each Non-Consenting Party if it had participated in the well from the be-
67 ginning of the operation; and

68
69 (b) 300% of that portion of the cost and expense of the well involved in deepening or plugging
70 back, testing and completing, after deducting any recovery therefrom received under Article VIII C., and

1 300% of that portion of the cost of newly acquired equipment in the well (to and including the well-
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
3 pated therein.

4
5 Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
7 tract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
9 ered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other
17 burdens applicable to Non-Consenting Party's share of production.

18
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
24 salvage.

25
26 Within sixty (60) days after the completion of any operation under this Article, the party con-
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
35 amount of proceeds realized from the sale of the well's working interest production during the preceding
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
39 such operation which would have been owned by a Non-Consenting Party had it participated therein
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
53 Notwithstanding the provisions of this Article VI.B.2, it is agreed that without the mutual consent
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
56 well spacing pattern for such source of supply.

57
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
59 well described in Article VI.A, except (a) when Option 2, Article VII.D.1, has been elected, or (b)
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
62 VI.A.

63 64 C. Right to Take Production in Kind:

65
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-
68 velopment and producing operations, and in preparation of, or for marketing purposes and
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposi-
70 tion by any party of its proportionate share of the production shall be borne by such party. Any

1 party taking its share of production in kind shall be required to pay for only its proportionate share
2 of such part of Operator's surface facilities which it uses.

3
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled
6 to receive payment direct from the purchaser thereof for its share of all production.

7
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-
13 erator shall be subject always to the right of the owner of the production to exercise at any time its
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's
19 share of gas production without first giving such other party thirty (30) days notice of such intended
20 sale.

21
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-
23 liveries to separate pipelines and or deliveries which on a day-to-day basis for any reason are not
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the
25 balancing or accounting between the respective accounts of the parties shall be in accordance with
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as
27 Exhibit "E", or is a separate Agreement.

28 29 D. Access to Contract Area and Information:

30
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-
35 mental agencies, daily drilling reports, well logs, tank fides, daily gauge and run tickets and reports
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the
39 information.

40 41 E. Abandonment of Wells:

42
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct
52 further operations in search of oil and or gas subject to the provisions of Article VI.B.

53
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvageable
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign, to the non-abandoning parties, without warranty, title, or interest, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, that it interests in the well and related equip-
66 ment, together with its interest in the leasehold estate, but only as to the interval or intervals of the
67 formation, or formations, then open to production, of the interval or intervals of the formation, or formations,
68 then open to production, which party shall exercise and operate, for the non-abandoning party or parties, an
69 oil and gas lease, limited to the interval or intervals of the formation, or formations, then open to produc-
70 tion, 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 share of the estimated amount of the expense to be incurred in operations hereunder during the next preceding 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 shall be due 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 such estimate within said time, the amount due shall bear interest as provided in Article VII.C. of this agreement. 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 expense incurred and received.

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 Ten-Thousand Dollars (\$ 10,000) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "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).

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 25% 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 and payment 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, such payment or rental shall be deemed to continue the lease in force, any loss which results from such non-payment shall be borne by the party or parties with the payment of Article IV.B.2.

Operator shall notify Non-Operator of the shut-in of a well or the shut-in or return to production of a well, by mail, at least ten (10) days prior to the shut-in or return to production, on any day and holiday, or at the earliest opportunity, if the shut-in or return to production occurs on a day and holiday, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the burden of any lease contributed to shall be borne by the party or parties with the payment of Article IV.B.2.

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 assigning the reasonable, fair market value of the 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 delivery and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

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

3
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter
7 be subject to the terms and provisions of this agreement.

8
9 **B. Renewal or Extension of Leases:**

10
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its
25 proportionate interest therein by the acquiring party.

26
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal
32 lease and shall not be subject to the provisions of this agreement.

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases.

36
37 **C. Acreage or Cash Contributions:**

38
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or
49 any other operation on the Contract Area.

50
51 If any party contracts for any consideration relating to disposition of such party's share of substances
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
53 Article VIII.C.

54
55 **D. Subsequently Created Interest:**

56
57 Notwithstanding the provisions of Article VIII.E and VIII.G, if any party hereto shall, subsequent
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as
61 follows:

62
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the
64 party conducting such operations becomes entitled to receive the production attributable to the interest
65 out of which the subsequently created interest is derived, such party shall receive same free and clear
66 of such subsequently created interest. The party creating same shall own and pay all such subsequently
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and
68 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 the 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 documents 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 its authorized agents to evidence the election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten-Thousand Dollars (\$ 10,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and 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 hereon, 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 in force as to any part of the Contract Area, whether the production thereon, renewal or otherwise, and/or so long as oil and/or gas production continues from any of the oil and gas interest.

~~Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within _____ days from the date of abandonment of said well.~~

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV. OTHER PROVISIONS

A. 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 interpretation 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 rulings, rules, regulations or orders, together with the Non-Operators' 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.

B. If, in the drilling of the initial well Operator loses the hole or encounters mechanical difficulties rendering it impractical, in the opinion of the Operator to drill the well to the objective depth, then and in any such event, on or before 30 days after abandonment of the initial well, Operator shall have the option to commence the actual drilling of another well, ("Substitute Well") at a lawful location of Operator's selection on the Contract Area, and prosecute the drilling of said well with due diligence and in a good workmanlike manner to the objective depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

C. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.

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 10th day of August, 1981.

OPERATOR

ATTEST:

READ & STEVENS, INC.

Joe Wigley, Secretary

BY:

Norman L. Stevens, Jr., Vice-President

NON-OPERATORS

EXHIBIT "A" (1)

Attached and made a part of Operating Agreement dated April 7, 1981,
between Read & Stevens, Inc., Operator and
Coquina Oil Corporation, et al., Non-Operator.

LANDS SUBJECT TO THIS AGREEMENT:

Township 23 South, Range 28 East
Section 19: Lots 1,2,3,4 E1/4
Containing 318.34 acres, more or less

DEPTH LIMITATION

NONE

INTEREST OF PARTIES UNDER THIS AGREEMENT:

Coquina Oil Corporation	28.1444%
James E. Keihne	1.5553%
James Isbell	1.5553%
J.R. Rowan	2.0738%
Don D. Matson	1.0369%
Cities Service Oil Company	3.1413%
Roy Barton, Jr.	1.5707%
Roy McKay	10.9792%
Ronnie Ward	1.3656%
Read & Stevens, Inc.	48.3913%
Unleased	.1862%
	<u>100.0000%</u>

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Margaret S. Spence

Lessee: Ed Phillips (Read & Stevens, Inc.)

Dated: September 26, 1980

Expiration Date: September 26, 1983

Landowner's Royalty: 1/4

Description: Township 23 South, Range 28 East, NMPM
Section 19: SE/4NW/4SW/4, W/2NW/4NW/4SW/4

Acres: 15 Gross acres, 7.5 net acres

Interest: 100%

Annual Rental: \$15.00

Recorded: Book 191, page 637

Lessor: T.J. and Doris Odgen Kimbley

Lessee: Ed Phillips (Read & Stevens, Inc.)

Dated: September 26, 1980

Expiration Date: September 26, 1983

Landowner's Royalty: 1/4

Description: Township 23 South, Range 28 East, NMPM
Section 19: SE/4NW/4SW/4, W/2NW/4NW/4SW/4

Acres: 15 gross acres, 7.5 net acres

Interest: 100%

Annual Rental: \$15.00

Recorded: Book 191, page 630

Lessor: T.J. and Doris Odgen Kimbley

Lessee: Ed Phillips (Read & Stevens, Inc.)

Dated: September 26, 1980

Expiration Date: September 26, 1983

Landowner's Royalty: 1/4

Description: Township 23 South, Range 28 East, NMPM
Section 19: W/2NE/4NW/4, W/2SE/4NW/4NW/4, E/2E/2NW/4NW/4, NE/4NW/4,
W3/4SE/4NW/4, E/2NE/4SE/4NW/4, W3/4SE/4NW/4, Less
Minerals under the W/2NE/4SE/4NW/4

Acres: 135 gross acres, 67.5 net acres

Interest: 100%

Annual Rental: \$135.00

Recorded: Book 191, page 628

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Margaret S. Spence

Lessee: Ed Phillips (Read & Stevens, Inc.)

Dated: September 26, 1980

Expiration Date: September 26, 1983

Landowner's Royalty: 1/4

Description: Township 23 South, Range 28 East, NMPM

Section 19: W/2NW/4NW/4, W/2SE/4/NW/4NW/4, E/2E/2NW/4NW/4, NE/4NW/4,
W3/4SW/4NW/4, E/2NE/4SE/4NW/4, W3/4SE/4NW/4, Less Minerals
under the W/2NE/4SE/4NW/4

Acres: 135 gross acres, 67.5 net acres

Interest: 100%

Annual Rental: \$135.00

Recorded: Book 191, page 634

Lessor: Aubrey B. Covault et ux., Edith M. Covault

Lessee: Ronnie Ward

Dated: January 22, 1979

Expiration Date: January 22, 1983

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East, NMPM

Section 19: E/2SE/4SE/4NW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 170, page 476

Lessor: Stephen Knowles Quinn

Lessee: Ronnie Ward

Dated: January 22, 1979

Expiration Date: January 22, 1983

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East, NMPM

Section 19: E/2SE/4SW/4NW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 170, page 483

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: R.M. Williams, et al

Lessee: Coquina Oil Corporation

Dated: May 22, 1980

Expiration Date: May 22, 1985

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East, NMPM
Section 19: S/2SW/4

Acres: 79.65 acres, more or less

Interest: 100%

Annual Rental: \$79.65

Recorded: Book 186, page 618

Lessor: E.L. Dornan and Maxine Dornan

Lessee: J.R. Rowan

Dated: February 13, 1978

Expiration Date: February 13, 1983

Landowner's Royalty: 1/8

Description: Township 23 South, Range 28 East, NMPM
Section 19: NE/4NW/4SW/4

Acres: 10.00 acres, more or less

Interest: 100%

Annual Rental: \$10.00

Recorded: Book 154, page 410

Lessor: Everett D. Hardesty and Beulah M. Hardesty

Lessee: Cities Service Company

Dated: July 18, 1981

Expiration Date: July 18, 1984

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East, NMPM
Section 19: SW/4NE/4SW/4

Acres: 10.00 acres, more or less

Interest: 100%

Annual Rental: \$10.00

Recorded:

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Harold W. Barnes, et al

Lessee: James E. Kiehne

Dated: August 29, 1980

Expiration Date: August 29, 1985

Landowner's Royalty: 1/8

Description: Township 23 South, Range 28 East, NMPM
Section 19: E/2SE/4NW/4SW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 189, page 784

Lessor: Ruth M. Campbell

Lessee: James H. Isbell

Dated: December 22, 1980

Expiration Date: December 22, 1983

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East, NMPM
Section 19: W/2SW/4NW/4SW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 193, page 596

Lessor: Opal R. Nelson

Lessee: Roy G. Barton

Dated: November 28, 1972

Expiration Date: November 28, 1982

Landowner's Royalty: 1/8

Description: Township 23 South, Range 28 East, NMPM
Section 19: W/2NE/4SW/4NW/4

Acres: 5.00 acres, more or less

Interest: 100%

Annual Rental: Paid up

Recorded: Book 92, page 49

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Leona Lucas and Gordon Lucas

Lessee: R.F. Fort

Dated: August 18, 1980

Expiration Date: August 18, 1985

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: E/2NE/4SW/4NW/4

Acres: 5.00 gross acres, 2.50 net acres, more or less

Interest: 50%

Annual Rental: Paid up

Recorded: Book 196, Page 591

Lessor: Hazel T. Ruckman, widow of Vernon L. Ruckman

Lessee: Read & Stevens, Inc.

Dated: May 12, 1981

Expiration Date: May 12, 1986

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: E/2NE/4SW/4NW/4

Acres: 4.945 gross acres, .618125 net acres, more or less

Interest: 12.5%

Annual Rental: Paid up

Recorded: Book 199, Page 582

Lessor: Vernon L. Ruckman, Jr., dealing in his sole and separate property

Lessee: Read & Stevens, Inc.

Dated: May 12, 1981

Expiration Date: May 12, 1986

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: E/2NE/4SW/4NW/4

Acres: 4.945 gross acres, .9271875 net acres, more or less

Interest: 18.75%

Annual Rental: Paid up

Recorded: Book 199, Page 1028

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Laverne Martin, dealing in her sole and separate property

Lessee: Read & Stevens, Inc.

Dated: May 12, 1981

Expiration Date: May 12, 1986

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: E/2NE/4SW/4NW/4

Acres: 4.945 gross acres, .9271875 net acres, more or less

Interest: 18.75%

Annual Rental: Paid up

Recorded: Book 199, Page 580

Lessor: University of Missouri

Lessee: Ronnie Ward

Dated: April 20, 1981

Expiration Date: April 20, 1982

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, 1.40 net acres, more or less

Interest: 28%

Annual Rental: Paid up

Recorded:

Lessor: Ellis Fischel State Cancer Hospital

Lessee: Ronnie Ward

Dated: April 20, 1981

Expiration Date: April 20, 1982

Landowner's Royalty: 3/16

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, 1.40 net acres, more or less

Interest: 28%

Annual Rental: Paid up

Recorded:

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Catherine B. Sanders, Guardian for William Aaron Bilderback

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334%

Annual Rental: Paid up

Recorded:

Lessor: Helen M. Cox

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334%

Annual Rental: Paid up

Recorded:

Lessor: Veva J. Isreal

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334 %

Annual Rental: Paid up

Recorded:

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: R.K. McEwen

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334 %

Annual Rental: Paid up

Recorded:

Lessor: Fred McNabb

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0667 net acres, more or less

Interest: 1.334%

Annual Rental: Paid up

Recorded:

Lessor: Goldie M. Kirk

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0333 net acres, more or less

Interest: .666%

Annual Rental: Paid up

Recorded:

LEASES SUBJECT TO THIS AGREEMENT:

Lessor: Lois Jane Yantis

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0166 net acres, more or less

Interest: .332%

Annual Rental: Paid up

Recorded:

Lessor: Whitson J. Kirk, Jr.

Lessee: Ronnie Ward

Dated: June 1, 1981

Expiration Date: June 1, 1982

Landowner's Royalty: 1/6

Description: Township 23 South, Range 28 East
Section 19: W/2NE/4NW/4NW/4

Acres: 5.00 gross acres, .0166 net acres, more or less

Interest: .332%

Annual Rental: Paid up

Recorded:

Lessor:

Lessee:

Dated:

Expiration Date:

Landowner's Royalty:

Description:

Acres:

Interest:

Annual Rental:

Recorded:

ADDRESSES OF PARTIES:

Read & Stevens, Inc.
P.O. Box 1518
Roswell, New Mexico 88201

Coquina Oil Corporation
P.O. Drawer 2960
Midland, Texas 79701
Attn: L.E. Operman

James E. Kiehne
P.O. Box 3855
Midland, Texas 79702

James H. Isbell
727 Midland Tower Building
Midland, Texas 79701

J. Richard Rowan
P.O. Box 162
Midland, Texas 79702

Roy McKay
P.O. Box 2014
Roswell, New Mexico 88201

Roy Barton
300 West Taylor
Hobbs, New Mexico 88240

Cities Service Company
P.O. Box 1919
Midland, Texas 79701

Ronnie Ward
P.O. Box 2371
Midland, Texas 79701

Don D. Matson
3622 Imperial
Midland, Texas 79701

OIL & GAS LEASE

THIS AGREEMENT made this _____ day of _____, 19____, between _____

and _____

(Post Office Address)

herein called lessor (whether one or more) and _____, lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roads, ways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said

minerals, the following described land in _____

County, New Mexico, to wit _____

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.
2. Subject to the other provisions herein contained, this lease shall remain in force for a term of _____ years from this date (called "primary term"), and as long thereafter as oil or gas is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, _____ of that produced and saved from said land, same to be delivered at the well or to the credit of lessor in the pipe line to which the well may be connected; (b) on gas, including casinghead gas and all gaseous substance produced from said land and sold or used off the premises or used in the manufacture of gasoline or other product therefrom, the market value at the well of _____ of the gas used, provided that on gas sold on or off the premises the royalty shall be _____ of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$ _____ which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during

the primary term. Payment or tender may be made to the lessor or to the credit of the lessor in the _____ Bank

at _____, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessors heirs and assigns. If such bank (or any successor bank) shall fail, liquidate or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessee shall deliver to lessee a reasonable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made, provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or portion thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit. Lessee is further granted the right and power to commit this lease as to all or any portion of the above described lands or portions thereof to any unit agreement for the purpose of conserving the natural resources of any oil or gas pool, field or area covered thereby, provided, such unit agreement contains usual and customary provisions for the allocation of oil and gas produced from the unit area and upon such commitment the provisions of this lease shall be confirmed to the unit agreement.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 90 days thereafter and diligently prosecutes the same, or if it be within the primary term commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date or commences operations after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term and gas is not being produced but lessee is then engaged in operation, for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with the exception of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 90 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns, but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee, and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold interests according to the surface area of each, and default in rental payment by one shall not affect the rights of the other leasehold interests hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenants of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of severity of inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal, state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith, and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas hereunder, and the time while lessee was so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may defend any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties according to such lien and subrogated same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate, whether or not specified herein, then the royalties, shut-in royalty, rental and other payments, if any, accruing from any part as to which this lease covers less than the fee simple estate, shall be paid only as a proportion of the interest therein, if any, covered by this lease, loans to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessor, its heirs, successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated, the responsibility shall be relieved from all obligations, express or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____ Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____ Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____ Notary Public

STATE OF _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____

My Commission expires _____, 19____ Notary Public

No. _____	
OIL AND GAS LEASE NEW MEXICO	
FROM	TO
Date _____, 19____	
Section _____, Township _____, Range _____	
No. of Acres _____	
County, New Mexico	
Term _____	
STATE OF NEW MEXICO	
COUNTY OF _____	
I hereby certify that this instrument was filed for record on the _____ day of _____, A. D. 19____, at _____ o'clock _____ m., and was duly recorded in Book _____ at Page _____ of the Records of said County.	
By _____ County Clerk.	By _____ Deputy.

STATE OF NEW MEXICO

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____ Notary Public

STATE OF _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____ President of _____ a _____ corporation on behalf of said corporation.

My Commission Expires: _____ Notary Public

COPAS

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated April 7, 1981, by and between Read & Stevens, Inc., as Operator, and Coquina Oil Corporation, et al, as Non-Operator.

ACCOUNTING PROCEDURE JOINT OPERATIONS

1. 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 adjustment 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-three per cent (23%)~~ twenty-three per cent (23%) or the per cent most

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 charge average commercial rates prevailing in the immediate area of the Joint Property less 20%. For administrative 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 to the Parties 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, claims, discharge 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 provision 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:

- (☒) 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 (☒) 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 \$ 3,825.50

Producing Well Rate \$ 382.55

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

Percent () of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

Percent () of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

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

- 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 and made a part of Operating Agreement dated
April 7, 1981, by and between READ & STEVENS, INC.
Operator and Coquina Oil Corporation
et al, as Non-Operator.

INSURANCE

Operator and Operator's contractors and subcontractors shall, during the drilling and completing of any and all well or wells drilled on the Unit Area and during the performance of all operations, carry the following described minimum insurance coverage on the Unit Area.

- A. Employer's Liability and Workmen's Compensation Insurance covering Operator's employees and the employees of Operator's contractors and subcontractors engaged in operations under this Agreement, in compliance with the laws of the State where the work is to be performed.
- B. General Public Liability Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors with Bodily Injury or Death limit of not less than One Hundred Thousand Dollars (\$100,000.00) for injury to or death of any one person; not less than Three Hundred Thousand Dollars (\$300,000.00) for injury to or death of more than one person resulting from any one accident and for Property Damage with a limit of not less than Fifty Thousand Dollars (\$50,000.00) for damage to property for each accident; and
- C. Automobile Public Liability and Property Damage Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors with Bodily Injury or Death limit of not less than One Hundred Thousand Dollars (\$100,000.00) for injury to or death of any one person; not less than Three Hundred Thousand Dollars (\$300,000.00) for injury to or death of more than one person resulting from any one accident; and for Property Damage with a limit of not less than Fifty Thousand Dollars (\$50,000.00) for damage to property for each accident.

EXHIBIT "E"
ATTACHED AND MADE A PART OF
OPERATING AGREEMENT DATED
April 7, 1981, BETWEEN
READ & STEVENS, INC., AS OPERATOR,
AND Coquina Oil Co., et al. AS,
NON-OPERATOR.

GAS BALANCING AGREEMENT

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take in kind its share of gas produced from the Unit Area to market or otherwise dispose of the same. In the event any party hereto is not at any time taking or marketing its share of gas, or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become operative.

During the period when any party hereto is not marketing or otherwise disposing of its share of gas produced from any proration unit within the Unit Area, the other parties hereto shall be entitled to produce, in addition to their own share of production, that portion of such other party's share of production which said party is unable to market or otherwise dispose of and shall be entitled to take such gas production and deliver same to its or their purchaser (s). 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 aforesaid Operating Agreement, but the party or parties taking such gas shall own all of such gas delivered to its or their purchaser (s).

An account shall be established for each party not marketing or otherwise disposing of its share of the gas produced, which account shall be credited with an amount of gas equal to such party's full share of the gas produced, less its share of gas used in lease operations, vented or lost, and less that portion marketed or otherwise disposed of by such party. The Operator will maintain a current over and under account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

Each party hereto will make settlement with royalty owners to whom it is accountable, just as if such party were marketing or otherwise disposing of its share, and its share only, of such gas production. Each party hereto agrees to hold each other harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After notice to the Operator, any party at any time may begin marketing or otherwise disposing of its share of the gas produced from a proration unit with respect to which it has an under account balance. In addition to such share, said party, until it has balanced the gas account as to its interest, shall be entitled to take a share of gas determined by multiplying thirty-three and one-third percent ($33\frac{1}{3}\%$) of the interest in the current gas production of the party or parties having an over account balance by a fraction the numerator of which is the interest in the proration unit of such party with the under account balance and the denominator of which is the total percentage interest in such proration unit of all parties having an under account balance and who are currently marketing or otherwise disposing of a portion of their under account balance in addition to their share of gas.

Each party marketing or otherwise disposing of gas shall pay the production taxes due on such gas.

Nothing herein shall be construed to deny any party the right, from time to time to produce and deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between those parties credited with under account and over account balances. In making such settlement, the party or parties credited with an under account balance will be paid by the party or parties credited with an over account balance a sum of money equal to that received attributable to such over account, less applicable taxes theretofore paid. For gas sold or delivered into intrastate commerce said sum shall be computed at the price received for sale of the gas. For gas sold or delivered into interstate commerce said sum shall be computed at the rate collected, not subject to possible refund, as provided by the Federal Power Commission, plus any additional collected amount which is ultimately not required to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as provided in the aforesaid Operating Agreement.

This agreement shall constitute a separate agreement as to each proration unit within the Unit Area. It shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns. It 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.

END OF EXHIBIT "E"

EXHIBIT "F"

Attached and made a part of Operating Agreement
dated April 7, 1981 by and between Read & Stevens,
Inc., as Operator and
Coguina Oil Co., et al, as Non-Operator.

Definition: The word "Contractor" wherever used below shall mean "Operator" when this exhibit form is attached to an Operating Agreement and shall mean "Farmee" when attached to a Farmout Agreement.

A. During the performance of this contract, the Contractor agrees as follows:

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

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

3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representatives of the Contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

5. The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

6. In the event of Contractor's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for the further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

7. The Contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless excluded by rule, regulation or orders of the Secretary of Labor in accordance with Executive Order No. 11246 of September 24, 1965, and shall be responsible for ensuring that each subcontractor or vendor, in turn, complies with the provisions of this contract or purchase order as the contracting officer may determine and of enforcing such provisions, including sanctions for non-compliance, provided, however, that in the event the Contractor becomes involved in a suit or action with litigation with a subcontractor or vendor as a result of compliance by the Contractor with the contract, the Contractor may report the matter to the contracting officer, and if found to be in the interest of the United States.

EXHIBIT "F"
continued

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

The Contractor, unless exempt, agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this agreement or the award of any such purchase order, as the case may be, (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually, on or before March 31st. (41 CFR 60-1.7 (a))

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The Contractor agrees to develop and maintain a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended. (41 CFR 60-1.40)

D. VETERAN'S EMPLOYMENT

In the event the agreement to which this exhibit is attached is for the purpose of carrying out a contract with any department or agency of the United States for the procurement of personal property and non-personal services (including construction) for the United States as provided by Section 2012 of Title 38 USC, Contractor agrees to give special emphasis to the employment of qualified disabled veterans and veterans of the Vietnam era and to list immediately with the appropriate local employment service all of its suitable employment openings.

E. EQUAL OPPORTUNITY IN EMPLOYMENT CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into the contract to which this Exhibit "F" is attached, certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, sex or national origin, because of habit, local custom, or otherwise. He further agrees that (except where he has obtained identical certification from proposed subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity clause; that he will retain such certifications in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certification of Nonsegregated Facilities, as required by the May 9, 1967, Order (32 F.R. 7449, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i. e., quarterly, semi-annually, or annually).

Force Pool Information

- 8-6-81 1. Certified Mail Letter to Imogene Tappana from Read & Stevens, Inc. about either joining, participating or being force pooled. (4/10 of IAC)
.1320000000
- 8-6-81 2. Certified Mail letter to Thelma Edwards from Read & Stevens, Inc. about either joining, participating or being force pooled. (1/10 of IAC)
.0300000000
- 8-13-81 3. Ronnie Ward letter to Read & Stevens, Inc. on Belle Amunds interest and steps taken to locate her or heirs. (1/10 of IAC)
- 8-11-81 4. Edwards, Tappana & Cancer Hospital sent a copy of the Application for Compulsory pooling by Mr. Christy. (1.4AC)
.4400000000
- 10-23-80 5A. Ronnie Ward letter to Thelma Edwards-offer to buy minerals.
- 5B. Ronnie Ward letter to Imogene Tappana-offer to buy minerals.
- 6-16-81 6A. Ronnie Ward letter to Tappana-offer to lease.
- 6-16-81 6B. Rejection letter from Tappana to Ward on leasing or buying.
- 4-20-81 7. Ronnie Ward letter to Tappana-advising her of her options.
- 4-17-81 8. Rejection letter from Tappana of 4-14-81 letter.
- 4-14-81 9. Ronnie Ward letter to all heirs of Ella May All-dridge-offer to lease or buy.

CHARLES B. READ
PRESIDENT

NORMAN L. STEVENS, JR.
VICE-PRESIDENT

Read & Stevens, Inc.

*Oil Producers
P. O. Box 1118
Roswell, New Mexico 88201*

August 6, 1981

Re: #1 Kimbley
W/2 Section 19-23S-28E
Eddy County, New Mexico

Mrs. Imogene Tappana
504 North Ball
Webb City, Missouri 54870

Dear Mrs. Tappana:

Read & Stevens, Inc. will commence the drilling of a well for the production of oil and gas. The well will be a 12,600 test and will spud approximately September 1, 1981.

It is necessary that all the acreage in the proration unit be accounted for, prior to the drilling of the well. To date, Ronnie Ward has been unable to get your acreage committed.

Read & Stevens, Inc. hereby requests that you commit your acreage in one of the following ways:

1. Lease your acreage.
2. Participate in the drilling of the well.

In the event we do not receive a reply from you, we will proceed with a force pooling action under New Mexico Statute Section 70-2-18 (B) N.M.S.A. 1978 Comp.

Yours very truly,

READ & STEVENS, INC.
Joe Wigley
Land Manager

By *Karen McFadin*
Karen McFadin,
Land Representative

Return Receipt Requested

Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

The following service is requested (check one):
☐ Show to whom and date delivered.
☐ Show to whom, date and address of delivery.
☒ RESTRICTED DELIVERY
 Show to whom and date delivered.
☒ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery.

(CONSULT POSTMASTER FOR FEES)

ARTICLE ADDRESSED TO:

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.

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

4. DATE OF DELIVERY 8-15-81 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO : 1979-286-948

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SECURITY NATIONAL BANK BUILDING

PHONE 505 622-3770

CHARLES B. READ
PRESIDENTNORMAN L. STEVENS, JR.
VICE-PRESIDENT*Read & Stevens, Inc.**Oil Producers**P.O. Box 1518**Alamogordo, New Mexico 88301*

August 6, 1981

Re: #1 Kimbley
W/2 Section 19-23S-18E
Eddy County, New MexicoMrs. Thelma Edwards and/or
her husband, Mr. Edwards
218 North Main Street
Moulton, Iowa 52572

Dear Mr. or Mrs. Edwards:

Read & Stevens, Inc. will commence the drilling of a well for the production of oil and gas. The well will be a 12,600 test and will spud approximately September 1, 1981.

It is necessary that all the acreage in the proration unit be accounted for, prior to the drilling of the well. To date, Ronnie Ward has been unable to get your acreage committed.

Read & Stevens, Inc. hereby requests that you commit your acreage in one of the following ways:

1. Lease your acreage.
2. Participate in the drilling of the well.

In the event we do not receive a reply from you, we will proceed with force pooling action under New Mexico Statute Section 70-2-18 (B) N.M.S.A. 1978 Comp.

Yours very truly,

READ & STEVENS, INC.
Joe Wigley
Land ManagerBy Karen McFadin
Karen McFadin
Land Representative

Return Receipt Requested

2.

U.S. POSTAL SERVICE
 RETURN TO POST OFFICE
 1. The following service is requested (check one)
☐ Show to whom and date delivered.....
☐ Show to whom, date and place of delivery.....
☒ RESTRICTED DELIVERY
 Show to whom and date delivered.....
☐ RESTRICTED DELIVERY
 Show to whom, date, and place of delivery.....
 (CONSULT POSTMASTER FOR FEES)
 2. ARTICLE ADDRESSED TO:
 3. ARTICLE DESCRIPTION
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 (Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
 4. DATE OF DELIVERY POSTMARK
 5. ADDRESS (Complete only if requested)
 6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS
 ☆ GPO : 1979-253-346

1979, Jan 1979

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

RONNIE WARD

Independent Landman

P. O. BOX 2371
MIDLAND, TEXAS 79702

PHONE
915/684-4829

August 13, 1981

Read & Stevens, Inc.
P.O.Box 2126
Roswell, New Mexico 88201

Re: Ella May Aldridge Estate,
Belle Amunds Interest, Eddy
County, New Mexico.

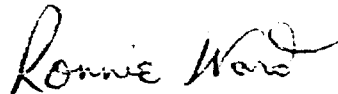
Gentlemen:

As an Independent Landman, I have made an attempt to buy the minerals or lease the interest of the heirs of the Ella May Aldridge Estate. Miss Aldridge obtained this property from Oscar L. and Elizabeth Aldridge as an heir.

Ms. Belle Amunds was an heir under the Ella May Aldridge Estate and received a two (2) percent interest. The last address I have for Ms. Amunds is 3115 Wall Street, Joplin, Missouri. I have written two (2) letters to Ms. Amunds at this address and they have both been returned to me. I have also contacted a Ms. Marjorie Martin who lives in Joplin, Missouri and was an heir to Miss. Aldridge as to the whereabouts of Ms. Amunds and she remembered her but thought she was dead and left no heirs, to her knowledge. I also contacted the Chamber of Commerce and had a lady look in the City Directory, but with no luck.

If Ms. Amunds is deceased, I have no idea when she died so I cannot ask the county clerk to look for a Death Certificate so I have given up on finding her.

Yours truly,



Ronnie Ward

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

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

TELEPHONE 622-8432
AREA CODE 505

August 11, 1981

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

Re: Application of Read & Stevens,
Inc. for compulsory pooling,
Eddy County, New Mexico

Dear Mr. Nutter:

Pursuant to our telephone conversation of August 10,
we have prepared and enclose herewith in triplicate
Application in connection with the captioned.

You are advised that our client believes that the
following unleased interests are outstanding:

<u>Name</u>	<u>Interest</u>
Belle Amunds	1/10 of 1 acre
Thelma Edwards	1/10 of 1 acre
Imogene Tappana	4/10 of 1 acre
Ellis Fischel State Cancer Hospital	1.4 acres

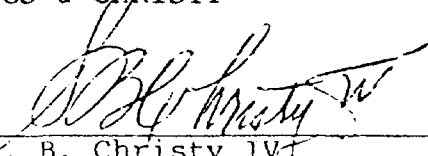
We have been unable to locate the address of Belle Amunds;
the remaining three above parties have been sent a copy of
this Application by certified mail, proof of which will be
made at the Examiner's Hearing.

We understand that this matter will be set for the
Examiner's Hearing on the regular docket in September of 1981.

Respectfully,

JENNINGS & CHRISTY

By


S. B. Christy IV

SBC/jy
Encl.

✓ cc: Read & Stevens, Inc.
(Attention Karen McFadin)

STATE OF NEW MEXICO
DEPARTMENT OF NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF READ & STEVENS, INC. FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

Case No. _____

APPLICATION

COMES NOW Read & Stevens, Inc., a New Mexico corporation,
and hereby makes application for compulsory pooling of all
mineral interest in the Morrow formation underlying the
W $\frac{1}{2}$ Section 19, Township 23 South, Range 28 East, N.M.P.M.,
Eddy County, New Mexico, containing 318.34 acres, more or less,
and for grounds thereof states:

1. Applicant has been diligent in its efforts to form a
proration unit for the drilling of a well, to be located 2,310
feet from the North line and 1,947 feet from the West line of
said Section 19, but there remains non-consenting interest
owners in the subject proration unit who have not agreed to the
pooling of their interest.

2. That to avoid the drilling of unnecessary wells, to
protect correlative rights, and to afford the owner of each
interest in said proration unit the opportunity to recover
or receive without unnecessary expense his just and fair share
of the gas and associated hydrocarbons producible from the
Morrow formation, this regulatory body should approve the
pooling of all mineral interest, whatever they may be, within
said unit.

3. Applicant proposes to dedicate the subject proration unit to the well to be located as aforesaid.

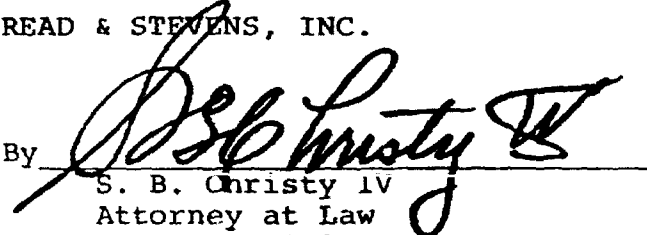
4. Applicant seeks permission to withhold the proceeds from production attributable to each non-consenting working interest until such time as each interest's share of the cost of said well has been recovered plus 200% thereof as a charge for the risk involved in the drilling of the well.

5. That after due public notice, this regulatory body should enter its order granting compulsory pooling in accordance with this Application, fixing a charge for risk, fixing a per month cost for operating the well, and granting to each non-consenting working interest owner the privilege to join in the payment of drilling the well in accordance with law. That such order should further provide that Applicant be appointed as Operator of the well.

Respectfully,

READ & STEVENS, INC.

By


S. B. Christy IV
Attorney at Law
P. O. Box 1180
Roswell, New Mexico 88201

cc via certified mail to:

Thelma Edwards
218 North Main Street
Moulton, Iowa 52572

Imogene Tappana
504 North Ball
Webb City, Missouri 54870

Ellis Fischel State Cancer Hospital
115 Business Loop 70 West
Columbia, Missouri 65211
Attention Joseph C. Greco

314/8752100

cc uncertified mail: Read & Stevens, Inc.

address unknown:
Belle Amunds

RONNIE WARD

Independent Landman

P. O. BOX 2371
MIDLAND, TEXAS 79702

PHONE
915/684-4829

October 23, 1980

Mrs. Thelma Edwards
218 North Main Street
Moulton, Iowa 52572

Re: Estate of Ella May Alldridge,
deceased.

Dear Mrs. Edwards:

Reference is hereby made to the Last Will and Testament of Ella May Alldridge dated April 18, 1977 and the First Codicil to the Will dated June 2, 1977. The Will sets out that The University of Missouri and the Radiation Therapy-Medical Physics Department, Ellis Fischel State Cancer Hospital of Columbia, Missouri would receive 56 % of her estate and that you would receive 2 % of her estate.

Miss. Ella May Alldridge was the sole heir of Oscar L. Alldridge, who was the sole heir of his wife Elizabeth C. Alldridge, who was the sole heir of her father (who's name is unknown to me. Elizabeth's father bought a 5.0 acre tract of land located in Section 19, T-23-S, R-28-E, N.M.P.M., Eddy County, New Mexico in about 1910. In March of 1958, O.L. and Elizabeth Alldridge sold the surface of this tract to a Mrs. Spence and reserved the minerals. Inasmuch as mineral owners in the State of New Mexico are not required to pay taxes on minerals, there are no monies due on this property. I am assuming that at the time Mr. O.L. Alldridge passed away he had simply forgotten about the minerals in Eddy County.

I am actively engaged in buying minerals in this area of Eddy County, New Mexico, and I would like to take this opportunity to make you the following offer to buy your part of the minerals left to you by Ella May Alldridge:

1. \$ 250.00 per net acre consideration.

With the 2 % left to you by Miss. Alldridge, your net acreage would be 0.10 acres and you would receive \$ 25.00 for your interest.

I will appreciate your consideration to my offer, and I hope to hear from you in the near future.

Yours truly,

Ronnie Ward

Ronnie Ward

P.S. I had to reduce my offer when I found out that there were 8 other heirs.

1-515-640-3343

Offered Mr. Edwards \$ 250.00

ON June 8, 1981

Said "No" - do want to sell

wife owns it - she has

RONNIE WARD

Independent Landman

P. O. BOX 2371
MIDLAND, TEXAS 79702

PHONE
915/684-4829

October 23, 1980

Ms. Imogene Tappana
504 North Ball
Webb City, Missouri 64870

Re: Estate of Ella May Alldridge,
deceased.

Dear Ms. Tappana:

Reference is hereby made to the Last Will and Testament of Ella May Alldridge dated April 18, 1977 and the First Codicil to the Will dated June 2, 1977. The Will sets out that The University of Missouri and the Radiation Therapy-Medical Physics Department, Ellis Fischel State Cancer Hospital of Columbia, Missouri would receive 56 % of her estate and that you would receive 8 % of her estate.

Miss. Ella May Alldridge was the sole heir of Oscar L. Alldridge, who was the sole heir of his wife Elizabeth C. Alldridge, who was the sole heir of her father (who's name is unknown to me. Elizabeth's father bought a 5.0 acre tract of land located in Section 19, T-23-S, R-28-E, N.M.P.M., Eddy County, New Mexico in about 1910. In March of 1958, O.L. and Elizabeth Alldridge sold the surface of this tract to a Mrs. Spence and reserved the minerals. Inasmuch as mineral owners in the State of New Mexico are not required to pay taxes on minerals, there are no monies due on this property. I am assuming that at the time Mr. O.L. Alldridge passed away he had simply forgotten about the minerals in Eddy County.

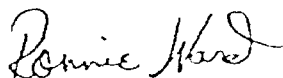
I am actively engaged in buying minerals in this area of Eddy County, New Mexico, and I would like to take this opportunity to make you the following offer to buy your part of the minerals left to you by Ella May Alldridge:

1. \$ 250.00 per net acre consideration.

With the 8 % left to you by Miss. Alldridge, your net acreage would be 0.40 acres and you would receive \$ 100.00 for your interest.

I will appreciate your consideration to my offer, and I hope to hear from you in the near future.

Yours truly,



Ronnie Ward

RONNIE WARD

Independent Landman

P. O. BOX 2371
MIDLAND, TEXAS 79702

PHONE
915/884-4829

June 4, 1981

Mrs. Imogene Tappana
504 North Ball
Webb City, Missouri 64870

Re: Ella May Aldridge Estate.

Dear Mrs. Tappana:

Persuant to our phone conversation of this afternoon, this letter will serve as my written offer to lease your interest for oil and gas, and not to buy it. I am enclosing the original and one (1) copy of a one (1) year paid-up lease reflecting a 1/6 royalty along with my ten (10) day collection draft in the amount of \$100.00 for consideration.

The State of New Mexico requires that we have a full 320.0 acres to drill one (1) well, and we have all of the acreage with the exception of your 0.40 acres. If we cannot work out a trade with you, then we will have to go to the state and get them to force pool your interest. We are in hopes of starting our well between July 1 and 15, 1981, and your very early attention to this matter will be appreciated.

If my offer meets with your approval, please execute the original lease before a notary public, endorse the draft, keep the copies for your file and place the original lease and draft in the collection department of your bank and ask them to please forward both the lease and draft to my bank for collection. I will pay the draft as soon as it hits my bank.

By leasing you are not selling anything, and if we make a well you will receive your 1/6 royalty as long as the well produces. If we do not make a well and the lease expires on June 4, 1982 you will be free to lease the property again and you will still own all of it.

If you have any other questions, please feel free to call me collect or write me.

Yours truly,

Ronnie Ward

Ronnie Ward

6A

June 16, 1931

Mr. Bonnie Ward
P.O. Box 2371
Midland, Texas

Mr. Ward:

After receiving your latest offer to purchase, or lease, mineral rights left me in the estate of Ella May Aldridge, I consulted my attorney. He has advised me to reject this and all future offers. I am returning all documents enclosed in your letter and trust this matter will be closed.

My decision is final, so any further dealings with you concerning this subject will be greatly unappreciated. I do not have the time or interest to be bothered further.

Sincerely,

Dwight Tappan

1-816-673-4168

Leslie Tappan

6-8

THIS AGREEMENT made this 4th day of June, 1981, between
Imogene Tappana, as Heir of Ella May Aldridge

Lessor (whether one or more), whose address is: 504 North Ball, Webb City, Missouri 64870
and Ronnie Ward and Ed Phillips Lessee, WITNESSETH:

1. Lessor in consideration of Ten and No/100 Dollars
(\$ 10.00) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in

Eddy County, New Mexico, to-wit:

Township 23 South - Range 28 East N.M.P.M.

Section 19 - Malaga Tract No. 383, also described as the
W/2 NE/4 NW/4 NW/4.

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of ONE years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to be paid by Lessee are: (a) on oil, 1/6 of that produced and saved from said land, the same to be delivered at the well or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 1/6

of the gas so sold or used, provided that on gas sold at the well the royalty shall be 1/6 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the County in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the leased premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of activity of or inability to obtain or to use equipment or material, or by operation of force majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

Social Security #

Imogene Tappana, as Heir of Ella May
Aldridge.

INDIVIDUAL ACKNOWLEDGMENT

MISSOURI
STATE OF ~~NEW MEXICO~~
County of JASPER } ss.

The foregoing instrument was acknowledged before me this _____ day of June
19 81 by Imogene Tappana, as Heir of Ella May Aldridge

My commission expires _____, 19____ Notary Public

CORPORATION ACKNOWLEDGMENT

STATE OF NEW MEXICO
County of _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____
by _____, President
of _____ corporation

No. W & P # 9 Midland, Texas 79701 June 4, 1981 19____
TEN (10) DAYS AFTER SIGHT AND SUBJECT TO APPROVAL OF TITLE

PAY TO THE ORDER OF Imogene Tappana
\$ 100.00

One Hundred Dollars and No/100 WITHOUT EXCHANGE DOLLARS

For Bonus Consideration for O&GL dated 6-4-81 covering 0.40 acres out of the NW/4 of
Section 19, 23S-28E, Eddy County, New Mexico.

DO NOT HANDLE AS CASH ITEM.

To Ronnie Ward 684-4829
Western State Bank
Midland, Texas 79701

Ronnie Ward

My commission expires _____, 19____ Notary Public

Courtesy Of
WESTERN STATE BANK
MIDLAND, TEXAS

Producers 28 Rev. (5 Year Lease) (10-57)

No. _____
Oil and Gas Lease
FROM _____
TO _____
Dated _____, 19____
No. Acres _____
County, N. M. _____
Term _____
This instrument was filed for record on the _____ day of _____, 19____
at _____ o'clock _____ M., and duly
recorded in Book _____, Page _____
of the _____ records of this office.
County Clerk _____
By _____, Deputy
When recorded return to _____

RONNIE WARD

Independent Landman

P. O. BOX 2371
MIDLAND, TEXAS 79702

PHONE
915/684-4829

April 20, 1981

Ms. Imogene Tappana
500 North Ball
Webb City, Missouri 64870

Re: Ella Kay Aldridge Estate.

Dear Ms. Tappana:

Thank you for your letter of April 17, 1981 concerning the above mentioned estate. As I have set out, Miss Aldridge left you 8 % of her estate and you would own 0.40 acres under the 5.0 acre tract that I am intrested in. The well is scheduled to start in 3 weeks and I will advise the operator of your decision.

I thought I would advise you of the options that you will have under the "Force Pooling" act of the State of New Mexico. You will be notified of the hearing within the next 60 days and you may attend the hearing in Santa Fe, New Mexico if you wish. The options are as set out below:

1. You may accept the offer that the other people have taken.
2. you may accept the force pooling and let the operator recover his drilling costs plus a 200 % penalty.
3. you may join in the drilling of the well and pay your part of the \$ 2,250,000.00 to drill the well.

I have received a letter from Mrs. ober and she has advised me that she will sell her interest for \$ 100.00 and I will probably buy it sometime next week. If this amount would be satisfactory with you, please let me know.

Yours truly,



Ronnie Ward

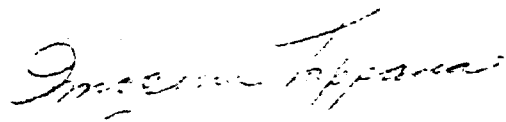
April 17, 1981

Mr. Ronnie Ward
P.O. Box 2371
Midland, Texas 79702

Mr. Ward:

The following is in reference to your purchase offer of April 14, 1981, concerning land from the Ella May Aldridge estate. After giving your offer consideration, I have decided to decline. However, I would like to thank you for your generous offer. I wish to retain my holdings as they are at this time.

Yours truly,



Inogene Tappana

RONNIE WARD

Independent Landman

P. O. BOX 2371
MIDLAND, TEXAS 79702

PHONE
915/684-4829

April 14, 1981

mailed to ALL
agents

Re: Ella May Aldridge Estate.

Dear

In October or November of 1980, I contacted you concerning the above mentioned estate. At that time I advised you that you owned $\frac{1}{4}$ of the estate that covered a 5.0 acre tract of land located in Eddy County, New Mexico. In my letter of last year, I made an offer to purchase your mineral interest, but I have not heard from you. I have now been advised by an Oil & Gas Operator in Roswell, New Mexico that they intend to drill a 13,000 foot gas well in this section and the 5.0 acre tract in question will be under the well. In the event that the operator or myself is unable to buy or lease any of the land under the well, the operator will go to the State of New Mexico and "FORCE POOL" the acreage. This means that the operator will be entitled to recover all drilling costs plus a 200 % penalty. This would mean that you would probably not receive any money for at least 3 years. I would also like to point out that your interest is so small that even if they drilled a very good gas well you might receive as little as \$5.00 per year. As I have set out in my first letter, your actual acreage figure is 0. acres.

I hereby revise my offer as follows:

- A. I will pay you \$.00 to purchase your interest.
- B. I will pay you \$ 100.00 per net acre Bonus Consideration for a one (1) year paid-up oil & gas lease with a $\frac{1}{6}$ royalty.

I will appreciate your very early consideration to my offers in order that we might avoid the above mentioned 200 % penalty. The well is to be started within the next 21 days.

Yours truly,

Ronnie Ward

1. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

2. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

3. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

4. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

5. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

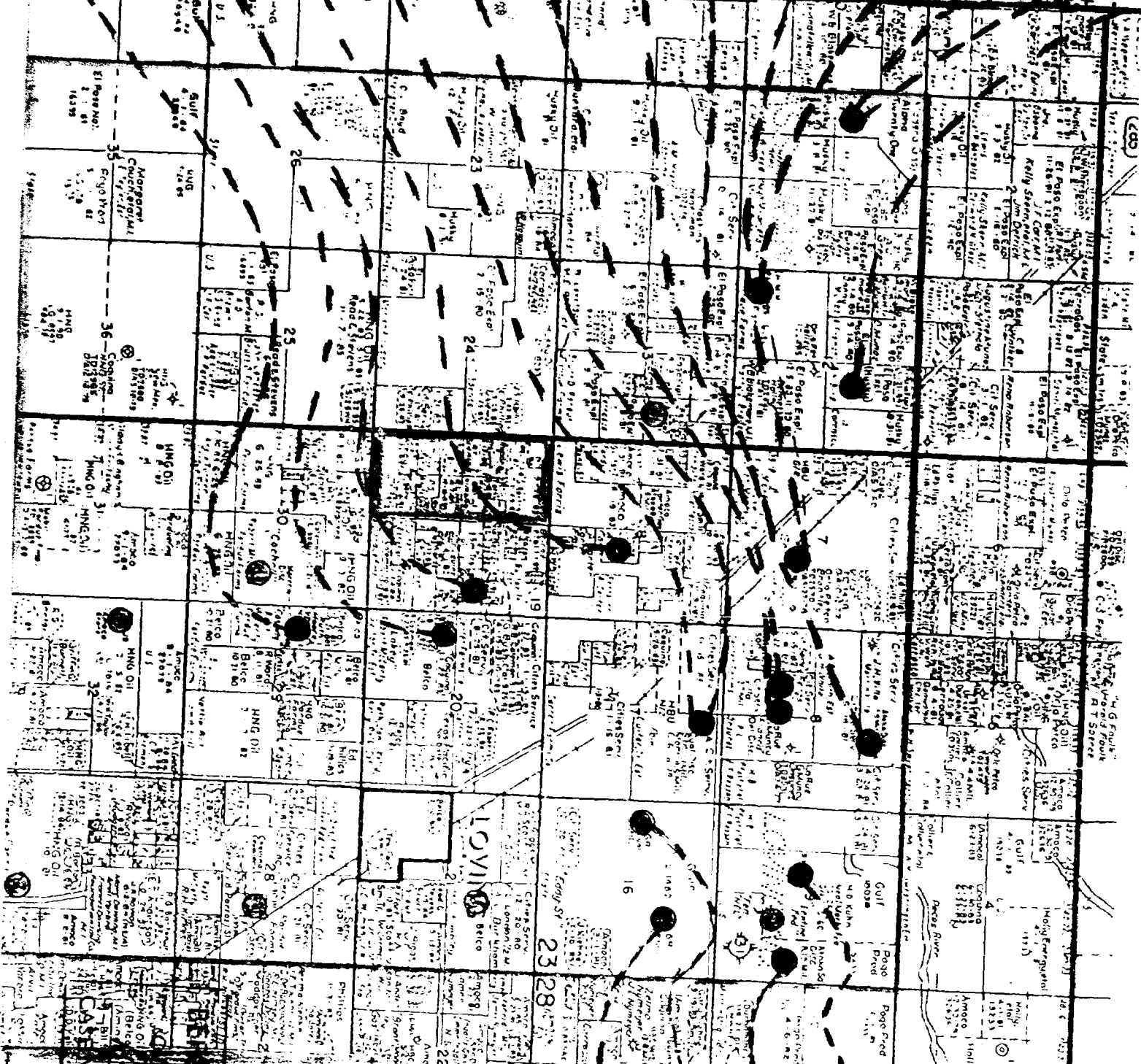
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 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

7. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

8. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

9. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

10. Bird Com. 11/03/78
 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100



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 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

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 Comp: 3-2-81
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 IP: 449 mscf
 Comp: 3-2-81
 Field: Eddy Und. Alaska
 Cum. 100

NOTES: 19, 216 TESTS: 19, 216-338
TPOAOF: 4670 mcrd Field: N Lowing
Temp: 14/80

Sum/min 159, 421 mcrd 18, 19 mcrd 30 mcrd 15

CASE NO. 7366
Production through 7-1-8)
By Beverly Smith 9-30-84

2366
Production through 7-11
By Beverly Smith 9-30

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

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

TELEPHONE 622-8432
AREA CODE 505

September 1, 1981

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

Re: Case No. 7344

Dear Mr. Nutter:

At the request of our client, Read & Stevens, Inc., we enclose herewith in triplicate Motion to Dismiss the Application set for hearing on September 9, 1981.

The matter is being refiled under a new Application, enclosed herewith in triplicate, which seeks compulsory pooling for the Strawn, Atoka and Morrow formations.

We understand the matter will be set for Examiner hearing on the regular docket in October 1981.

Respectfully,

JENNINGS & CHRISTY

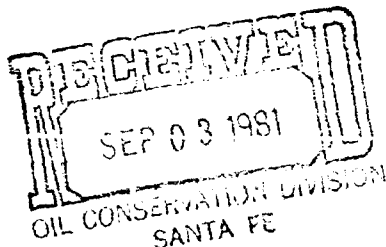
By


S. B. Christy IX

SBC:pv

Enclosures

cc: Read & Stevens, Inc.
Attention: Mr. Joel Wigley



STATE OF NEW MEXICO
DEPARTMENT OF NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF READ & STEVENS, INC. FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

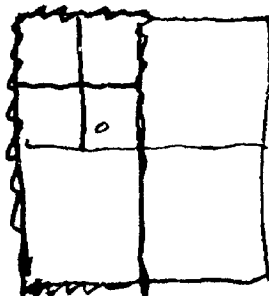
Case No. 7366

APPLICATION

COMES NOW Read & Stevens, Inc., a New Mexico corporation,
and hereby makes application for compulsory pooling of all
mineral interest in the ^{Strawn Atoka and} Morrow formations underlying the
W $\frac{1}{2}$ Section 19, Township 23 South, Range 28 East, N.M.P.M.,
Eddy County, New Mexico, containing 318.34 acres, more or less,
and for grounds thereof states:

1. Applicant has been diligent in its efforts to form a
proration unit for the drilling of a well, to be located 2,310
feet from the North line and 1,947 feet from the West line of
said Section 19, but there remains non-consenting interest
owners in the subject proration unit who have not agreed to the
pooling of their interest.

2. That to avoid the drilling of unnecessary wells, to
protect correlative rights, and to afford the owner of each
interest in said proration unit the opportunity to recover
or receive without unnecessary expense his just and fair share
of the gas and associated hydrocarbons producible from the
Strawn, Atoka and Morrow formations, this regulatory body
should approve the pooling of all mineral interest, whatever
they may be, within said unit.



3. Applicant proposes to dedicate the subject proration unit to the well to be located as aforesaid.

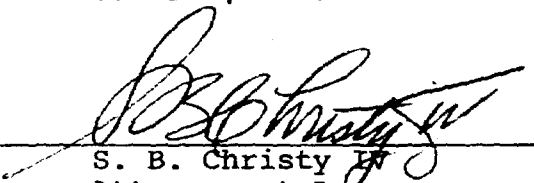
4. Applicant seeks permission to withhold the proceeds from production attributable to each non-consenting working interest until such time as each interest's share of the cost of said well has been recovered plus 200% thereof as a charge for the risk involved in the drilling of the well.

5. That after due public notice, this regulatory body should enter its order granting compulsory pooling in accordance with this Application, fixing a charge for risk, fixing a per month cost for operating the well, and granting to each non-consenting working interest owner the privilege to join in the payment of drilling the well in accordance with law. That such order should further provide that Applicant be appointed as Operator of the well.

Respectfully,

READ & STEVENS, INC.

By


S. B. Christy
Attorney at Law
P. O. Box 1180
Roswell, New Mexico 88201

cc: Certified Mail to:

Thelma Edwards
218 North Main Street
Moulton, Iowa 52572

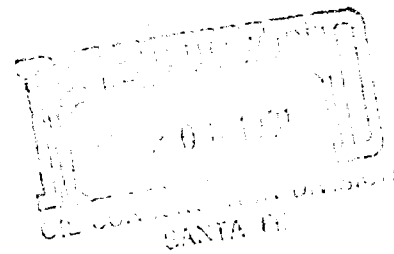
Imogene Tappana
504 North Ball
Webb City, Missouri 54870

Ellis Fischel State Cancer Hospital
115 Business Loop 70 West
Columbia, Missouri 65211
Attn: Joseph C. Greco

cc: Uncertified to:
Read & Stevens, Inc.

Address Unknown:

Belle Amunds



STATE OF NEW MEXICO
DEPARTMENT OF NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF READ & STEVENS, INC. FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

Case No. 7366

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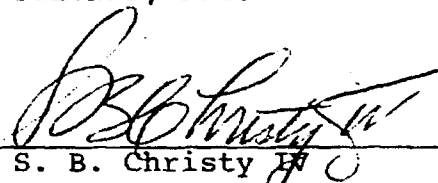
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Respectfully,

READ & STEVENS, INC.

By


S. B. Christy
Attorney at Law
P. O. Box 1180
Roswell, New Mexico 88201

cc: Certified Mail to:

Thelma Edwards
218 North Main Street
Moulton, Iowa 52572

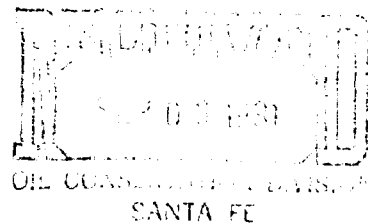
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Webb City, Missouri 54870

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115 Business Loop 70 West
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Address Unknown:

Belle Amunds



STATE OF NEW MEXICO
DEPARTMENT OF NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF READ & STEVENS, INC. FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

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proration unit for the drilling of a well, to be located 2,310
feet from the North line and 1,947 feet from the West line of
said Section 19, but there remains non-consenting interest
owners in the subject proration unit who have not agreed to the
pooling of their interest.

2. That to avoid the drilling of unnecessary wells, to
protect correlative rights, and to afford the owner of each
interest in said proration unit the opportunity to recover
or receive without unnecessary expense his just and fair share
of the gas and associated hydrocarbons producible from the
Strawn, Atoka and Morrow formations, this regulatory body
should approve the pooling of all mineral interest, whatever
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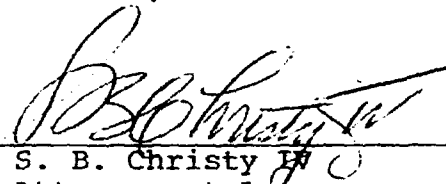
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5. That after due public notice, this regulatory body should enter its order granting compulsory pooling in accordance with this Application, fixing a charge for risk, fixing a per month cost for operating the well, and granting to each non-consenting working interest owner the privilege to join in the payment of drilling the well in accordance with law. That such order should further provide that Applicant be appointed as Operator of the well.

Respectfully,

READ & STEVENS, INC.

By


S. B. Christy
Attorney at Law
P. O. Box 1180
Roswell, New Mexico 88201

cc: Certified Mail to:

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218 North Main Street
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Read & Stevens, Inc.

Address Unknown:

Belle Amunds

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7366

Order No. R- 6804

APPLICATION OF READ & STEVENS, INC.,
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 7,
19 81, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of October, 19 81, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

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

(2) That the applicant, Read & Stevens, Inc.,
seeks an order pooling all mineral interests in the Strawn, Atoka
and Morrow formations underlying the W/2
of Section 19, Township 23 South, Range 28 East,
NMPM, North Loving Field, Eddy 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 100 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 \$ 3825.60 per month while drilling and \$ 382.55 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 January 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 Strawn, Atoka and Morrow formations underlying the W/2 of Section 19, Township 23 South, Range 28 East, NMPM, North Loring Field, Eddy County, New Mexico, are hereby pooled to form a standard 320- 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 first day of January, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of January, 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 Read & Stevens, Inc. 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 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 \$ 3825.50 per month while drilling and \$ 382.55 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.

-6-
Case
Order No.

(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 Eddy 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.

END OF ROLL

185

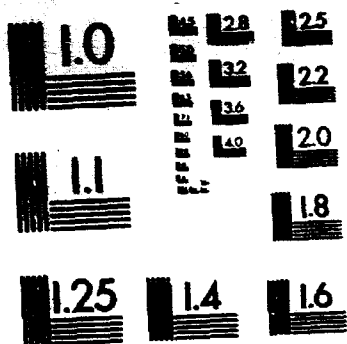
ROLL NUMBER

DOCUMENT TYPE NM. oil conservation Division co.

DATE OF FILMING 10/17/85

CAMERA OPERATOR Symphonie Layman

ENDING DOCUMENT Case 7366 / 1 / 1 / 1992



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)

STATEMENT OF DOCUMENT CERTIFICATION

All microphotographs images of documents following this certificate are of authorized documents in the possession of this Agency. These documents are routinely microfilmed as a necessary operation in the generation of an inviolate document file.

R. David Ortiz
SUPERVISOR

STATE OF NEW MEXICO)
) SS.
COUNTY OF VALENCIA)

Sworn and Subscribed to me, A Notary Public,

This 1st day of December, 19 93

Lyndee Aragon
NOTARY PUBLIC

MY COMMISSION EXPIRES: 10-2-96

CERTIFICATE OF AUTHENTICITY

THIS IS TO CERTIFY that the microphotographs appearing on this Roll of Film are accurate and complete reproductions of the records of the, NM oil CONSER. DIVISION as delivered in the regular course of business for Micro Filming.

L. S. Saylor
CAMERA OPERATOR

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R. David Ortiz
SUPERVISOR

STATE OF NEW MEXICO)
) SS.
COUNTY OF VALENCIA)

Sworn and Subscribed to me, A Notary Public,

This 1st day of December, 19 83

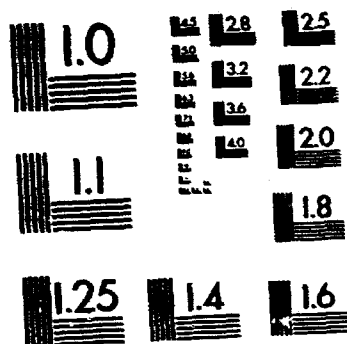
Agustin Aragon
NOTARY PUBLIC

MY COMMISSION EXPIRES: 10-2-86

CERTIFICATE OF AUTHENTICITY

THIS IS TO CERTIFY that the microphotographs appearing on this Roll of Film are accurate and complete reproductions of the records of the, NM AIR CONSER. DIVISION as delivered in the regular course of business for Micro Filming.

A. Saurion
CAMERA OPERATOR



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