COUNTY, NEW MEXICO

CASE NO.

7606

APPLICATION,

TRANSCRIPTS,

SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
17 June 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of MTS Limited Partnership Company for compulsory pooling, Chaves County, New Mexico. CASE 7606

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

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

I N D E X

E X H I B I T S

MR. STAMETS: We will call then Case 7606.

MR. PEARCE: That is the application of MTS Limited Partnership Company for compulsory pooling, Chaves County, New Mexico.

MR. CARR: Mr. Examiner, my name is William F. Carr, with the law firm Campbell, Byrd, and Black, P.A., of Santa Fe, appearing on behalf of the applicant in this case.

I have one witness who needs to be sworn.

(Witness sworn.)

KEVIN DENTZER

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your name, please?

A. Edward Kevin Dentzer.

Q. How do you spell your last name?

A. D-E-N-T-Z-E-R.

Q. And where do you reside?

A. 1503 North Garfield, Midland, Texas.

Q. By whom are you employed and in what capa-

city?

A. I'm employed by Mesa Petroleum Co. in the capacity of landman.

Q. And is Mesa one of the partners in MTS Limited Partnership?

A. Mesa is the operating partner of the limited partnership.

Q. Have you previously testified before this Commission or one of its examiners?

A. I have not.

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

A. I'm a graduate of Texas Christian University, 1975. In 1975 I began Texas State Law School and graduated in 1978 and was admitted to the State Bar of Texas in November of 1978.

In August of 1978 I went to work for Texaco in Midland as a landman and worked for Texaco for two years and two months and then since that time I've been working for Mesa Petroleum as landman.

Q. Do your duties or is your area of responsibility with Mesa including the area which is the subject of this case?

A. Yes, it does.

Q. Are you familiar with the application filed on behalf of Mesa in this -- or MTS in this matter?

A. Yes, I am.

Q. And you are familiar with the general area?

A. Yes, sir.

MR. CARR: Are the witness' qualifications as a landman acceptable.

MR. STAMETS: Let me ask a couple of questions.

Mr. Dentzer, what was your degree from Texas Christian?

A. I graduated with a double major in political science and history.

MR. STAMETS: And you will be testifying today as a landman related to those issues relative to compulsory pooling that are normal responsibility of a landman for Mesa Petroleum?

A. Yes, sir.

MR. STAMETS: The witness is considered qualified.

MR. CARR: And I might note, Mr. Stamets, that we will not be presenting any engineering or geological testimony in this case.

Q. Mr. Dentzer, will you briefly state what

Mesa -- or MTS seeks in this case?

A. Okay. MTS seeks compulsory pooling of approximately .8 acres of land that falls within our proration unit for our No. 1 Neal Com Well in the northwest quarter of Section 5, Township 7 South, 26 East, Chaves County, New Mexico.

Q. And MTS is seeking pooling of these interests in the northwest quarter of Section 5?

A. Yes.

MR. STAMETS: How do you spell Neal?

A. N-E-A-L.

MR. STAMETS: Thank you.

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

A. Yes, I have.

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

A. Okay. This is a plat of the area designating the proration unit for the No. 1 Neal that's marked in red in the northwest quarter of Section 5, Township 7 South, 26 East.

Q. This shows the acreage dedicated to the proposed well. Is the proposed well indicated?

A. No, sir, it's not.

Q. Do you happen to know the location of that well?

A. The well is located 1980 from the north and 1650 from the west.

Q. And is it a standard location for the well?

A. Yes.

Q. And a standard spacing?

A. Yes.

Q. Will you now refer to MTS Exhibit Number Two and review this for Mr. Stamets?

A. Okay. Exhibit Number Two is an ownership schedule under the No. 1 Neal Com. It sets out MTS Limited Partnership, Corona Oil Company, Tenneco Oil Exploration and Production, F. Andrew Brooms (sic), Carl A. Schelinger (sic), Ralph O. Sparks, Junior, and Mozelle Sparks Hatton.

It sets out the net acres presently held by the parties as set out, and the working interests before and after payout.

It shows MTS Limited Partnership with 55 net acreas, Corona Oil Company with 55 net acres, Tenneco Oil Exploration and Production, 40 acres; F. Andrew Brooms, 4.6, Carl A. Schelinger, 4.6 acres, Ralph O. Sparks, Junion, .4 acres, and Mozelle Sparks Hatton with .4 acres.

Q. What percentage of the acreage has been committed to the unit?

A. The percentage is 93.75 percent.

Q. Will you now refer to what has been marked for identification as Exhibit Number Three and --

MR. STAMETS: Let me ask a question at this point.

Which of the owners you have listed here have not agreed at this point in time?

A. Well, compulsory pooling is as to the interests of Ralph O. Sparks, Junior, and Mozelle Sparks Hatton, both with .4 acres.

MR. STAMETS: And then the 93.75 figure is a percentage, right?

A. Yes, sir.

Q. Will you please refer to Exhibit Number Three and review this for Mr. Stamets?

A. Okay. Exhibit Three is -- sets -- or are the well proposals by Mesa Petroleum to F. Andrew Brooms, Tenneco Oil, Carl A. Schelinger, and letters referencing title curative addressed to F. Andrew Brooms, and responses by Carl A. Schelinger and F. Andrew Brooms to our proposal.

Q. Would you refer to Exhibit -- to Exhibit Number Four and using this exhibit explain to Mr. Stamets the

efforts made by Mesa on behalf of MTS to locate and secure the voluntary commitment of the Sparks and Hatton interests?

A. Okay. The leases that were acquired by -- in the southwest quarter of the northwest quarter, were from F. Andrew Brooms, were originally taken by F. Andrew Brooms, and in his attempt to lease up full mineral interest in the southwest quarter of the northwest quarter, he contacted mineral owners, being the Beards and the Sparks.

He was unable at the time of making -- attempting to contact after checking the records, Ralph O. Sparks.

Not being able to contact Mr. Sparks and being interested in tying up all the acreage in this 40 acres, he was put in contact with an A. B. Morgan, who works for the firm of McCormick and Forbes, Carlsbad, New Mexico, who is related by marriage to the family, and at that time Mr. Morgan, as set out in this letter, conducted a search, or made efforts to locate the members -- the two members of the family that they were unable to get -- that were record title owners and they were not able to reach or contact for purposes of leasing their minerals.

The owners of this -- these interests were Ralph O. Sparks, Junior, and MOzelle Sparks. In his efforts to contact he discovered that both Ralph Sparks, Junior, and

Mozelle Sparks Hatton were deceased and that as of the last known addresses of the parties, they, the children of these parties, last known addresses of the heirs of these parties, were not at the last known address.

Irene Sparks Brewer, who is the oldest member of the family and generally keeps in contact with the members of the family, was unable to locate the heirs of Ralph O. Sparks or Mozelle Sparks, and Jimmie -- Odie Sparks, and also a mineral owner in this tract, who actually lives in California, were a couple of the parties, one of the parties of interest, was last known to reside -- was also unfamiliar with the present location -- the present location of the parties that we're trying to run down.

Now, the heirs, he was attempting to run down the heirs, but of record, Ralph O. Sparks, Junior, and Mozelle Sparks Hatton do appear as the current mineral owners of this interest.

Q. And Exhibit Number Four is a letter summarizing the efforts made by McCormick and Forbes to locate these individuals.

A. Yes.

Q. What will you do with any funds that are attributable to the interest of these two unknown owners?

A. Well, any funds that are attributable to

these parties will be held in suspense in accordance with the laws of the State of New Mexico.

Q. Will you now refer to what has been marked as MTS Exhibit Number Five, identify this and review the information contained thereon?

A. Exhibit Number Five is the AFE cost estimate for the No. 1 Neal, and the bottom line sets out the dry hole cost for this well would be $267,000 and the cost of completed producing well, $419,000.

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

A. Yes, they are.

Q. Now I'd like you to identify for Mr. Stamets what has been marked as MTS Exhibit Number Six.

A. Exhibit Number Six is the model form operating agreement depicting or setting out Mesa Petroleum Co. as operator of the No. 1 Neal Com.

Q. Does this operating agreement contain administrative and overhead charges or costs while drilling and completing this well?

A. Yes.

Q. And what are those figures?

A. Okay. The drilling and completion it's $3700 and $370.

Q. And those are monthly figures?

A. Yes.

Q. Are these costs in line with what's being charged by other operators in the area?

A. Yes, they are.

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

A. Yes, I do.

Q. Do you also recommend that this operating agreement be incorporated by reference into any order which results from this hearing?

A. I do.

Q. In the Abo play is there a risk of drilling a marginal well or a dry hole?

A. Yes, there is that risk.

Q. And in the operating agreement what is the standard risk penalty set out for nonconsenting working interest owners?

A. It's 300 percent penalty, which I believe is broken down to 100 percent being cost and 200 percent penalty.

Q. And is it MTS' recommendation that these figures in the operating agreement be incorporated into the order which results from this hearing?

A. Yes, it is.

Q. And I believe you stated that Mesa Petroleum Company was the general partner in MTS.

A. Yes, sir.

Q. Does MTS or does Mesa request to be operator of the well?

A. Mesa.

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

A. Yes, it will.

Q. Were Exhibits One through Seven prepared by you -- first let's refer to Exhibit Number Seven and ask you just to identify that for Mr. Stamets.

A. Okay, this is our well proposals to -- letters proposing whatever one you want to -- to Corona Oil Company.

Q. This is just additional correspondence --

A. Yes.

Q. -- outlining your efforts to put together the drilling tract.

A. Right.

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

A. Yes, they were.

MR. CARR: At this time, Mr. Stamets, we would offer MTS Exhibits One through Seven.

MR. STAMETS: These exhibits will be admitted.

MR. CARR: And that concludes our direct examination.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Dentzer, going back to Exhibit Number Two, you said 93.75 percent was committed, but my calculations based on those two .4 of an acre comes up to 99.5 percent.

A. Oh, okay. The figure I gave you, 93.75 percent, is going to be MTS Limited Partnership's working interest in the well, and the amount of acreage that is committed to the well is 99.5 percent.

Q. So as we look through this list, MTS, Corona, Tenneco, Broom, and Schelinger, have all already signed the operating agreement which you've presented here today.

A. Okay, as to Corona Oil Company, Corona is subject to an agreement of April 1, 1981, whereby -- or 19, excuse me, 1982 -- whereby they will go nonconsent, 300 per-

cent penalty and MTS will operate their interest until that 300 percent penalty is recovered.

As for F. Andrew Broom and Carl A. Schelinger, they have signed the operating -- have joined and signed the operating agreement.

As to Tenneco Oil, they are going to lease. We are in the process of finalizing the lease of Tenneco's interest to MTS Limited Partnership, and their interest is to the northeast quarter -- mineral interest in the northeast quarter of the northwest quarter.

Q. Okay, then Brooms and Schelinger have of their own volition agreed to this model operating agreement.

A. Yes, sir, they have signed it. Their signature pages are included.

Q. Okay. And that agreement would be as to the overhead charges and risk charges.

A. Yes, sir.

Q. And so these people apparently feel that those are reasonable charges.

A. Yes, sir.

Q. Okay.

MR. CARR: Mr. Stamets, if there is a problem as to who is requesting to be operator of the well in the application, we would have no objection to the order providing

that MTS is the operator and then they could subsequently designate Mesa, I believe, just so there isn't a technical problem, application versus order.

MR. STAMETS: Let's go off the record a minute.

(Thereupon a discussion was had off the record.)

MR. STAMETS: Okay, let's go back on the record.

MR. PEARCE: For the record, sir, I understand that MTS Limited Partnership is a limited partnership formed in a state other than NewMexico?

A. Yes.

MR. PEARCE: And, Mr. Dentzer, is it your understanding that the partnership papers of MTS Limited Partnership indicate that Mesa Petroleum Corporation is the general partner of that limited partnership?

A. Yes.

MR. PEARCE: That's all I have of Mr. Dentzer.

MR. STAMETS: Any other questions of this witness?

MR. CARR: No further questions.

MR. STAMETS: He may be excused.

Mr. Carr, in light of your request to have the operating agreement somehow referenced in the order, I'm going to ask you to prepare a rough draft order with the appropriate findings, both as to this issue and as to the operating name.

MR. CARR: Fine.

MR. STAMETS: If there is nothing further, the case will be taken under advisement.

(Hearing concluded.)

CERTIFICATE

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 C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7606, heard by me on 6-9 1982.

Richard L. Stamets, Examiner
Oil Conservation Division

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

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
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BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE
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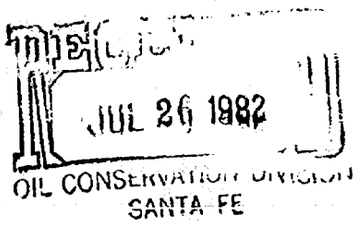
July 22, 1982

Mr. R.L. Stamets
Hearing Examiner
Oil Conservation Division
New Mexico Department of
Energy & Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501



Re: Oil Conservation Division Case No. 7606: Application of MTS Limited Partnership Company for Compulsory Pooling, Chaves County, New Mexico

Dear Mr. Stamets:

Pursuant to your request, I have prepared proposed finding and order paragraphs to be included in the order resulting in the above-referenced case. The purpose of these paragraphs is to incorporate into the Division's Order the April 3, 1982 operating agreement between Mesa and other interest owners in the subject spacing unit.

We recommend that the following finding be included in the order following the paragraph setting forth administrative and overhead charges:

> That an operating agreement dated June 3, 1982 covering the NW/4 of Section 5, Township 7 South, Range 36 East, N.M.P.M., Chaves County, New Mexico has been accepted and agreed to by the owners of 99.5 percent of the interests of the NW/4 of said Section 35.

We also recommend that the following paragraph be inserted after the order paragraph providing for administrative and overhead charges:

That the terms of the operating agreement for the NW/4 of Section 5, Township 7 South, Range 26 East, N.M.P.M., Chaves County, New Mexico (being lots 3, 4 and the S/2 of the NW/4 of said Section 5) dated April 3, 1982 are reasonable, that this operating agreement will govern the relationship between all interest owners in the pooled spacing unit and that this operating agreement is incorporated into this order by reference as if fully set out herein.

If we can be of further assistance in drafting language for the order in this case, please advise.

Best regards.

Very truly yours,

William F. Carr

WFC:jh

cc: Steven C. James, Esquire

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

September 30, 1982

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

Re: CASE NO. 7606
ORDER NO. R-7086

Applicant:

MTS Limited Partnership Company

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other

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. 7606
Order No. R-7086

APPLICATION OF MTS LIMITED PARTNERSHIP
COMPANY FOR COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 9, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 30th day of September, 1982, 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, MTS Limited Partnership Company, seeks an order pooling all mineral interests from the surface through the base of the Abo formation underlying the NW/4 of Section 5, Township 7 South, Range 26 East, NMPM, Chaves 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 Mesa Petroleum Company is the operating partner for MTS Limited Partnership and should be designated the operator of the subject well and unit.

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

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

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

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

(11) That $3700.00 per month while drilling and $370.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 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, from the surface through the base of the Abo formation underlying the NW/4 of Section 5, Township 7 South, Range 26 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of December, 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 Mesa Petroleum Company as operating partner for MTS Limited Partnership Company is hereby designated the operator of the subject well and unit.

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

(4) That within 30 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 $3700.00 per month while drilling and $370.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

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

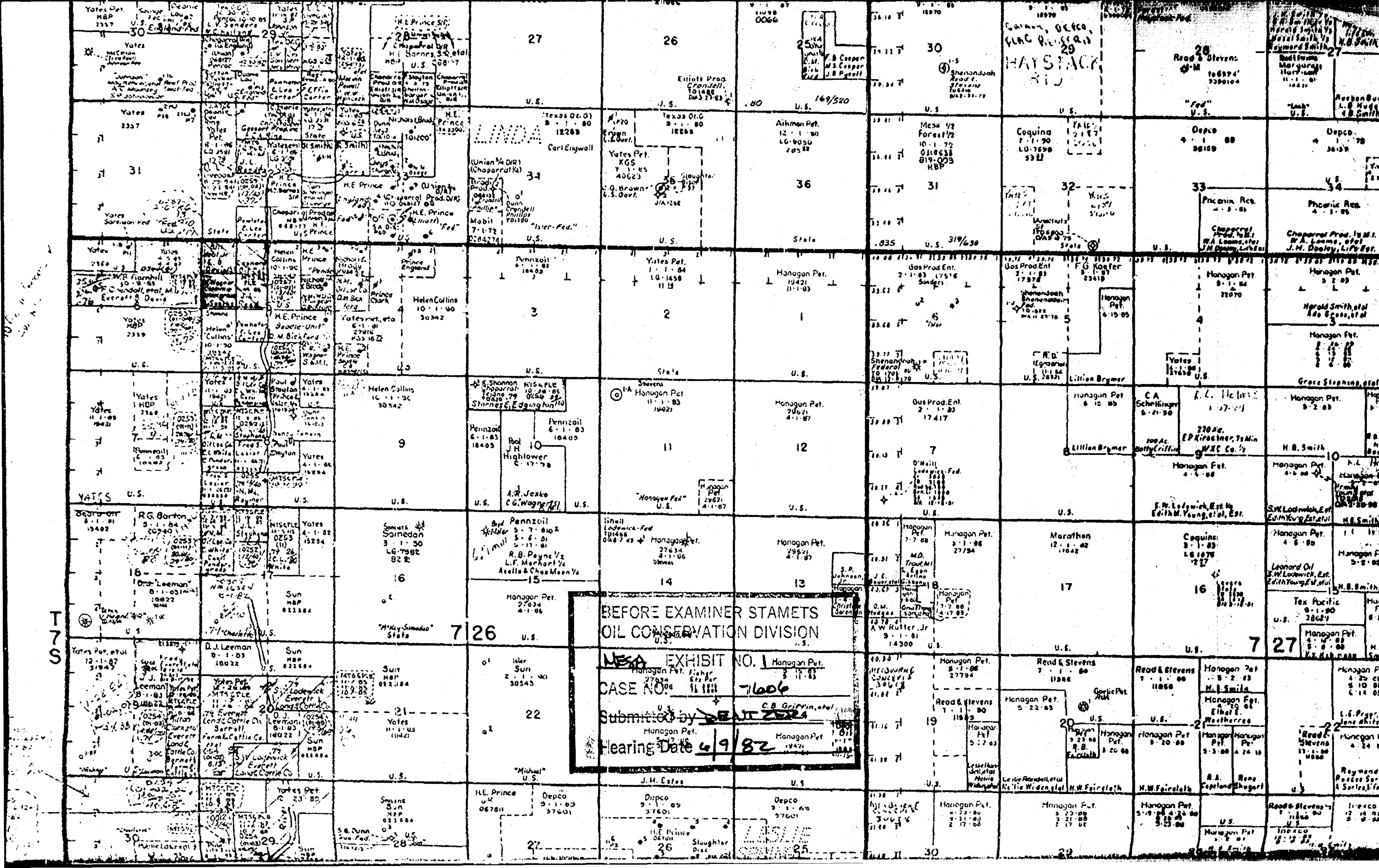
(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director

S E A L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HAYSTACK
LINDA
BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 1
CASE NO. 7606
Submitted by
Hearing Date 4/9/82

SCHEDULE

#1 NEAL COM.

ACRES OWNED
NW/4 Sec. 5, T-7-S, R-26-E
Chaves County, New Mexico

	Net Acres	WI Before Payout	WI After Payout
MTS Limited Partnership	55	93.75%	46.8750%
Corona Oil Company	55	-0-%	46.8750%
Tenneco Oil Exploration and Production	40	-0-%	-0-%
F. Andrew Grooms	4.6	2.875%	2.875%
Carl A. Schellinger	4.6	2.875%	2.875%
Ralph O. Sparks, Jr.	.4	.25%	.25%
Mozelle Sparks Hatton	.4	.25%	.25%

* Leased by Tenneco to MTS Limited Partnership

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
NSA EXHIBIT NO. 2
CASE NO. 7606
Submitted by Jentzer
Hearing Date 6/9/82

MHrf, Well File, C-U 4-9-82

MESA
PETROLEUM CO.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 3
CASE NO. 7606
Submitted by MESA
Hearing Date 6/9/82

March 29, 1982

Mr. F. Andrew Grooms
1504 W. Tilden
Roswell, NM 88201

Dear Mr. Grooms:

Subject: Well Proposal
Mesa #1 Neal Com.
Section 5, T-7-S, R-26-E
Chaves County, New Mexico
Mesa OP 05-NM-0138-224

Mesa, as operator, hereby proposes the drilling of the captioned well to test the Abo Formation. Please indicate your intentions to join or not to join by executing and returning a copy of this letter along with an executed AFE on your behalf. An Operating Agreement is being prepared and will be forwarded when completed.

Yours very truly,

Mark Hannifin

cs
Enclosures

Mesa #1 Neal Com. _____Join _____Not Join

By:_____

MHrf, Well File, C-U 4-9-82

✓

MESA
PETROLEUM CO.

March 29, 1982

Tenneco Oil Co.
200 N. Loraine
Suite 1413
Midland, TX 79701

Gentlemen:

Subject: Well Proposal
Mesa #1 Neal Com.
Section 5, T-7-S, R-26-E
Chaves County, New Mexico
Mesa OP 05-NM-0138-224

Mesa, as operator, hereby proposes the drilling of the captioned well to test the Abo Formation. Please indicate your intentions to join or not to join by executing and returning a copy of this letter along with an executed AFE on your behalf. An Operating Agreement is being prepared and will be forwarded when completed.

Yours very truly,

Mark Hannifin

cs
Enclosures

Mesa #1 Neal Com. ___Join _____Not Join

TENNECO OIL CO.

By:_____

BXC: MAHrf, O/A file, C-U 4-24-82

MESA
PETROLEUM CO.

April 7, 1982

Carl A. Schellinger
P. O. Box 447
Roswell, NM 88201

Dear Mr. Schellinger:

Subject: Operating Agreement and AFE
Mesa #1 Neal Com.
Pecos Slope Prospect
Chaves County, New Mexico
Mesa OP 05-NM-0138-224

Enclosed herewith for your review and execution are the AFE and Operating Agreement for the captioned well. We will circulate signature pages on behalf of all parties as available. Please sign and return two (2) copies of the signature page and one (1) copy of the AFE.

If you desire to join in the drilling of this well, it is requested that you return one copy of this letter signed.

Yours very truly,

Mark Hannifin

sl

Enclosures

CARL A. SCHELLINGER elects to join in the captioned well.

BY: _____ DATE: _____

ANDY GROOMS
P O BOX 908
ROSWELL, NEW MEXICO 88201

OIL AND GAS

TELEPHONE
505 623-2640

RECEIVED

MES

Mesa Petroleum Co.
Vaughn Building
Suite 1000
Midland, Texas 79701-4493

03/31/82

Attention: Mark Hannifin

Re: Well Proposal
#1 Neal Com.
Section 5, T-7-S, R-26-E
Chaves County, New Mexico
Mesa OP 05-NM-0138-224

Dear Mr. Hannifin:

I am in receipt of your letter concerning our participation in the above captioned well. Please be advised that our leasehold covers 6.125% of the 160 acre drilling well and spacing unit. We are in the process of attempting to locate and lease from the owners of the 8/10ths of one net mineral acre that is still outstanding. Mr. Carl A. Schellinger owns a 50% interest in said leases as evidenced by the copy of Partial Assignment of Oil and Gas Leases enclosed. The Operating Agreement and paper work will need to be prepared accordingly.

Mr. Schellinger and I hereby agree to join in this venture under the following terms and conditions:

1.) We will require a copy of the drillsite title opinion before execution of the AFE for the captioned well.

2.) Operating Agreement shall be prepared, forwarded and executed by all parties before the well is spud.

3.) Copies of all invoices, notices, drilling reports, logs and test information shall be sent to the following addresses:

F. Andrew Grooms
P. O. Box 908
Roswell, New Mexico 88201

Carl A. Schellinger
P. O. Box 447
Roswell, New Mexico 88201

Yours very truly,

F. Andrew Grooms

F. Andrew Grooms

FAG/jh
Encls.

cc: Carl A. Schellinger

KRDrf, ~~LEASE~~ WELL FILE, C-U -3-82

MESA
PETROLEUM CO.

April 16, 1982

F. Andrew Grooms
P. O. Box 908
Roswell, NM 88201

Dear Mr. Grooms:

Subject: Title Curative
NW¼ Section 5, T-7-S, R-26-E
Chaves County, New Mexico
#1 Neal Com.
Pecos Slope Prospect
Mesa OP 05-NM-0138-224

Kevin Dentzer of this office has advised me that you are attempting to lease the previously unleased .8 acres in section 5 from Ralph Sparks, Jr. and Mozelle Sparkes Hatton. We would appreciate your advising Mesa of your progress and providing us with a recorded copy of any leases you acquire from these two mineral owners in this quarter section.

Your cooperation is greatly appreciated.

Yours very truly,

K R Dement

K. R. Dement

sl

KRDrf, WELL FILE, C-[illegible] 5-4-82, ~~LEASE FILE~~

MESA
PETROLEUM CO.

April 19, 1982

F. Andrew Grooms
P. O. Box 908
Roswell, NM 88201

Dear Mr. Grooms:

Subject: Title Curative
NW¼ Section 5, T-7-S, R-26-E
Chaves County, New Mexico
Pecos Slope Prospect
Mesa #1 Neal Com.
OP 05-NM-0138-224

Enclosed is a copy of the Drilling Opinion on Mesa's #1 Neal Com. as you requested from Kevin Dentzer. I have begun to satisfy all requirements except "C" and "I" which I leave for you to handle, since Mesa has no interest under the leases covered by those two requirements.

Once you have taken care of these requirements, please advise us and send copies of the curative.

If there is anything else you need, please let us know.

Yours very truly,

K. R. Dement

sl

Enclosure

Well File C/H file
NM-0138-224

CARL A. SCHELLINGER

Oil Properties-Licensed Broker

BUS. (505) 623-2328
RES. (505) 623-2329

April 28, 1982

RECEIVED
APR 29 1982
MES

Mesa Petroleum Co.
1000 Vaughn Building
Midland, Texas 79701

Attention: Mr. Mark Hannifin

Re: Mesa No. 1 Neal Com
Pecos Slope Prospect
Chaves County, New Mexico
(Mesa OP 05-NM-0138-224)

Gentlemen:

Pursuant to your instructions we are enclosing two (2) copies of a signature page to Operating Agreement dated April 3, 1982, along with one (1) approved copy of your AFE covering the above described well. We have also attached a copy of your letter dated April 7, 1982 wherein we elect to participate in the well as to our 2.875% interest.

Should you need something further from this office, please let us know.

Very truly yours,

Carl A. Schellinger

CAS/mb
Encl.

516 SECURITY NATIONAL BANK BUILDING — POST OFFICE BOX 447 — ROSWELL, NEW MEXICO 88201

RECEIVED

APR 13 1982

CARL SCHELLINGER
OIL PROPERTIES

MESA
PETROLEUM CO.

April 7, 1982

Carl A. Schellinger
P. O. Box 447
Roswell, NM 88201

Dear Mr. Schellinger:

Subject: Operating Agreement and AFE
Mesa #1 Neal Com.
Pecos Slope Prospect
Chaves County, New Mexico
Mesa OP 05-NM-0138-224

Enclosed herewith for your review and execution are the AFE and Operating Agreement for the captioned well. We will circulate signature pages on behalf of all parties as available. Please sign and return two (2) copies of the signature page and one (1) copy of the AFE.

If you desire to join in the drilling of this well, it is requested that you return one copy of this letter signed.

Yours very truly,

Mark Hannifin

sl

Enclosures

CARL A. SCHELLINGER elects to join in the captioned well, as to his 2.875% interest.

BY: Carl A. Schellinger DATE: 4/27/82

McCORMICK AND FORBES
ATTORNEYS AT LAW
BUJAC BUILDING
P. O. BOX 1718
CARLSBAD, NEW MEXICO 88220
TELEPHONE 885-4171
AREA CODE 505

DON G. McCORMICK
JAY W. FORBES
THOMAS L. MAREK
ROGER E. YARBRO
JOHN M. CAGLEWAY
CAS TABOR

4 June 1982

Mr. Kevin Dentzer
Suite 1000, Vaughn Building
Midland, Texas 79701

Re: Ralph O. Sparks, Jr. and Mozelle Hatton

Dear Mr. Dentzer:

This letter will outline to you some of the efforts we have made to locate the heirs of the above persons, or the above persons.

First of all, I am the son-in-law of Irene Brewer and have close contact with Adeline Beard, both of whom are involved in the Sparks estate, from which the land in question, came.

We were contacted by Mr. Andy Grooms in Roswell concerning the possible lease of the property. There were five persons involved, to-wit:

Irene Sparks Brewer
Adeline Sparks Beard
Odie Sparks
Jimmy Sparks
Ralph O. Sparks.

All of the children of Mr. O. M. Sparks were living except Ralph O. Sparks. Ralph had two children, Ralph Sparks, Jr. and Mozelle Sparks. Mozelle Sparks died in approximately 1971 in Plant City, Florida, leaving a daughter Barbara Ann Bethume, whose last known address was in Dover, Florida, but all Christmas cards and cards were returned with addressee unknown and unable to forward.

Ralph Sparks, Jr.'s last known address was in Livermore, California 94550. He had one daughter Deborah. The latter part of 1981, a letter was sent - the copy of which has been misplaced - to Ralph Sparks, Jr., and it was returned "Addressee deceased." Christmas cards were sent by other members of the family in 1981, which cards were also returned. The address of Deborah is unknown.

Telephone calls have been made to the above listed persons and they have no additional information.

I trust this information will be of some value.

Yours very truly,

A. B. Morgan
Paralegal

ABM

MESA PETROLEUM CO.

AFE/COST ESTIMATE

01/05/OPERATIONS
Co./Div./Subsid./Dept.

AFE # B2-405
ID # 01-05-NM-0138-0091-001-0
Code General Account # _____
Exploratory _____ Development X

LEASE, WELL NAME, AND LOCATION NEAL COM #1
1980' FNL & 1650' FWL, SEC 5, T7S, R26E, CHAVES COUNTY, NEW MEXICO

DESCRIPTION COST ESTIMATE TO DRILL AND COMPLETE A 4,450' FLOWING ABO WELL, INCLUDING PRODUCTION EQUIPMENT.

See Acct Codes	ITEM DESCRIPTION	Dry Hole Cost	Completion Cost	Producer/ Other
X01	DRILLING—FOOTAGE Ft. At $ /Ft.	$	$	$
X02	DRILLING or COMPLETION RIG MI-RU, RD-MO	18,000		18,000
	(A) DAY WORK 13/6 DAYS At $ 6500/1500 /DAY	84,500	9,000	93,500
X03	DRILLING or COMPLETION RIG			
	(A) BOILER DAYS At $ /DAY			
	(B) CAMP & CATERING DAYS At $ /DAY			
	(C) OTHER DAYS At $ /DAY			
X04	CEMENTING SERVICES, CEMENT & ACCESSORIES	18,000	7,000	25,000
X05	MUD, CHEMICALS, SERVICES & EQUIP. (A) MUD, CHEM., OIL	20,000		20,000
	(B) WATER	10,000	2,000	12,000
X06	LOGS, TESTING & MUD LOGGING UNIT	10,000	3,000	13,000
X07	DRILL STEM TEST & RELATED TESTING EQUIPMENT			
X08	PERFORATING, WELL STIMULATION SERVICES		60,000	60,000
X09	LOCATION, ROADS, SURVEYS, AIRSTRIPS	13,000	2,000	15,000
X10	COMPANY LABOR, SUPERVISION, ENGINEERING & OVERHEAD	4,000	2,000	6,000
X11	RENTAL EQUIPMENT & TOOLS	3,000	3,000	6,000
X12	ROCK BITS, HOLE OPENERS, REAMERS, STABILIZERS	12,000		12,000
X13	HAULING & FREIGHT	6,000	4,000	10,000
X14	MOBILIZATION - INSTALLATION			
X15	DEMOBILIZATION - DISMANTLING & SALVAGE			
X16	SUPPLYBOATS, CREWBOATS, BARGES, TUGS			
X17	FUEL, LUBES, POWER	6,500		6,500
X18	SHOREBASE, OFFICE, DOCK FEE & CRANES			
X19	AIRCRAFT RENTALS—HELICOPTERS, FIXED WING			
X20	DIVERS AND RELATED EQUIPMENT			
X21	MISCELLANEOUS	6,000	3,000	9,000
X22	COST to ABANDON (NOT INCLUDED IN PRODUCER TOTAL)*	* 8,000		
X23	MUD ENGINEER 10 DAYS At $ 250 /DAY	2,500		2,500
X24	CONSULTING ENGINEER			
	(A) DRILLING DAYS At $ /DAY			
	(B) COMPLETION DAYS At $ /DAY			
X25	GEOLOGICAL CONSULTANT 2 DAYS At $ 250 /DAY	500		500
	Total Intangible & Non-Controllable Costs	$ 222,000	$ 95,000	$ 309,000
Z41	BUOYS AND MARKERS	$	$	$
Z42	CASING/TUBULARS			
	(A) 900 FT. OF 10 3/4 " OD $ 21.00 /FT.	18,900		18,900
	(B) 1,700 FT. OF 7 5/8 " OD $ 14.00 /FT.	23,800		23,800
	(C) 4,450 FT. OF 4 1/2 " OD $ 6.50 /FT.		28,900	28,900
	(D) 4,000 FT. OF 2 3/8 " OD $ 4.00 /FT.		16,000	16,000
	(E) FT. OF " OD $ /FT.			
Z43	WELL HEAD & GUIDE STRUCTURE	2,300	5,200	7,500
Z44	SUB-SURFACE WELL EQUIPMENT			
Z45	SURFACE WELL EQUIPMENT			
Z46	OTHER MAJOR EQUIPMENT			
	(A) SEPARATOR		8,000	8,000
	(B) 210-BBL FIBERGLASS TANK		3,000	3,000
	(C)			
Z47	BUILDINGS			
Z48	ELECTRICAL & INSTRUMENTATION EQUIPMENT			
Z49	INSTALLATION, MATERIALS, & SERVICES		3,900	3,900
	Total Tangible Controllable & Non-Controllable Costs	$ 45,000	$ 65,000	$ 110,000
		$ 267,000	$ 160,000	$ 419,000

DIV DRLG SPVR Date 3-25-82

DIV OPS MGR Date 3-25-82

Misc Wi
Comp Wi

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 5
CASE NO. 9606
Submitted by DENTZER
Hearing Date 6/9/82

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

MODEL FORM OPERATING AGREEMENT

MESA #1 NEAL COM.

OPERATING AGREEMENT

DATED

April 3, 1982,

OPERATOR MESA PETROLEUM CO.

CONTRACT AREA Lots 3, 4 and S½NW¼ Section 5, T-7-S, R-26-E, NMPM

COUNTY ~~OR PARISH~~ OF Chaves STATE OF New Mexico

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 6
CASE NO. 7606
Submitted by MESA
Hearing Date 6/9/82

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Mesa Petroleum Co, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement. the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands. oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order. a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates. words used in the singular include the plural. the plural includes the singular. and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto. are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☒ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure. Schedule I Attached

☒ D. Exhibit "D", Insurance.

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

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

Mesa Petroleum Co. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 31st day of October, 1982, Operator shall commence the drilling of a well for oil and gas at the following location:

At a Legal Location on Lots 3, 4 and the S½NW¼ of Section 5, T-7-S, R-26-E, NMPM Chaves County, New Mexico.

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

A depth of 4,450' or sufficient to test the Abo Formation whichever is Lesser.

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

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

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

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

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

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

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

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

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

Gas production attributable to any Non-Consenting Party's relinquished interest shall be sold, at the election of the Consenting Party, either to the Consenting Party's purchaser or to the Non-Consenting Party's purchaser. If any sale is made to the Non-Consenting Party's purchaser, such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non-Consenting Party's relinquished interest.

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

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

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

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

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

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

C. Right to Take Production in Kind:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a[illegible] based upon the relationship of their respective percentages of participation in the Contract Area t[illegible] aggregate of the percentages of participation in the Contract Area of all assignees. There shall be[illegible] 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. It is not the intention of the parties that this contract is made or intended for the benefit of any third person.

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.

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 quipping 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 ach 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 eceiving 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, hen made, shall include consent to all necessary expenditures for the completing and equipping of such ell, including necessary tankage and/or surface facilities. Failure of any party receiving such notice o reply within the period above fixed shall constitute an election by that party not to participate in ne cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and o attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or lugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to ne 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 ack except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreeent, it being understood that the consent to the reworking or plugging back of a well shall include onsent to all necessary expenditures in conducting such operations and completing and equipping of aid well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require n expenditure in excess of Twenty-Five Thousand - - - - - - - Dollars ($ 25,000.00) xcept in connection with a well, the drilling, reworking, deepening, completing, recomplet[illegible] or plugging back of which has been previously authorized by or pursuant to this agreement; [illegible]d, 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 he emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand - - - - - - - - - - Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 20% of 8/8 due on its share of production and shall hold the other parties free rom 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 he aforesaid royalty, such party shall assume and alone bear all such obligations and shall account or 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, o 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 oyalty 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 ny lease shall be paid by the party or parties who subjected such lease to this agreement at its or their xpense. In the event two or more parties own and have contributed interests in the same lease to this greement, such parties may designate one of such parties to make said payments for and on behalf of all uch parties. Any party may request, and shall be entitled to receive, proper evidence of all such payents. In the event of failure to make proper payment of any rental, shut-in well payment or minimum oyalty through mistake or oversight where such payment is required to continue the lease in force, ny loss which results from such non-payment shall be borne in accordance with the provisions of Article V.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~G. Preferential Right to Purchase:~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and~~ interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent ~~company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Seven Thousand Five Hundred - - - - - - - - - - - - Dollars ($ 7,500.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 120 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 120 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

Non-Operators agree to indemnify and hold Operator harmless 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 any statute, law, resolution or similar mandate, or any rules, rulings, regulations or orders of any regulatory agency having any jurisdiction over the Contract Area to the extent Operator's interpretation or application was made in good faith. Non-Operators further agree to reimburse Operator for the Non-Operators' proportionate part of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of such statutes, laws, resolutions or similar mandates, rules, rulings, 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 statues, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

Notwithstanding anything herein to the contrary, if any Non-Operator neglects or fails to pay sums due and owing Operator hereunder for a period of thirty (30) days after receipt of invoice therefor, Operator may notify Non-Operator of its election to regard such non-operating party as a non-consenting party hereunder as to said costs, if such costs would normally be costs subject to the provisions concerning operations by less than all parties under this operating agreement. If Non-operator fails to pay such amount within ten days after receipt of such notice, Operator's election shall be automatically effective. Non-Operator shall retroactively be subject to the non-consent provisions of Article VI hereof, the same as if such party had elected to be a non-consenting party at the inception of operation, but only with respect to the sums remaining unpaid, and any future sums to be paid by such Non-Operator. This provision shall not be applicable to any sums invoiced by Operator which Non-Operator contests in good faith.

Upon request, Operator shall furnish Non-Operators with copies of all filings made with any regulatory agency, including those made pursuant to the Natural Gas Policy Act of 1978, as the same may be amended or superseded.

The interest of Corona Oil Company herein is expressly made subject to that certain Amendment To Agreements effective April 1, 1982, by and between Mesa Petroleum Co., MTS Limited Partnership, Corona Oil Company, Pecos Slope Royalty Trust and Newkirk Royalty Trust.

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 3rd day of April, 19 82.

OPERATOR

ATTEST:

Loretta G. Porter
Assistant Secretary

MESA PETROLEUM CO. in its capacity as General Partner of MTS LIMITED PARTNERSHIP

BY: Marion E. Causey
Marion E. Causey, Vice President
Mesa Petroleum Co., General Partner

NON-OPERATORS

CORONA OIL COMPANY

_____

BY: _____

TENNECO OIL EXPLORATION AND PRODUCTION

_____

BY: _____

F. ANDREW GROOMS

_____

BY: _____

CARL A. SCHELLINGER

_____

BY: _____

Mesa #1 Neal Com. Operating Agreement between Mesa Petroleum Co. as Operator and Corona Oil Company and Tenneco Oil Exploration & Production, et al, as Non-Operators.

ARTICLE XVI.
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ATTEST:

Loretta G. Porter
Assistant Secretary

MESA PETROLEUM CO. in its capacity as General Partner of MTS LIMITED PARTNERSHIP

BY: Marion E. Causey
Marion E. Causey, Vice President
Mesa Petroleum Co., General Partner

NON-OPERATORS

CORONA OIL COMPANY

BY: _____

TENNECO OIL EXPLORATION AND PRODUCTION

BY: _____

F. ANDREW GROOMS

BY: _____

CARL A. SCHELLINGER

BY: _____

Mesa #1 Neal Com. Operating Agreement between Mesa Petroleum Co. as Operator and Corona Oil Company and Tenneco Oil Exploration & Production, et al, as Non-Operators.

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated April 3, 1982, by and between Mesa Petroleum Co. as Operator, Corona Oil Company and Tenneco Oil Exploration and Production, et al, as Non-Operators.

PART I. Contract Area is defined as:
Lots 3,4 and the S½NW¼ of Section 5,
T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

PART II. Working Interest Ownership:

MTS Limited Partnership	34.375%
Corona Oil Company	34.375%
Tenneco Oil Exploration & Production	25.000%
F. Andrew Grooms	2.875%
Carl A. Schellinger	2.875%
Unleased	0.500%

PART III. Leases included in Contract Area subject to this Agreement:

A. Oil and Gas Lease
Book 200, Page 82, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Lake J. Frazier, et ux
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0253-001
Description: Insofar and only insofar as it covers the NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

B. Oil and Gas Lease
Book 200, Page 80, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: John P. Cusack
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0253-002
Description: Insofar and only insofar as it covers the NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

C. Oil and Gas Lease
Book 200, Page 331, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: William J. Schnedar, et ux
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0253-003
Description: Insofar and only insofar as it covers the NW¼ Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

D. Oil and Gas Lease
Book 199, Page 460, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: David J. Sorenson, et ux
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0253-004
Description: Insofar and only insofar as it covers the NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

E. Oil and Gas Lease
Book 200, Page 907, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Carrie Lee Wagner
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0253-012
Description: Insofar and only insofar as it covers the NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

F. Oil and Gas Lease
Book 20k, page 247, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Isabel D. Smith
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0253-013
Description: Insofar and only insofar as it covers the NW/4, Section 5, T-7-S,R-26-E, N.M.P.M., Chaves County, New Mexico

G. Oil and Gas Lease
Book 198, page 431, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Mary Ruth McCrory
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0257-001
Description: Insofar and only insofar as it covers the NW/4, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

H. Oil and Gas Lease
Book 198, page 425, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: W. T. Reed
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0257-002
Description: Insofar and only insofar as it covers the NW/4, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

I. Oil and Gas Lease
Book 201, page 1021, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Joe C. Kranz et ux
Lessee: F. Andrew Grooms
Mesa OP 05-NM-0138-0287-000
Description: Insofar and only insofar as it covers the NW/4, Section 5, T-7-S,R-26-E, N.M.P.M., Chaves County, New Mexico

J. Oil and Gas Lease
Book 213, Page 975, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Odie L. Sparks
Lessee: F. Andrew Grooms
Description: Insofar and only insofar as it covers the SW¼NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

K. Oil and Gas Lease
Book 212, Page 327, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Joyce Sparks Madsen
Lessee: F. Andrew Grooms
Description: Insofar and only insofar as it covers the SW¼NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

L. Oil and Gas Lease
Book 210, Page 787, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: James H. Sparks
Lessee: F. Andrew Grooms
Description: Insofar and only insofar as it covers the SW¼NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

M. Oil and Gas Lease
Book 210, Page 473, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Irene Sparks Brewer
Lessee: F. Andrew Grooms
Description: Insofar and only insofar as it covers the SW¼NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

N. Oil and Gas Lease
Book 211, Page 295, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: John Sparks
Lessee: F. Andrew Grooms
Description: Insofar and only insofar as it covers the SW¼NW¼ Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

O. Oil and Gas Lease
Book 210, Page 785, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Adeline Sparks Beard
Lessee: F. Andrew Grooms
Description: Insofar and only insofar as it covers the SW¼NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

P. Oil and Gas Lease
Book 212, Page 654, Miscellaneous Records, Chaves County Clerk's Office, Chaves County, New Mexico
Lessor: Mattie Lou Sparks Lee
Lessee: F. Andrew Grooms
Description: Insofar and only insofar as it covers the SW¼NW¼, Section 5, T-7-S, R-26-E, N.M.P.M., Chaves County, New Mexico

PART IV. Addresses of Parties:

Mesa Petroleum Co.
Suite 1000, Vaughn Building
Midland, Texas 79701

Tenneco Oil Exploration & Production
6800 Park Ten Blvd.
Suite 200 N
San Antonio, Texas 78213
Attn: Rex Bourland

Corona Oil Company
4835 LBJ Freeway, Suite 635
Dallas, Texas 75234

F. Andrew Grooms
P. O. Box 908
Roswell, New Mexico 88201

Carl A. Schellinger
P. O. Box 447
Roswell, New Mexico 88201

EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement dated April 3, 1982.

Producer's 88--(Producer's Revised 1967) (New Mexico) Form 342-U — Printed and for sale by Hall-Poorbough Press, Inc., Roswell, N. M.

OIL & GAS LEASE

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

_____

_____

_____ of _____
(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 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 ten (10) 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, one-eighth of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of one-eighth of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth 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.

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 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 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 such unit agreement embraces lands of either the United States or State of New Mexico or both, and the form of unit agreement has been approved by either the United States Geological Survey or Commissioner of Public Lands or both and the New Mexico Oil Conservation Commission, 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 or 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 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 ratably 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/his 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.

_____ _____

_____ _____

_____ _____

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated April 3, 1982, by and between Mesa Petroleum Co. as Operator, Corona Oil Company and Tenneco Oil Exploration and Production, et al, as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies 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 a rate equal to the higher of 120% of the prime rate of interest of the Continental Illinois Bank & Trust Company or 18% per annum; provided, however, in no event shall the Non-Operator Parties be required to pay interest in excess of the federal or state statutory ceiling applicable in the jurisdiction in which the joint property is located. Non-Operators shall also be liable for 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-Opera-

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-six percent (26%) or percent most recently recommended by the Council of Petroleum Accountants Societies of North America.

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**

   Costs and 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, and the costs and expenses incurred in connection with hearings and other matter before governmental bodies and agencies and costs and expenses incurred in examining and curing title, except that no charge for services of Operator's legal staff shall be made.

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or (See Schedule I attached.)

( ) 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 $ 3,700.00

Producing Well Rate $ 370.00

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

(a) Drilling Well Rate

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

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

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

(2) Application of Overhead - Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $ 25,000 :

A. 5 % of total costs if such costs are more than $ 25,000* but less than $ 100,000 ; plus

B. 3 % of total costs in excess of $ 100,000 but less than $1,000,000; plus

C. 2 % 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

*When design and engineering is furnished by third party contractors and charged to the Joint Account, the construction overhead charge on projects in excess of $25,000 shall be 1½% of total cost.

(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.

SCHEDULE I

Attached to and made a part of Exhibit "C"
Attached to and made a part of that certain Operating Agreement dated April 3, 1982, by and between Mesa Petroleum Co., as Operator, Corona Oil Company and Tenneco Oil Exploration and Production et al, as Non-Operators.

The Combined Fixed Rates, as heretofore provided under Section III, Paragraph A. of the COPAS-1974 Accounting Procedure to which this schedule is attached, shall be in lieu of all charges to the Joint Account for the indirect costs and expenses incurred by Operator in providing the joint operations with the producing and development functions and services hereinafter identified as Compensation for Administrative, Supervision, Office Services and Warehousing costs.

The following reflects a representative abridged listing of the functions and/or services which shall be considered as included in the Operator's District Expense and Warehousing, and should serve as a guide for similar functions intended to be covered by the Combined Fixed Rates even though some of the functions may be contract services performed by third parties.

Salaries, Benefits and Related Costs of Field, Area and/or District:
- Managers and/or Superintendents
- Foreman - Superintendent
  - Drilling - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
  - Production - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
  - Construction - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Production Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Production Geologists - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Other Technical Employees - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Office Stenographers
- Office Clerks
  - Time Keeping
  - Preparation of Boat, Automotive and Other Vehicle Reports
  - Local Purchasing (Field Orders)
  - Preparation and coding of invoices
  - Preparation of Material Requisitions
  - Preparation of Field Transfers
  - Preparation of Field Receiving Reports
  - Posting of Production Reports
  - Preparation of Over and Short Reports
  - Reading and Integration of Charts
  - Preparation of Field Gas Production and Consumption Report
  - Preparation of Field Office Reports to State and Federal Regulatory Bodies
  - Miscellaneous Routine Field Office Clerical Duties
  - Field Office Inventory Men
    - Conducting Physical Inventories
    - Preparation of Field Inventory Records
  - Warehousemen and/or Clerks

Office Equipment, Supplies, Stationery and Forms

Maps, Photostats and Blueprints, when required for general District Use.

Rentals
- Rentals paid for buildings, office and storage space used by District employees.

Rentals paid in connection with sites for District production offices, camps, warehouses and other facilities used specifically for District purposes.

Ad Valorem Taxes
Taxes paid on buildings and equipment charged to Operator's Field, Area, and/or District investment accounts.

Insurance
Net cost of all types of insurance, including workmen's compensation and public liability insurance; when such insurance is applicable to the District.

The following reflects a representative abridged listing of the functions and/or services which shall be considered as included in the Operator's Administrative Overhead, and should serve as a guide for similar functions intended to be covered by the combined Fixed Rates even though some of the functions may be contract services performed by third parties.

General Management

General Operating Administration
Drilling Managers and/or Superintendents and Office Staffs
Production Managers and/or Superintendents and Office Staffs
Civil Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
Reservoir Analysis and Engineering
Petroleum Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
Negotiation of Production and Residue Gas Sales
Negotiation of Major Gas Sales
Preparation and Negotiation of Joint Operation Agreements
Preparation of General Production Records
Traveling and Transportation Expense of Home, Division, Area, Region, or similar Administrative Office Employees

General Accounting and Services
Checking of invoices
Preparation of Paychecks
Responsibility of Account Distribution or Coding
Payment of Vendor's Invoices
Maintaining Property Investment Records
Maintaining Joint Interest Cost Records
Preparation of Joint Interest Billing
Preparation of Royalty Checks
Machine Accounting and Data Processing Functions
Photostat and Other Reproduction Service
Ad Valorem Tax Service and/or Counsel
Systems and Procedures
Internal Auditing

Communications Expense - Telephone, telegraph and teletype service rendered to the district; also operating expenses of radio communication systems which serve the district and which are not chargeable to any particular lease or facility operation. The costs applicable to communication service and/or equipment directly employed on and serving the joint property shall be a direct charge to the joint property.

Area and/or District Office Utility Services

Local Field, Area and/or District Recreational Facilities

Safety Meetings and/or Dinners

Area and/or District Office Safety Equipment

First Aid Supplies

Physical and Medical Examinations - Cost of pre-employment and medical examinations of personnel to be employed in the district, including costs of annual or periodic examinations and immunizations.

Transportation, Including freight and express costs when such costs are incurred directly in the operation and/or maintenance of district offices, buildings, and facilities.

Traveling Expense of district employees when such expense is for the sole benefit of the district. Traveling and personal expenses of district employees attending oil shows, API meetings, and company training schools, etc., which are for the primary benefit of the Operator shall be borne solely by the Operator.

Moving Expenses - Costs of moving and transfer of district employees including relocation expenses such as real estate fees, closing costs, compensation for loss on sale of home, carpeting and draperies, etc., when transferred within or into the district. Costs incurred for the primary benefit of the Operator, such as transfer of trainees, shall be borne solely by the Operator.

Memberships, dues and Subscriptions for Field, Area and/or District Personnel.

Depreciation on Operator's wholly-owned Field, Area, and/or District production offices, equipment, buildings, camps, roads, fences, canals, docks, marine terminals, and slips, etc., used for District purposes.

Repair and Maintenance on Operator's wholly-owned Field, Area, and/or District production offices, equipment, buildings, camps, roads, fences, canals, docks, marine terminals, and slips, etc. including the cost of small tools and supplies used specifically for District purposes.

Warehouse - wholly-owned
- Depreciation
- Operating and Maintenance Expense
- Cost of Storing and Handling Material

Title Record and Division Order Administration
- Landmen and Titlemen
- Maintenance of Division of Interest Records
- Obtaining Royalty Signatures

Exploration Administration
- Geologists - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- General Research
- Geophysicists

General Purchasing Administration

Industrial and Public Relation Administration
- Employee Relation Counselor
- Safety Engineer
- Industrial Nurse and/or Doctor
- Dinners, Parties, etc.
- Safety Awards
- Incentive Awards
- Thanksgiving Turkeys or Christmas Baskets
- Contributions to Charity and/or Civic Organizations
- Special Investigators
- Administration of Benefit Plans

General Oil and Gas Well Proration and Pricing Administration
- Preparation of Reports to and Representation before Governmental Agencies

General Legal Counsel
- Preparation of Contracts
- Claims and Litigation
- Title and Other Opinions

Transportation and Traffic Administration

Insurance Administration

EXHIBIT "D" ONSHORE

Attached to and made a part of that certain Operating Agreement dated April 3, 1982, by and between Mesa Petroleum Co. as Operator, Corona Oil Company and Tenneco Oil Exploration and Production, et al, as Non-Operators.

INSURANCE

The Operator shall carry for the benefit of the joint account insurance to cover drilling operations and producing operations on the jointly owned acreage as follows:

I. Workmen's Compensation and Employer's Liability covering the employees of Operator engaged in operations hereunder in compliance with all applicable Federal Laws and the laws of the State of New Mexico, with Employers Liability limit of not less than $100,000 per person and $100,000 per occurrence.

II. Operator shall carry of its interest and for the interest of any non-operator so electing to participate in writing, within 60 days of the date of the Operating Agreement, the following types and limits of insurance:

(A) Comprehensive General Liability covering operations conducted hereunder by Operator for the Parties with limits of:

Combined Bodily Injury & Property Damage	$1,000,000 per occurrence $1,000,000 Aggregate

(B) Automobile Liability covering all vehicles owned, non-owned, or hired and used in connection with operations conducted hereunder by Operator for the joint account with limits of:

Combined Bodily Injury & Property Damage	$1,000,000 per occurrence $1,000,000 Aggregate

The premiums for all such insurance so carried in paragraph II shall be paid by Operator and may be charged directly to such non-operators as elect to participate to the extent that their interest is insured.

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of that certain Operating Agreement dated April 3, 1982, by and between Mesa Petroleum Co. as Operator, Corona Oil Company and Tenneco Oil Exploration and Production, et al, as Non-Operators.

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 Agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

Each Party shall have the right to take in kind its share of the gas produced from the Unit Area. However, there may be periods when one or more of the parties have no market for, or its purchaser is unable to take, or for any other reason, it may not dispose of its interest, or a portion thereof, in the gas production. Therefore, to permit each Party to produce and dispose of its interest in the gas production from the Unit Area with as much flexibility as possible, the Parties hereto agree to this Gas Balancing Agreement as hereinafter set forth:

1. DEFINITIONS:

For the purposes of this Agreement, the following terms shall be defined as hereafter set out:

(a) "Operating Agreement" shall mean the Operating Agreement to which this Gas Balancing Agreement is attached.

(b) "Gas" shall mean natural gas or oil well gas obtained from primary field separation.

(c) "Liquid Hydrocarbons" are those liquids obtained from primary field separation.

(d) "Percentage Ownership" is the percentage interest of each party as set forth in the Operating Agreement.

(e) "Over-produced Party" is a party who has utilized or sold a greater volume of gas at any given time. (individually or through its gas purchaser) than a volume determined by multiplying the total cumulative volume of gas produced and utilized or sold from a proration unit within the Unit Area by such Party's Percentage Ownership.

(f) "Under-produced Party" is a party who has utilized or sold a lesser volume of gas at any given time (individually or through its gas purchaser) than a volume determined by multiplying the total cumulative volume of gas produced and utilized or sold from a proration unit within the Unit Area by such Party's Percentage Ownership.

(g) "MER" is the total daily maximum efficient rate of hydrocarbon withdrawal from each separately produced proration unit, which, if exceeded for a sustained period of time, would lead to underground waste in the form of reduced ultimate recovery from the proration unit, after deducting the gas used in operations on the Unit Area or vented or lost.

2. OWNERSHIP OF PRODUCTION:

(a) SALE BY LESS THAN ALL OWNERS: All gas produced from the Unit Area shall be produced and utilized or sold by those parties having a use or market for such gas. If fewer than all the parties are producing gas, the parties so producing shall have the right and option, but not the obligation, to produce and dispose of all or any part of such gas that may be produced up to the MER. The parties hereto shall share in and own the liquid hydrocarbons, as produced, in accordance with their respective interests, as set forth in and subject to the terms of the Operating Agreement. It is agreed that the gas attributable to the interest of each non-producing party shall remain in the reservoir for production at a later date.

(b) SALE BY UNDER-PRODUCED OWNERS: Each Under-produced Party shall, upon commencing the sale of gas, have the right to take a greater percentage of the current gas production than such Under-produced Party's Percentage Ownership, subject to the following limitations:

(1) For the purposes of balancing gas production accounts, as soon as practical, any Over-produced Party or Parties will make available to any Under-produced Party or Parties a portion of the Over-produced Party's or Parties' share of gas production at the current MER, but Over-produced Parties shall not be liable to Under-produced Parties under this paragraph except as provided in Section 4 hereof. In no event will any Over-produced Party be required to reduce the volume of gas which it is entitled to take from a proration unit during any calendar month to less than 50% of such Over-produced Party's Percentage Ownership in the gas produced. If at any time more than one Under-produced Party is taking in excess of its gas production account, then each such Under-produced Party shall be entitled to a share of the gas production made available by the Over-produced Parties in the ratio that the under-production of each Under-produced Party bears to the total under-production of all Under-produced Parties currently taking gas.

(2) For the purpose of balancing in the event of price increases as provided in Section 3 hereof and for the purpose of balancing production accounts as provided in Section 4 hereof, the Under-produced Party, to the extent it is taking gas in excess of that attributable to its Percentage Ownership, shall be deemed to be recovering volumes of gas offsetting prior over-production by the Over-produced Party on a last in, first out basis.

(3) Each party's gas production account is in balance when such party has utilized or sold the same percentage of the total cumulative production from a proration unit as such party's Percentage Ownership.

(4) It is contemplated that some of the parties may arrange to have their gas processed in a gas processing plant for the recovery of liquefiable hydrocarbons. This Gas Balancing Agreement shall not provide a basis for balancing any liquefiable hydrocabrons recovered from a gas processing plant.

(5) Only produced gas actually utilized or sold by a party shall be owned by it and charged against its share of the total recoverable reserves.

3. BALANCING IN THE EVENT OF PRICE INCREASES:

In the event the price received by the Under-produced Party for gas otherwise attributable to the Over-produced Party's interest in gas production which is being delivered for the Under-produced Party's account is greater than the price received by the Over-produced Party for the equivalent volume of gas, then the Under-produced Party shall pay to the Over-produced Party in cash, on a monthly basis, the product of the volume of gas otherwise attributable to the Over-produced Party's interest in gas production which is being delivered for the Under-produced Party's account and the difference between the lawful price which the Under-produced Party currently is collecting for the gas described above (but in no event higher than the price received by the Over-produced Party at the time such production is sold by the Under-produced Party) and the lawful price which the Over-produced Party actually collected for the volume of gas described above.

4. BALANCING OF PRODUCTION ACCOUNTS:

When production from a proration unit permanently ceases, there shall be an accounting between the parties hereto so that any Under-produced Party shall receive a sum of money equal to the amount actually received, less applicable taxes, royalty, and the cost of dehydration and compression if not participated in by the Under-produced Party, by any Over-produced Party from the sale of that part of the total cumulative volume of gas produced from the proration unit to which any Under-produced Party was entitled, but which was utilized or sold by the Over-produced Parties. For the purposes of this paragraph, the "amount actually received" shall

be the dollar amount recieved for the quantity of gas remaining after subtracting the quantity of any periodic under-production by an Over-produced Party from the unbalanced over-production of such party. If a portion of a party's gas is taken for its own use and a portion thereof is sold, the gas value will be based on the price received simultaneously by such party for gas being sold from the proration unit. During periods in which a party is taking all of its gas for its own use, any gas so taken will be valued at the maximum price which such party could have received for such gas if actually delivered under such party's contract, or if none, the weighted average price received simultaneously by all parties for gas sold from the proration unit. If gas is processed for the recovery of liquefiable hydrocarbons, the gas value will be based on the amount which would have been received for the sale of such gas without processing.

5. STATEMENTS:

During the term hereof, each party selling gas from a proration unit in any month will furnish or cause to be furnished to each of the other parties a statement showing the volume and value of gas utilized and the volume and proceeds if sold. The Operator under the Operating Agreement shall furnish monthly to each party a statement showing the status of the over and short accounts of all parties.

6. PRODUCTION TAXES:

Each Party taking gas shall pay any and all production taxes due on such gas.

7. PAYMENT OF ROYALTY:

At all times while gas is produced from the Unit Area, each party hereto shall make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to its purchaser its share, and its share only, of the total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

8. OPERATING EXPENSES:

The operation expenses are to be borne as provided in the Operating Agreement, regardless of whether all parties are selling or using gas or whether the sales and use of each are in proportion to Percentage Ownership.

9. SCOPE AND TERM:

This Agreement shall constitute a separate agreement as to each well and as to each separately metered reservoir produced from each well within the Unit Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

10. INDEMNITY:

Each party hereby indemnifies the other parties hereto against all liability for and agrees to defend the parties hereto against all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under its provisions, and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection therewith.

11. OPERATOR'S LIABILITY:

The Operator under the Operating Agreement is authorized to carry out the provisions of this Agreement, but shall not be liable for its failure to do so as long as it acts in good faith and as would a reasonably prudent operator in the same or similar circumstances.

Attached to and made a part of that certain Operating Agreement dated April 3, 1982, by and between Mesa Petroleum Co. as Operator, Corona Oil Company and Tenneco Oil Exploration and Production, et al, as Non-Operators.

EXHIBIT "F"

CONTRACTOR'S CERTIFICATION FOR

MESA PETROLEUM CO.

A. EQUAL EMPLOYMENT OPPORTUNITY

It is hereby agreed that the following provisions, which are also set forth in Section 202 of Executive Order 11246, are made a part of each agreement and purchase order presently existing or which may be entered into hereafter, between Contractor and Mesa Petroleum Co.

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

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

3. 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 Operator'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. 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. 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, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

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 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. 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. 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 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.

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

Contractor 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 31. (41 CFR 60-1.7(a))

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

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 No. 11246, as amended. (41 CFR 60-1.40)

D. CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into this contract, certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. It certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its 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, restrooms and washrooms, 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, or national origin, because of habit, local custom, or otherwise. It further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods), it 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 it will retain such certifications in its files; and that it 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 subcontractor or for all subcontracts during a period (i.e. quarterly, semi-annually, or annually).

E. EMPLOYMENT OF VETERANS

1. The Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause set forth at Section 60-250.4 of Title 41 Code of Federal Regulations is hereby incorporated herein by reference. (This clause is applicable to all contracts or purchase orders for $10,000 or more.)

2. Contractor agrees further to place the above provisions in any subcontract nonexempt under the rules and regulations promulgated by the Secretary under the Vietnam Era Veterans Readjustment Assistance Act of 1974.

F. EMPLOYMENT OF HANDICAPPED PERSONS

1. The Affirmative Action for Handicapped Workers Clause set forth in Section 60-741.41 of Title 41 Code of Federal Regulations is hereby incorporated herein by reference. (This clause is applicable to all contracts or purchase orders for $2,500 or more.)

2. Contractor agrees further to place the above provision in any subcontract nonexempt under the rules and regulations promulgated by the Secretary under the Rehabilitation Act of 1973.

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 3rd day of April, 19 82.

OPERATOR

ATTEST:

MESA PETROLEUM CO. in its capacity as General Partner of MTS LIMITED PARTNERSHIP

BY: Marion E. Causey

_____
Assistant Secretary

Marion E. Causey, Vice President
Mesa Petroleum Co., General Partner

NON-OPERATORS

CORONA OIL COMPANY

_____ BY: _____

TENNECO OIL EXPLORATION AND PRODUCTION

_____ BY: _____

F. ANDREW GROOMS

_____ BY: _____

CARL A. SCHELLINGER

_____ BY: _____

Mesa #1 Neal Com. Operating Agreement between Mesa Petroleum Co. as Operator and Corona Oil Company and Tenneco Oil Exploration & Production, et al, as Non-Operators.

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MISCELLANEOUS

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OPERATOR

ATTEST:

MESA PETROLEUM CO. in its capacity as General Partner of MTS LIMITED PARTNERSHIP

BY: Marion E. Causey

Assistant Secretary

Marion E. Causey, Vice President
Mesa Petroleum Co., General Partner

NON-OPERATORS

CORONA OIL COMPANY

BY:

TENNECO OIL EXPLORATION AND PRODUCTION

BY:

F. ANDREW GROOMS

Marilyn A. Johnson

BY: F. Andrew Grooms

CARL A. SCHELLINGER

BY:

Mesa #1 Neal Com. Operating Agreement between Mesa Petroleum Co. as Operator and Corona Oil Company and Tenneco Oil Exploration & Production, et al, as Non-Operators.

KDrf, Well File

MESA
PETROLEUM CO.

June 2, 1982

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 7
CASE NO. 7606
Submitted by DENTZER
Hearing Date 6/9/82

Corona Oil Company
4835 LBJ Freeway
Suite 635
Dallas, TX 75234

Attention: Paul Creson

Gentlemen:

Subject: Well Proposal
#1 Neal Com.
1980' FNL & 1650' FWL
Section 5-7S-26E
Chaves County, New Mexico
Pecos Slope Prospect
Mesa OP 05-NM-0138-224

Pursuant to that certain Letter Agreement and Operating Agreement dated July 20, 1979, by and between Mesa Petroleum Co., and Public Lands Exploration, Inc., along with that certain Amendment to Agreements made effective April 1, 1982, Mesa, as operator hereby proposes the drilling of the captioned well. This is by definition a development location and the Corona Oil Company interest will be borne by Mesa, subject to a 300% non-consent penalty as set out in the above said agreements.

A copy of the Operating Agreement was sent to you in letter of April 7, 1982.

Very truly yours,

Kevin Dentzer
cs

KDrf, Well File

MESA
PETROLEUM CO.

June 3, 1982

Corona Oil Company
4835 LBJ Freeway
Suite 635
Dallas, TX 75234

Attention: Mr. Don Williams

Gentlemen:

Subject: Compulsory Pooling Case 7606
Oil Conservation Commission
T-7-S, R-26-E
Section 5: NW/4
Chaves County, New Mexico
#1 Neal Com.
Mesa OP 05-NM-0138-224

Enclosed for your information please find Docket: Examiner Hearing-Wednesday-June 9, 1982. At this hearing MTS Limited Partnership's application for the compulsory pooling of the interests of Ralph O. Sparks, Jr. and Mozelle Sparks Hatton in the SW/4 NW/4 of Section 5, T-7-S, R-26-E, Chaves County, New Mexico will be heard concerning the drilling of the #1 Neal Com. (Net .50% WI).

If you should have any questions concerning this hearing please contact Kevin Dentzer at 915-683-5391.

Very truly yours,

Kevin Dentzer
cs
Enclosure

MESA
PETROLEUM CO.

June 3, 1982

Mr. F. Andrew Grooms
P. O. Box 908
Roswell NM 88201

Dear Mr. Grooms:

Subject: Compulsory Pooling Case 7606
Oil Conservation Commission
T-7-S, R-26-E
Section 5: NW/4
Chaves County, New Mexico
#1 Neal Com.
Mesa OP 05-NM-0138-224

Enclosed for your information please find Docket: Examiner Hearing-Wednesday-June 9, 1982. At this hearing, MTS Limited Partnership's application for the compulsory pooling of the interests of Ralph O. Sparks, Jr. and Mozelle Sparks Hatton in the SW/4 NW/4 of Section 5, T-7-S, R-26-E, Chaves County, New Mexico will be heard concerning the drilling of the #1 Neal Com. (Net .50% WI).

If you should have any questions concerning this hearing please contact Kevin Dentzer at 915-683-5391.

Very truly yours,

Kevin Dentzer
cs
Enclosure

MESA PETROLEUM CO./VAUGHN BUILDING/SUITE 1000/AC 915/683-5391/MIDLAND, TEXAS 79701-4493

KDrf, Well File

MESA
PETROLEUM CO.

June 3, 1982

Mr. Carl A. Schellinger
516 Security National Bank Building
P. O.Box 447
Roswell NM 88201

Dear Mr. Schellinger:

Subject: Compulsory Pooling Case 7606
Oil Conservation Commission
T-7-S,R-26-E
Section 5: NW/4
Chaves County, New Mexico
#1 Neal Com.
Mesa OP 05-NM-0138-224

Enclosed for your information please find Docket: Examiner Hearing-Wednesday-June 9, 1982. At this hearing MTS Limited Partnership's application for the compulsory pooling of the interests of Ralph O. Sparks, Jr. and Mozelle Sparks Hatton in the SW/4 NW/4 of Section 5, T-7-S, R-26-E, Chaves County, New Mexico will be heard concerning the drilling of the #1 Neal Com. (Net .50% WI).

If you should have any questions concerning this hearing please contact Kevin Dentzer at 915-683-5391.

Very truly yours,

Kevin Dentzer
cs
Enclosure

MESA PETROLEUM CO./VAUGHN BUILDING/SUITE 1000/AC 915/683-5391/MIDLAND, TEXAS 79701-4493

KDrf, Well File

MESA
PETROLEUM CO.

June 3, 1982

Tenneco Oil Exploration and Production
6800 Park Ten Blvd.
Suite 200 North
San Antonio TX 78213

Attention: Mr. D. S. Taylor

Gentlemen:

Subject: Compulsory Pooling Case 7606
Oil Conservation Commission
T-7-S, R-26-E
Section 5: NW/4
Chaves County, New Mexico
#1 Neal Com.
Mesa OP 05-NM-0138-224

Enclosed for your information please find Docket: Examiner Hearing-Wednesday-June 9, 1982. At this hearing, MTS Limited Partnership's application for the compulsory pooling of the interests of Ralph O. Sparks, Jr. and Mozelle Sparks Hatton in the SW/4 NW/4 of Section 5, T-7-S, R-26-E, Chaves County, New Mexico will be heard concerning the drilling of the #1 Neal Com. (Net .50% WI).

If you should have any questions concerning this hearing please contact Kevin Dentzer at 915-683-5391.

Very truly yours,

Kevin Dentzer
cs
Enclosure

Docket No. 16-82

Dockets Nos.19 -82 and 20-82 are tentatively set for June 23 and July 7, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - WEDNESDAY - JUNE 2, 1982
OIL CONSERVATION COMMISSION - 9 A.M.
MORGAN HALL, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

CASE 7522: (DE NOVO - Continued from May 17, 1982 Commission Hearing)

Application of Santa Fe Exploration Co. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location 660 feet from the North and West lines of Section 14, Township 20 South, Range 25 East, Permo-Penn, Strawn, Atoka and Morrow formations, the N/2 of said Section 14 to be dedicated to the well.

Upon application of Chama Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7521: (DE NOVO)

Application of William B. Barnhill for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location 660 feet from the South and West lines of Section 35, Township 19 South, Range 25 East, Permo-Penn, Strawn, Atoka and Morrow formations, the S/2 of said Section 35 to be dedicated to the well.

Upon application of Chama Petroleum Company and William B. Barnhill, this case will be heard De Novo pursuant to the provisions of Rule 1220.

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Docket No. 17-82

DOCKET: EXAMINER HEARING - WEDNESDAY - JUNE 9, 1982
9 A.M. MORGAN HALL, STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

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

CASE 7599: Application of Barber Oil Inc. for an Exception to Rule 705-A Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the provisions of Rule 705-A of the Division Rules and Regulations to permit 37 temporarily abandoned injection wells in its Russell Pool waterflood project to remain inactive for a period of up to three years without the required cement or bridge plugs being installed therein to isolate the injection zone.

CASE 7600: Application of Gulf Oil Corporation for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Seven Rivers and Queen formations in the perforated interval from 3338 feet to 3448 feet in its Arnott-Ramsay (NCT-B) Well No. 4 located in Unit D of Section 32, Township 25 South, Range 37 East, Langlie Mattix Pool.

CASE 7548: (Continued from April 14, 1982, Examiner Hearing)

Application of Tahoe Oil & Cattle Co. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the San Andres formation in the perforated interval from 4932 feet to 4992 feet in its Schwalbe Well No. 1, located in Unit P of Section 21, Township 9 South, Range 37 East, West Sawyer-San Andres Pool.

CASE 7601: Application of Claude Walker for an oil treating plant permit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority for the construction and operation of an oil treating plant for the purpose of treating and reclaiming sediment oil at its salt water disposal site in the NE/4 NE/4 of Section 11, Township 10 South, Range 35 East.

CASE 7602: Application of Riqueza, Inc. for an oil treating plant permit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority for the construction and operation of an oil treating plant for the purpose of treating and reclaiming sediment oil in the NE/4 of Section 26, Township 22 South, Range 29 East.

CASE 7603: Application of Riqueza, Inc. for an exception to Order No. R-3221, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit the commercial disposal of produced brine into an unlined surface pit located near its proposed oil treating plant in the NE/4 of Section 26, Township 22 South, Range 29 East.

CASE 7519: (Continued from May 26, 1982, Examiner Hearing)

Application of S & J Oil Company for special pool rules, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Seven Lakes-Menafee Oil Pool to provide for wells to be located not nearer than 25 feet to the quarter-quarter section line nor nearer than 165 feet to lands owned by an offset operator.

CASE 7604: Application of Rio Pecos Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Pennsylvanian formation underlying the W/2 of Section 2, Township 19 South, Range 32 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7605: Application of Yates Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the Wolfcamp formation through the uppermost 100 feet of the Mississippian Chester Limestone underlying the W/2 of Section 35, Township 19 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7606: Application of MTS Limited Partnership Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface through the base of the Abo formation underlying the NW/4 of Section 5, Township 7 South, Range 26 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7592: (Continued from May 26, 1982, Examiner Hearing)

Application of OXOCO for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Mesa Verde formation underlying the E/2 of Section 20, Township 32 North, Range 8 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7586: (Continued and Readvertised)

Application of Standard Resources Corp. for designation of a tight formation, Chaves and Eddy Counties, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Abo-Wolfcamp formation underlying all or portions of Township 15 South, Ranges 23 through 25 East, Township 19 South, Range 20 East, and Township 20 South, Range 20 East, all in Chaves County; in Eddy County: Township 16 South, Ranges 23 through 26 East, Township 17 South, Ranges 21, 23, 24, and 25 East, and Township 18 South, Ranges 21, 23, 24 and 25 East, Township 19 South, Ranges 21, 23 and 24 East, and Township 20 South, Ranges 21, 23 and 24 East, containing 460,800 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7607: Application of El Paso Natural Gas Company for the abolishment of the Blanco-Pictured Cliffs Pool and the expansion of the South Blanco-Pictured Cliffs Pool in Rio Arriba, Sandoval and San Juan Counties, New Mexico. Applicant, in the above-styled cause, seeks the abolishment of the Blanco-Pictured Cliffs Pool and the expansion of the horizontal limits of the South Blanco-Pictured Cliffs Pool to include the abolished acreage.

Also to be considered will be the appropriate method for institution of gas prorationing for wells effected by the change in pool designation.

CASE 7608: Application of Tenneco Oil Company for designation of a tight formation, San Juan County, New Mexico. Pursuant to Section 107 of the Natural Gas Policy Act of 1978 and 18 CFR Section 271. 701-705, applicant, in the above-styled cause, seeks the designation as a tight formation of the Dakota Producing Interval underlying the following described lands:

All of:

Sections 1 thru 6, Township 29 North, Range 8 West;

Sections 1 and 2, Township 29 North, Range 9 West;

Sections 1 thru 18 and Section 24, Township 30 North, Range 10 West;

Sections 7 thru 9, 16 thru 21 and 25 thru 36, Township 32 North, Range 7 West;

All sections, Township 32 North, Range 8 West; and

All sections, Township 32 North, Range 9 West;

Also:

All of Township 30 North, Range 8 West except Sections 3 thru 5 and Section 35;

All of Township 30 North, Range 9 West except Sections 31 thru 34;

All of Township 31 North, Range 8 West except Section 32; and

All of Township 31 North, Range 9 West except Sections 27 and 28

containing 149,760 acres, more or less.

CASE 7609: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating and extending certain pools in Chaves, Eddy, and Lea Counties, New Mexico.

(a) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Middle Bell Canyon production and designated as the Brushy Draw-Middle Bell Canyon Gas Pool. The discovery well is the J. C. Williamson EP-USA Well No. 2 located in Unit O of Section 26, Township 26 South, Range 29 East, NMPM. Said Pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 29 EAST, NMPM
Section 26: SE/4

(b) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Bone Spring production and designated as the Legg-Bone Spring Pool. The discovery well is the Amoco Production Company State LT Well No. 1 located in Unit K of Section 32, Township 21 South, Range 33 East, NMPM. Said Pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 33 EAST, NMPM
Section 32: SW/4

(c) CREATE a new pool in Chaves County, New Mexico, classified as a gas pool for Atoka production and designated as the White Ranch-Atoka Gas Pool. The discovery well is the Depco, Inc. White Ranch Unit Well No. 1 located in Unit F of Section 8, Township 13 South, Range 30 East, NMPM. Said Pool would comprise:

TOWNSHIP 13 SOUTH, RANGE 30 EAST, NMPM
Section 8: W/2

(d) EXTEND the Austin-Mississippian Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 36 EAST, NMPM
Section 5: N/2 and SW/4

(e) EXTEND the Baum-Upper Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 33 EAST, NMPM
Section 18: NE/4

(f) EXTEND the Burton Flat-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM
Section 8: S/2

(g) EXTEND the East Burton Flat-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 29 EAST, NMPM
Section 6: S/2

(h) EXTEND the Cedar Lake-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 30 EAST, NMPM
Section 34: N/2
Section 35: N/2

(i) EXTEND the Crooked Creek-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPM
Section 3: S/2
Section 10: N/2

(j) EXTEND the EK Yates-Seven Rivers-Queen Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 9: SW/4

(k) EXTEND the Elkins-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 28 EAST, NMPM
Section 22: S/2 NW/4

(l) EXTEND the Empire-Pennsylvanian Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM
Section 20: N/2

(m) EXTEND the East Grama Ridge-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 35 EAST, NMPM
Section 31: S/2

(n) EXTEND the Hoag Tank-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM
Section 34: N/2

(o) EXTEND the House-Drinkard Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 38 EAST, NMPM
Section 35: SE/4

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 2: NE/4

EXAMINER HEARING-WEDNESDAY-JUNE(

(p) EXTEND the South Kemnitz Atoka-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 34 EAST, NMPM
Section 19: S/2

(q) EXTEND the EastLaRica-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 35: S/2

(r) EXTEND the North Loving-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 5: All

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

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 6: S/2

(t) EXTEND the Maljamar-Atoka Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM
Section 28: E/2

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

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

(v) EXTEND the Sand Hills Grayburg-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 39 EAST, NMPM
Section 31: SE/4

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

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM
Section 4: N/2

(x) EXTEND the Tom-Tom San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 31 EAST, NMPM
Section 35: NE/4

(y) EXTEND the Travis-Upper Pennsylvanian Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM
Section 13: N/2 NW/4

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

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM
Section 27: E/2

(aa) EXTEND the White City-Pennsylvanian Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 25 SOUTH, RANGE 26 EAST, NMPM
Section 13: All

(bb) EXTEND the North Young-Bone Spring Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM
Section 4: SE/4
Section 11: W/2

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Docket No. 18-82

DOCKET: EXAMINER HEARING - THURSDAY- JUNE 17, 1982

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

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

ALLOWABLE: (1) Consideration of the allowable production of gas for July, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for July, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
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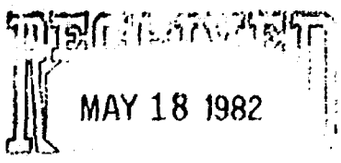
May 18, 1982



Case 7606

Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of Energy
& Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Application of Mesa Petroleum Company for Compulsory Pooling, Chaves County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Mesa Petroleum Company in the above-referenced matter.

The applicant requests that this matter be included on the docket for the examiner hearing scheduled to be held on June 9, 1982.

Very truly yours,

William F. Carr

WFC:jh
w/enc.

cc: Steven C. James, Esquire

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

MAY 18 1982

IN THE MATTER OF THE APPLICATION OF MTS LIMITED PARTNERSHIP COMPANY FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO

CASE 7666

APPLICATION

Comes now, MTS LIMITED PARTNERSHIP, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests from the surface through the base of the Abo formation in and under the NW/4 of Section 5, Township 7 South, Range 26 East, N.M.P.M., Chaves County, New Mexico, and in support thereof would show the Division:

1. Applicant is the owner of 93.75% of the working interest in and under the NW/4 of said Section 5, and applicant has the right to drill thereon.
2. Applicant proposed to dedicate the above-referenced pooled unit to the Mesa #1 Neal Com Well to be drilled at an orthodox location 1,980 feet from the North line and 1,600 feet from the West line of said Section 5.
3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the NW/4 of said Section 5 except the following:

Ralph Sparks, Jr.	.25% MI
Mozelle Hatton	.25% MI

4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and assessing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By _____
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
(505) 988-4421
Attorneys for Applicant

CASES

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. 7606
Order No. R- 7086

APPLICATION OF MTS LIMITED PARTNERSHIP COMPANY FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 9, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this _____ day of September, 1982, 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, MTS Limited Partnership Company, seeks an order pooling all mineral interests from the surface through the base of the Abo formation underlying the NW/4 of Section 5, Township 7 South, Range 26 East, NMPM, Chaves 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 Mesa Petroleum Company is the operating partner for MTS Limited Partnership and should be designated the operator of the subject well and unit.

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

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

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

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

(11) That $3700.00 per month while drilling and $370.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That an operating agreement dated June 3, 1982, and entered as Exhibit 6 in this case, covering the NW/4 of Section 5, Township 7 South, Range 36 East, NMPM, Chaves County, New Mexico has been accepted and agreed to by the owners of 99.5 percent of the interests of the NW/4 of said Section 5.

(14) That the terms of said operating agreement are reasonable and should govern the relationships between all interest owners in the pooled spacing unit.

(13) ~~(15)~~ 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 ~~November~~ December 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, from the surface through the base of the Abo formation underlying the NW/4 of Section 5, Township 7 South, Range 26 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of ~~November,~~ December 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 Mesa Petroleum Company as operating partner for MTS Limited Partnership Company is hereby designated the operator of the subject well and unit.

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

(4) That within 30 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 $3700.00 per month while drilling and $370.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a

one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Chaves 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 the terms of the operating agreement introduced as Exhibit 6 in this case and not in conflict with the terms of this order shall govern the relationships between all interest owners within the spacing unit pooled by this order and are incorporated by reference herein.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director

S E A L

CLIFFS POOL AND EXPANSION OF SOUTH
BLANCO-PICTURED CLIFFS POOL, RIO ARRIBA
SANDOVAL AND SAN JUAN COUNTIES, NEW
MEXICO