

CASE NO.

7617

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

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

23 June 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Southland Royalty
Company for compulsory pooling,
Eddy County, New Mexico.

CASES

7616

7617

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

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

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I N D E X

DON DAVIS

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1
2 MR. NUTTER: Call Case Numbers 7616 and
3 7617.

4 MR. PEARCE: Those cases are on the appli-
5 cation of Southland Royalty Company for compulsory pooling,
6 Eddy County, New Mexico.

7 MR. CARR: may it please the Examiner, my
8 name is William F. Carr, with the law firm Campbell, Byrd, and
9 Black. P. A., of Santa Fe, appearing on behalf of Southland
10 Royalty Company.

11 I have one witness.

12
13 (Witness sworn.)
14

15 DON DAVIS

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

18
19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q Will you state your name and place of resi-
22 dence?

23 A I'm Don Davis. I live in Midland, Texas.

24 Q By whom are you employed?

25 A Southland Royalty Company.

1

2

Q In what capacity?

3

A As a petroleum landman.

4

5

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

6

A Yes, I have.

7

8

Q Were your credentials as a landman accepted and made a matter of record at that time?

9

A Yes, they were.

10

11

Q Are you familiar with the applications filed in this matter of behalf of Southland Royalty Company?

12

A Yes, sir.

13

14

Q Are you familiar with the subject acreage and the subject well?

15

A Yes, sir.

16

17

MR. CARR: Are the witness' qualifications acceptable?

18

MR. NUTTER: They are.

19

20

Q Will you briefly state what Southland seeks in this case?

21

22

A Southland first is seeking to be designated operator of both wells.

23

24

25

Secondly, due to a request by the Minerals Management Department for communitization of both wells, we are seeking -- the Commission approve a forced pooling order

1

5

2 pooling the north half of Section 21 for the 21-A Well, and
3 the south half of Section 21 for the 21 No. 1 Well.

4 As all parties have joined in the wells,
5 we are not seeking any type of penalty order.

6 Q Will you please refer to what has been
7 marked for identification as Southland Exhibit Number One and
8 review the information contained thereon?

9 A Okay. The first portion of Exhibit One
10 are the -- is a breakdown of the acreage holdings in Section
11 21, which show the ownership in the southeast quarter below
12 a depth of 3500 feet to be owned by Southland 100 percent.

13 The north half of the southwest quarter
14 of the section is owned by John Trigg, 50 percent, T. J.
15 Sibley, 37-1/2 percent, and W. T. Wynn, 12-1/2 percent, while
16 the south half of the southwest quarter of Section 21 is owned
17 by Atlantic Richfield Company.

18 Portion two, or page two of this exhibit
19 is acreage holdings in the north half of Section 21. It
20 shows the northwest quarter of Section 21 to be owned once
21 again by John Trigg, 50 percent, T. J. Sibley, 37-1/2 percent,
22 and W. T. Wynn, 12-1/2 percent, while the northeast quarter
23 of the section is owned by Atlantic Richfield Company 100
24 percent.

25 Q Will you now refer to Southland Exhibit

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Number Two and review this for the Examiner?

A Exhibit Number Two is a plat of basically Township 18 South, Range 29 East. It shows our producing well in the south half, which is producing from the Strawn formation and it also indicates no other Strawn wells producing in this area.

Q And now I would direct your attention to the Southland Exhibit Number Three and ask you to review this for Mr. Nutter.

A Okay, this plat shows Southland's producing well in the north half of Section 21 from the Morrow formation, and it also shows any additional Morrow producers in 18, 29.

Q And in both cases you are proposing to dedicate standard spacing units to each of the wells.

A That is correct.

Q And the wells were drilled at orthodox locations.

A Yes, they were.

Q What is the status of the acreage that is involved in each of these applications?

A Okay, the acreage, all of Section 21 is Federal land.

Q Have you given notice to Mr. Trigg of this pooling application today?

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A. Yes, sir, we have.

Q And are copies of letters giving notice what has been marked as Southland Exhibit Number Four?

A. Yes.

Q Would you refer now to Southland Exhibit Number Five and review for Mr. Nutter your efforts to obtain Mr. Trigg's joinder in the communitization agreement?

A Okay, the first is a letter dated October 9th of 1981. It's a request by Southland Royalty to have Mr. Trigg execute the -- our proposed communitization agreement for the SRC Empire Federal 21 Com No. 1 in the south half of 21.

Page number two is a letter dated October 9th, 1981, requesting that Mr. Trigg execute our proposed communitization agreement covering the Empire Federal 21 Com A-1.

Third letter is a letter dated January 28th, 1982, from Southland to Mr. Trigg once again requesting that he execute both communitization agreements for these wells.

Q To date has Mr. Trigg been willing to execute the communitization agreements?

A No, sir.

Q Will you now refer to Southland Exhibit

1
2 Number Five and identify this?

3 A Exhibit Number Five is the Southland form
4 or a standard APL operating agreement covering all of Section
5 21, 18, 29, below a depth of 3500 feet. All parties have
6 executed this operating agreement, including Mr. Trigg.

7 Q And this operating agreement provides
8 for overhead and administrative costs and nonconsent penalty,
9 is that correct?

10 A Yes, it does. That's correct.

11 Q And if all the parties have agreed to do
12 this, it is unnecessary for the Commission to address it to-
13 day.

14 A No, sir, not at this time. Even Mr.
15 Trigg has executed this agreement.

16 Q Would you please identify what has been
17 marked as Southland Royalty Company Exhibit Number Seven?

18 A Exhibit Number Seven are the -- first of
19 all you'll find the proposed communitization agreement covering
20 the south half of Section 21. It's the Federal form of com-
21 munitization agreement. It has been executed by all parties
22 except Mr. John Trigg.

23 The second portion of this exhibit is
24 the communitization agreement covering the north half of
25 Section 21.

1
2 MR. NUTTER: I don't believe that's in
3 here.

4 Q Was the other communitization agreement
5 identical to this except for the description of the property?

6 A Yes, it was.

7 Q Now, Mr. Davis, let me be sure I understand
8 what the situation is, with each of these wells.

9 Southland proposed to drill the wells, is
10 that correct?

11 A That's correct.

12 Q And Mr. Trigg executed an operating agree-
13 ment.

14 A Yes, sir.

15 Q He also approved the AFE?

16 A Yes, sir.

17 Q The wells have been drilled.

18 A Yes, sir.

19 Q And at this point in time the problem you
20 have is that he has declined to execute a communitization
21 agreement.

22 A That is correct, and we've been approached
23 at least two times by the Minerals Management Department con-
24 cerning getting this acreage communitized to each of these
25 wells.

Q And absent the executed communitization agreement, you need a forced -- or a pooling order from the Oil Conservation Division.

A Yes, sir.

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

A Yes, sir.

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

A Yes, sir, they were.

MR. CARR: At this time, Mr. Nutter, we would offer into evidence Southland Exhibits One through Seven.

MR. NUTTER: Southland's Exhibits One through Seven will be admitted in evidence.

MR. CARR: And that concludes our direct presentation.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Davis, does Southland have any interest in the north half of the section?

A No, sir. You can tell by the operating

1
2 agreement the parties agreed to unitize for working interest
3 purposes all of Section 21; therefor, at this point in time,
4 due to the execution of the operating agreement, Southland
5 owns a portion of 21.

6 Q Okay, so you've got a working interest
7 unit --

8 A Yes, sir.

9 Q -- covering the entire section, being two
10 proration units.

11 A That's correct, the north half and the
12 south half.

13 Q But only by virtue of that have you any
14 interest in the north half.

15 A Yes, sir, that is correct.

16 Q Now Mr. Trigg is a working interest owner
17 and he's 50 percent of the north half of the southwest 21.

18 A Uh-huh.

19 Q And he's 50 percent of the northwest --

20 A Yes, sir.

21 Q -- of 21.

22 A Yes, sir, that's correct.

23 Q So he's got 1/4 interest in the well in
24 the north half.

25 A A fourth interest in the lease in the

1
2 north half, but due to execution of the operating agreement
3 he has diluted his interest to the entire section.

4 Q To the entire section.

5 A Yes, he --

6 Q Is he a signatory to the working interest
7 unit?

8 A Yes, sir, he is, and you'll find in the
9 operating agreement there his signature page is included.

10 Q I see. He just hasn't agreed to the indi-
11 vidual well communitization.

12 A Yes, sir, we haven't been able to get him
13 to execute the well communitizations.

14 Q Okay, now you stated you're seeking no
15 penalty.

16 A Yes, sir, because he has agreed to join
17 the wells. The operating agreement itself contains a 100
18 percent to 300 percent nonconsent penalty and contains other
19 provisions which relate to -- to that type of penalty involved,
20 so we feel that there's need for the Commission to come up
21 with some type of penalty in this case.

22 Q It's subject to the private contract that
23 you've got.

24 A Yes, sir, that's correct. All we're
25 asking for is that the acreage be communitized as stated by

the Minerals Management Commission.

Q I see. How about -- how about the order normally covering combined fixed rates for operating costs while drilling and producing?

A Okay, they are in the agreement and they are standard for the area, contained in the accounting procedure.

Q Does the order need to mention those?

A No, sir, all the order needs to do is to force pool the working interest ownership in the north half for the first well and in the south half for the same thing.

Q Without being subject to any of the normal provisions of risk or --

A Yes, sir.

Q -- combined fixed rates.

A Yes, sir. Because he has executed the agreement which pertains to all working operations, all billings, all accounting procedures, all gas balancing provisions, et cetera.

Q And that's all part of the working interest unit.

A Yes, sir.

Q I see. Okay.

Does anyone have any further questions of

1
2 Mr. Davis? He may be excused.

3 And well costs are not considered here,
4 either.

5 A No, sir, not at all. These were executed
6 and he agreed to them.

7 Q I see.

8 A The only thing we're asking for is the
9 communitization.

10 Q Okay, and one well is a Morrow well and
11 the other well is a Strawn well.

12 A Yes, sir, north half is a Morrow well and
13 the south half is Strawn.

14 MR. NUTTER: Does anyone have any further
15 questions of Mr. Davis? He may be excused.

16 Do you have anything further, Mr. Carr?

17 MR. CARR: Nothing further in this case.

18 MR. NUTTER: Does anyone have anything
19 to offer in Cases 7616 and 7617?

20 We'll take those cases under advisement.

21
22 (Hearing concluded.)
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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 76-637617 heard by me on 6/23 1982.

[Signature], Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

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

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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. 7617
Order No. R-7019

APPLICATION OF SOUTHLAND ROYALTY
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 23, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 2nd day of July, 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, Southland Royalty Company, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 21, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and has drilled 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.

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:

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(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.

-2-

Case No. 7617
Order No. R-7019

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

(7) 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 21, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

(2) That Southland Royalty Company is hereby designated the operator of the subject well and unit.

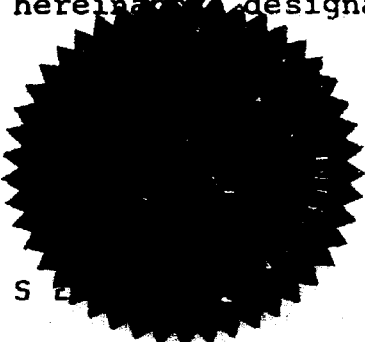
(3) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(4) 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.

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

(6) 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

ACREAGE HOLDINGS
S/2 Section 21, T18S, R29E
Eddy County, New Mexico

SE/4 of Section 21, below a depth of 3,500', LC-067132

OWNERSHIP: Southland Royalty Company - 100%

N/2SW/4 of Section 21, NM-030752

OWNERSHIP:	J. H. Trigg	-	50%
	T. J. Sivley	-	37.5%
	W. T. Wynn	-	12.5%

S/2SW/4 of Section 21, NM-34461

OWNERSHIP: Atlantic Richfield Company - 100%

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

SRC EXHIBIT NO. 1

CASE NO. 7616 and 7617

ACREAGE HOLDINGS
Section 21, T18S, R29E
Eddy County, New Mexico

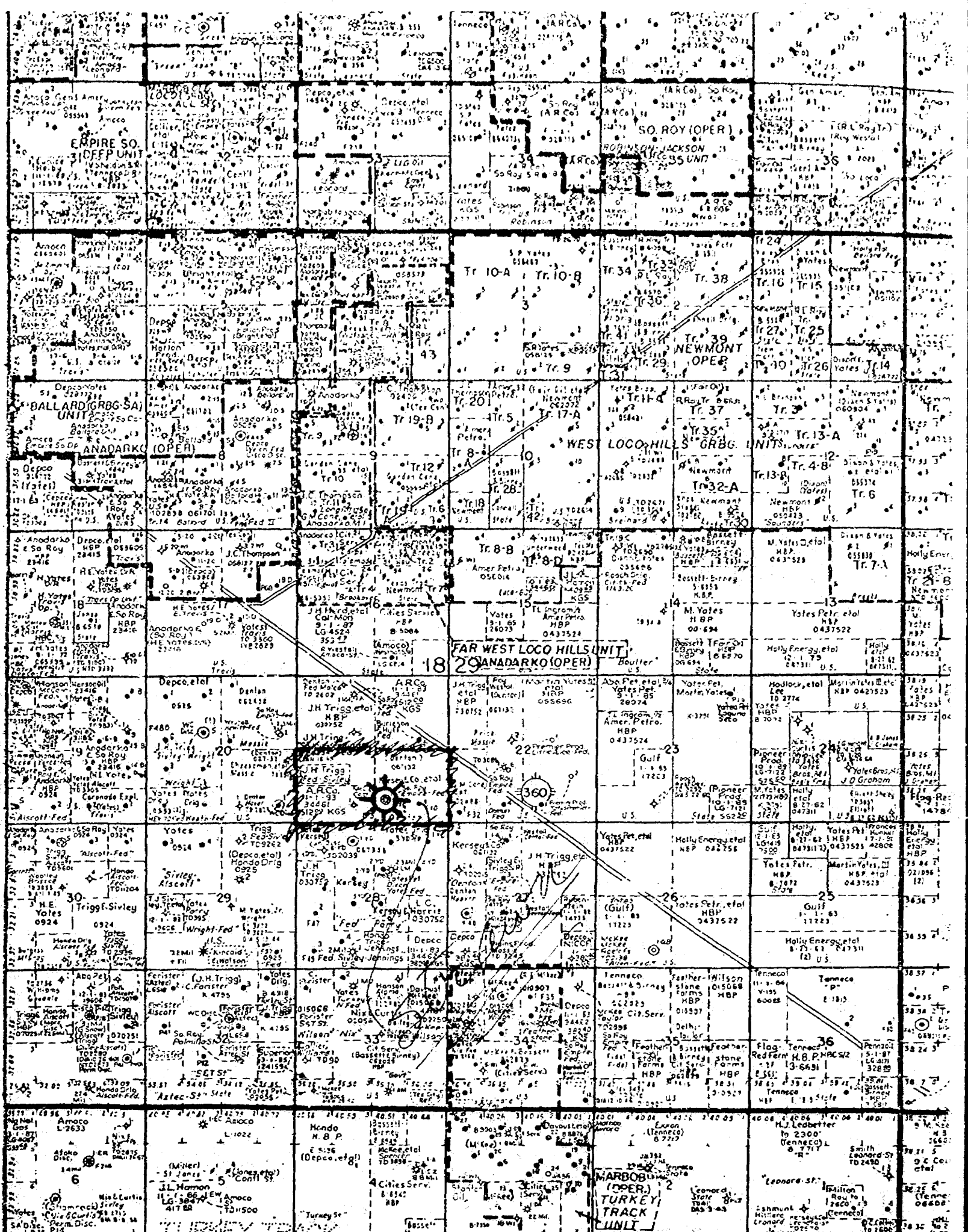
N/2 Section 21, T28S, R29E

NW/4 of Section 21, NM-030752

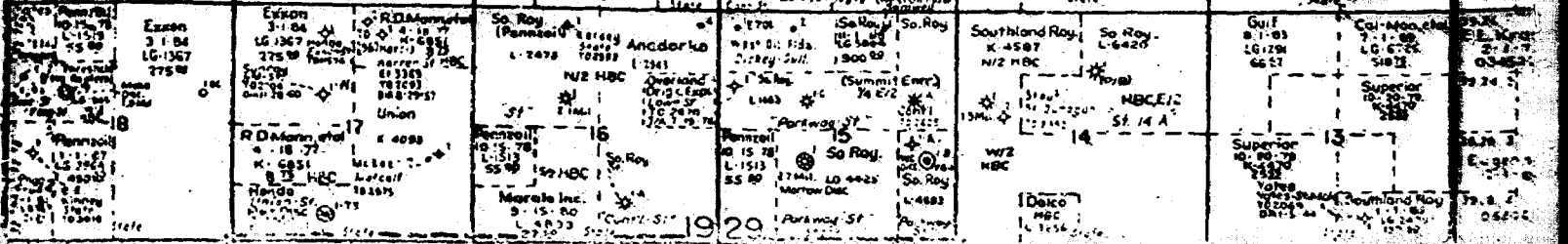
OWNERSHIP:	J. H. Trigg	-	50%
	T. J. Sivley	-	37.5%
	W. T. Wynn	-	12.5%

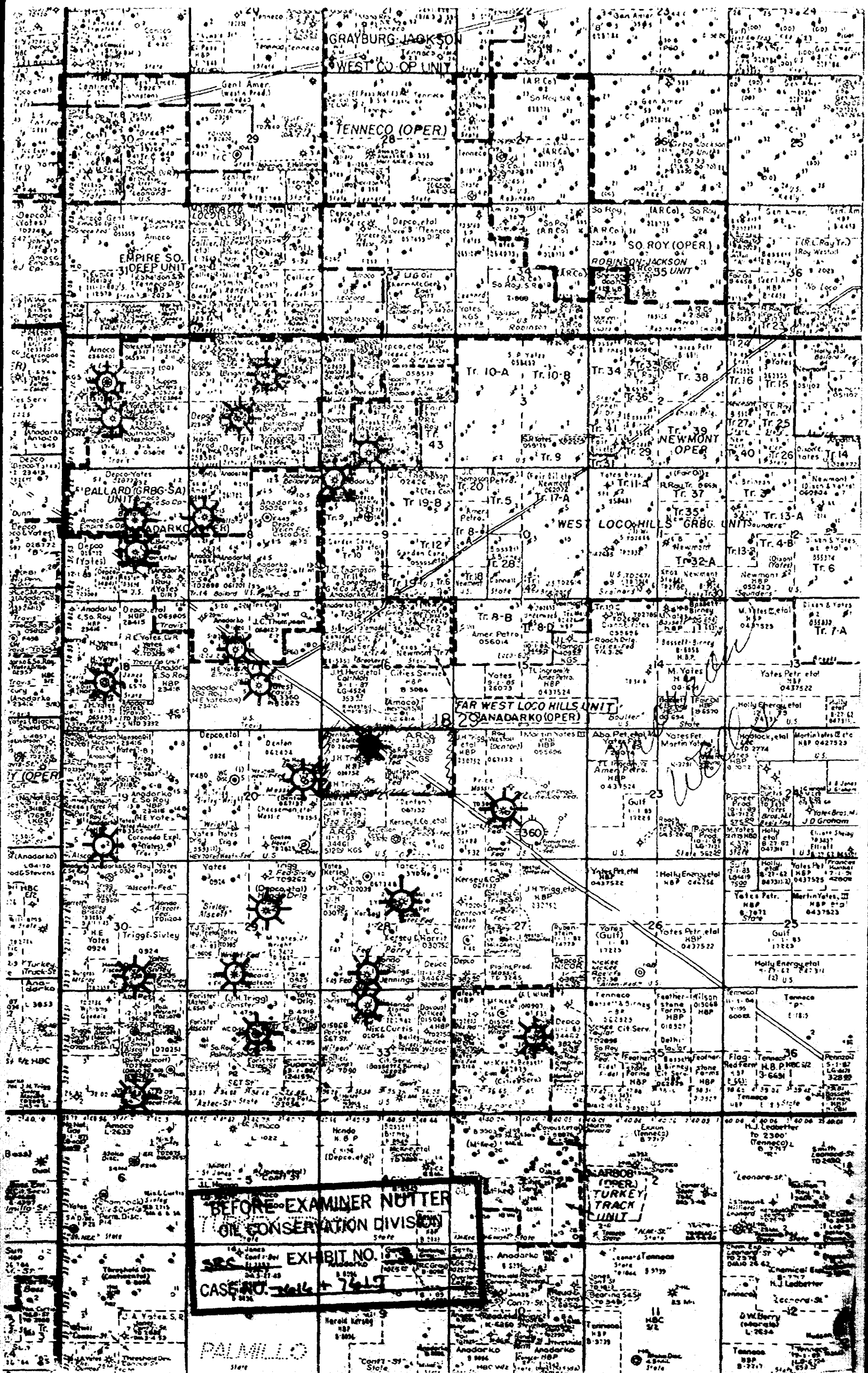
NE/4 of Section 21, NM-34461

OWNERSHIP:	Atlantic Richfield Co.	-	100%
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BEFORE EXAMINER IN THE
OIL CONSERVATION DIVISION
EXHIBIT NO. 2
CASE NO. 7416-17





BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
EXHIBIT NO. 15
CASE NO. 146 + 7417
PALMILLO

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
ERADFORD C. BERGE
WILLIAM G. WARDLE
KEMP W. GORTHEY

JEFFERSON PLACE
SUITE 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 986-4421
TELECOPIER: (505) 983-6043

June 21, 1982

Mr. John H. Trigg
Post Office Box 520
Roswell, New Mexico 88201

Re: New Mexico Oil Conservation Division Case 7616

Dear Mr. Trigg:

Enclosed is a copy of the docket for the June 23, 1982 Oil Conservation Division Examiner Hearing.

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

Very truly yours,

William F. Carr
William F. Carr

WFC:rr

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

BEFORE EXAMINER NUTTER OIL CONSERVATION DIVISION	
SRC	EXHIBIT NO. 4
CASE NO. 7616 and 7617	

No. 263386

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

SENT TO <i>John H. Trigg</i>	STREET ADDRESS <i>Post Office Box 520</i>	CITY AND ZIP CODE <i>Roswell, NM 88201</i>	POSTAGE <i>1.85</i>	CERTIFIED FEE c	SPECIAL DELIVERY c	RESTRICTED DELIVERY c	SHOW TO WHOM AND DATE DELIVERED c	SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY c	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY c	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY c	TOTAL POSTAGE AND FEES \$	POSTMARK OR DATE
OPTIONAL SERVICES CONSULT POSTMASTER FOR FEES												
RETURN RECEIPT SERVICE												

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HAROLD BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
ERADFORD C. BERGE
WILLIAM G. WARBLE
KEMP W. GORTNEY

JEFFERSON PLACE
SUITE 110 NORTH GUADALUPE
POST OFFICE BOX 2206
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 866-4421
TELECOPIER: (505) 863-6043

June 21, 1982

Mr. John H. Trigg
Post Office Box 520
Roswell, New Mexico 88201

Re: New Mexico Oil Conservation Division Case 7617

Dear Mr. Trigg:

Enclosed is a copy of the docket for the June 23, 1982 Oil Conservation Division Examiner Hearing.

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

Very truly yours

William F. Carr

WFC:rr

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

No. 28 1055
RECEIPT FOR CERTIFIED MAIL

**NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL**

(See Reverse)

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

October 9, 1981

Mr. John H. Trigg
P. O. Box 520
Roswell, New Mexico 88210

RE: Communitization Agreement
~~SRC-Empire Fed.~~ "21" Com. #1
S/2 Sec. 21, T18S, R29E
Sady County, New Mexico
SRC 500478 J/O

Dear Mr. Trigg:

Reference is made to the subject well completed as a producing Strawn gas well. Enclosed is an original Communitization Agreement which contains four sets of signature pages, communitizing the S/2 of Section 21 for production from this well. At such time as you approve this Communitization Agreement, please execute all signature pages returning three executed originals to our Midland Office.

As soon as the approval letter is received, you will be furnished a copy of same. In the meantime, should you have any questions concerning the above matter, please don't hesitate contacting the undersigned.

Yours very truly,

SOUTHLAND ROYALTY COMPANY
Original Signed By
DON W. DAVIS

Don W. Davis
Landman

DWD:lh

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

SRC EXHIBIT NO. 5

CASE NO. 7616 + 7617

October 9, 1981

Mr. J. H. Trigg
P. O. Box 520
Roswell, New Mexico 88210

RE: Communitization Agreement
SRC-Empire Fed. "21" Com. #A-1
N/2 Sec. 21, T18S, R29E
Eddy County, New Mexico
SRC 500478 J/O

Dear Mr. Trigg:

Reference is made to the subject well completed as a producing Morrow gas well. Enclosed is an original Communitization Agreement along with four sets of signature pages, communitizing the Cisco-Canyon-Strawn-Atoka and Morrow formations under this well. At such time as you approve this Communitization Agreement, please execute all signature pages returning three executed signature pages to our Midland Office.

In the meantime, if there are any questions, please don't hesitate calling.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Original Signed By
DON W. DAVIS

Don W. Davis
Landman

DWD:lh

January 28, 1982

Mr. John H. Trigg
P. O. Box 520
Roswell, New Mexico 88210

RE: Communitization Agreements
SRC-Empire Fed. "21" Com. #1
SRC-Empire Fed. "21" Com. #A-1
Sec. 21, T18S, R29E
Eddy County, New Mexico
SRC 500478 J/O

Dear Mr. Trigg:

Reference is made to my letters of October 9, 1981, and the enclosed Communitization Agreements therewith. SRC has not, as of yet, received either of the captioned Communitization Agreements executed by you. At your earliest convenience, please execute these Communitization Agreements in the presence of a Notary Public, returning three executed signature pages from each to our Midland Office.

If you have any questions, or need any additional information, please advise.

Yours very truly,

SOUTHLAND ROYALTY COMPANY


Don W. Davis
Landman

DWD:lh

60th N/2 & S/2

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

September 23, 1980,

OPERATOR SOUTHLAND ROYALTY COMPANY

CONTRACT AREA Sec. 21, T18S, R29E, below a depth of 3,500'

COUNTY OR PARISH OF Eddy STATE OF New Mexico

COPYRIGHT 1977 — ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 900, TULSA, OK 74101

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

SRC EXHIBIT NO. 6
CASE NO. 7616 + 7617

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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☒ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

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

ARTICLE III. INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV. TITLES

A. Title Examination:

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

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

☒ 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 except when such costs are incurred in connection with an operation conducted under Article VI B2 in which event such costs are to be borne by the drilling parties in the proportions elected by such parties.

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:

SOUTHLAND ROYALTY COMPANY

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI. DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 23RD day of January, 19 81, Operator shall commence the drilling of a well for oil and gas at the following location:

860' FSL & 2180' FEL, Sec. 21, T18S, R29E, Eddy County, New Mexico

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

11,750' or a depth sufficient to test the Morrow formation,

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.

1 B. Subsequent Operations:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Right to Take Production in Kind:

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

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

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

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

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

28 29 D. Access to Contract Area and Information:

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

40 41 E. Abandonment of Wells:

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

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

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

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

D. Limitation of Expenditures:

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

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

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-five Thousand and no/100 Dollars (\$ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Twenty five Thousand and no/100----- Dollars (\$ 25,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of one-eighth (1/8) due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

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

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

G. Taxes:

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

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

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

H. Insurance:

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

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

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

8 9 B. Renewal or Extension of Leases:

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

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

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

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

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

36 37 C. Acreage or Cash Contributions:

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

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

54 55 D. Subsequently Created Interest:

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

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

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 Five Thousand and no/100 Dollars (\$ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI. FORCE MAJEURE

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

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

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

ARTICLE XII. NOTICES

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

ARTICLE XIII. TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 60 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

SALE OF ROYALTY GAS

It is recognized by the parties hereto that in addition to each party's share of working interest production, such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the unit area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Unit, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

In the event a "consenting party" to this agreement shall become delinquent in its working interest payments, (delinquent being defined as the continued nonpayment of bona fide joint interest billings from operator, for a period exceeding sixty days), then and in that event, all parties hereto agree that such interest owned by the delinquent party shall be treated for all purposes as if that party had elected non-participation under the provisions of Article VI B 2 of this agreement contained on pages 5 and 6 of the agreement. Notwithstanding the provisions of Article VII C to the contrary, this provision shall control and be effective.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

BY: *C. E. Mear*
C.E. Mear, Attorney-in-Fact

NON-OPERATORS

T. J. SIVLEY

W. T. WYNN

JOHN H. TRIGG

ATLANTIC RICHFIELD COMPANY

BY: _____

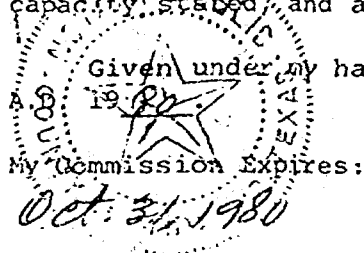


CORPORATION ACKNOWLEDGMENT

THE STATE OF Texas

COUNTY OF Midland

BEFORE ME, the undersigned authority, on this day personally appeared C. E. Mann, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Southland Royalty Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.



Lena H. Harrell
Notary Public in and for Midland
County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF

COUNTY OF

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

Given under my hand and seal of office this the _____ day of _____
A.D. 19____.

My Commission Expires:

Notary Public in and for _____
County,

CORPORATION ACKNOWLEDGMENT

THE STATE OF

COUNTY OF

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

Given under my hand and seal of office this the _____ day of _____
A.D. 19____.

My Commission Expires:

Notary Public in and for _____
County,

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

BY: C. E. Mear
C.E. Mear, Attorney-in-Fact

NON-OPERATORS

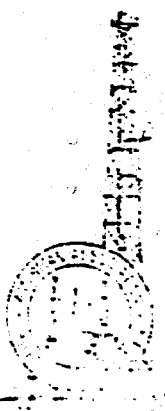
T. J. SIVLEY
T. J. SIVLEY

W. T. WYNN
W. T. WYNN

JOHN H. TRIGG
JOHN H. TRIGG

ATLANTIC RICHFIELD COMPANY

BY: _____



CORPORATION ACKNOWLEDGMENT

THE STATE OF Texas
COUNTY OF Midland

BEFORE ME, the undersigned authority, on this day personally appeared C. E. Mann, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Southland Royalty Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 22nd day of October A.D. 1980.

My Commission Expires:
Oct. 31, 1980

Laura Howell
Notary Public in and for Midland
County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF
COUNTY OF

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

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

Notary Public in and for _____
County,

CORPORATION ACKNOWLEDGMENT

THE STATE OF
COUNTY OF

THE STATE OF New Mexico
COUNTY OF Eddy

I
I
I
SINGLE ACKNOWLEDGEMENT

BEFORE ME, the undersigned authority, on this day personally appeared T. J. Sivley known to me to be the person whose name ~~are~~ is subscribed to the foregoing instrument and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 1st day of December A.D., 1980.

My Commission Expires:
8-29-84

Janis Champion
Notary Public in

OFFICIAL SEAL
Signature: Janis Champion
JANIS CHAMPION
NOTARY PUBLIC - NEW MEXICO
NOTARY BOND FILED WITH SECRETARY OF STATE
My Commission Expires 8-29-84

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

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

BY: C. E. Mear
C.E. Mear, Attorney-in-Fact

NON-OPERATORS

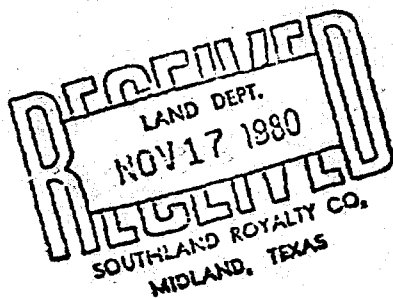
T. J. SIVLEY

W. T. WYNN

JOHN H. TRIGG

ATLANTIC RICHFIELD COMPANY

BY: _____



Copy to FW 11-17-80

CORPORATION ACKNOWLEDGMENT

THE STATE OF Texas
COUNTY OF Midland

BEFORE ME, the undersigned authority, on this day personally appeared C. E. Mann, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Southland Royalty Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 22nd day of October
A.D. 1980.

My Commission Expires:

Oct. 31, 1980

Lena H. Harell
Notary Public in and for Midland
County, Texas

INDIVIDUAL
~~CORPORATION~~ ACKNOWLEDGMENT

THE STATE OF NEW MEXICO
COUNTY OF CHAVES

BEFORE ME, the undersigned authority, on this day personally appeared John H. Trigg, known to me to be the person whose name is subscribed to the foregoing instrument, as an individual ~~an individual~~ ~~an individual~~, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said ~~corporation~~ individual.

Given under my hand and seal of office this the 3rd day of November
A.D. 1980.

My Commission Expires:

November 20, 1984

Margaret C. Custer
Notary Public in and for Chaves
County, New Mexico.

CORPORATION ACKNOWLEDGMENT

THE STATE OF
COUNTY OF

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

Given under my hand and seal of office this the _____ day of _____
A.D. 19____.

My Commission Expires:

Notary Public in and for _____
County, _____

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 22nd day of October,
1980.

OPERATOR

BY: C. E. Mear
C.E. Mear, Attorney-in-Fact

NON-OPERATORS

T. J. SIVLEY

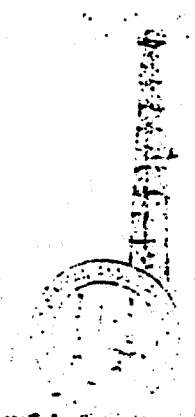
W. T. WYNN

JOHN H. TRIGG

ATLANTIC RICHFIELD COMPANY

BY: K.V. Small
ATTORNEY IN FACT

1/21/83
B6HC



CORPORATION ACKNOWLEDGMENT

THE STATE OF Texas
COUNTY OF Midland

BEFORE ME, the undersigned authority, on this day personally appeared C. E. Meier, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Southland Royalty Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 22nd day of October
A.D. 1980.

My Commission Expires:

Oct. 31, 1980

Laura Howell
Notary Public in and for Midland
County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF Texas
COUNTY OF Midland

BEFORE ME, the undersigned authority, on this day personally appeared X. V. Ferrell, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney in fact of Atlantic Richfield Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 15th day of January
A.D. 1981

My Commission Expires:

July 3, 1984

Yvonne Brooks Yvonne Brooks
Notary Public in and for Midland
County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF
COUNTY OF

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

Given under my hand and seal of office this the _____ day of _____
A.D. 19____.

My Commission Expires:

Notary Public in and for _____
County,

THIRD AMENDED
EXHIBIT "A"

Attached to and made a part of Operating Agreement by and between Southland Royalty Company, Operator, and other signatory parties, Non-Operators.

CONTRACT AREA:

Section 21, T18S, R29E, Eddy County, New Mexico, below a depth of 3,500'.

ADDRESSES AND WORKING INTERESTS OF THE PARTIES:

BEFORE PAYOUT

Southland Royalty Company	.330769231
1100 Wall Towers West	
Midland, Texas 79701	
John H. Trigg	-0-
P. O. Box 520	
Roswell, New Mexico 88201	
W. T. Wynn	-0-
1603 West Dengar	
Midland, Texas 79701	
T. J. Sivley	.173076923
P. O. Drawer "GG"	
Artesia, New Mexico 88210	
ARCO	.496153846
P. O. Box 1610	
Midland, Texas 79702	
Total	<u>1.000000000</u>

AFTER PAYOUT

Southland Royalty Company	.321394231
John H. Trigg	-0-
W. T. Wynn	.02343750
T. J. Sivley	.173076923
ARCO	.482091346
Total	<u>1.000000000</u>

AFTER 300% NON-CONSENT PENALTY

Southland Royalty Company	.259375
John H. Trigg	.187500
W. T. Wynn	.0234375
T. J. Sivley	.140625
ARCO	.3890625
Total	<u>1.0000000</u>

SECOND AMENDED

EXHIBIT "A"

Attached to and made a part of Operating Agreement by and between Southland Royalty Company, Operator, and other signatory parties, Non-Operators.

CONTRACT AREA:

Section 21, T18S, R29E, Eddy County, New Mexico, below a depth of 3,500'.

ADDRESS AND WORKING INTEREST OF THE PARTIES:

Southland Royalty Company 1100 Wall Towers West Midland, Texas 79701	0.26875	0.259375
John H. Trigg P. O. Box 520 Roswell, New Mexico 88201	0.1875000	0.18750000
W. T. Wynn 1603 W. Dengar Midland, Texas 79701	-0-	0.02343750
T. J. Sivley P. O. Drawer "GG" Artesia, New Mexico 88210	0.1406250	0.14062500
ARCO P. O. Box 1610 Midland, Texas 79702	0.403125	0.3890625
	<u>1.000000</u>	<u>1.0000000</u>

EXHIBIT "B"

Attached to and made a part of Operating Agreement dated September 23, 1980, by and between Southland Royalty Company, Operator, and other signatory parties, Non-Operator.

OIL AND GAS LEASE

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

as Lessor, and _____ as Lessee, WITNESSETH:

1. Lessor in consideration of Ten and No/100 Dollars (\$10.00) in hand paid of the royalties herein provided, and of the agreements of Lessor herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, producing, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon to produce, care, take care of, treat, transport, and own said products, the following

described land in _____ County, Texas, to-wit:

and containing _____ acres, more or less. In the event a resurvey of said lands shall reveal the existence of excess and/or vacant lands lying adjacent to the lands above described and the Lessor, his heirs, or assigns, shall by virtue of its ownership of the lands above described, have preference right to acquire said excess and/or vacant lands, then in that event this lease shall cover and include all such excess and/or vacant lands which the Lessor, its successors or assigns, shall have the preference right to acquire by virtue of its ownership of the lands above described as and when acquired by the Lessor; and the Lessee shall pay the Lessor for such excess and/or vacant lands at the same rate per acre as the cash consideration paid for the acreage hereinabove mentioned.

2. Subject to the other provisions herein contained, this lease shall be for a term of _____ from this date (called "primary term") and as long thereafter as oil or gas is produced from said land hereunder.

3. The royalties to be paid Lessor are: (a) on oil one-eighth (1/8) of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; and (b) on gas, including casinghead gas or other gaseous substance, produced from said land and sold or used off the premises or in the manufacture of gasoline or other products therefrom, the market value at the well of one-eighth (1/8) of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth (1/8) of the amount realized from such sale; where gas from a well producing gas only is not sold or used, Lessee may pay as annual royalty, commencing ninety (90) days after such well is first shut in, the sum of _____ per well per year, and upon such payment it will be considered that gas is being produced within the meaning of Paragraph 2 hereof; provided, however, that such shut in payments shall not continue this lease in force for any consecutive period of more than _____ years. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil, gas or water shall be computed after deducting any so used.

4. If prior to discovery of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or re-working operations within sixty (60) days thereafter. If at the expiration of the primary term, oil or gas is not being produced on said land, but Lessee is then engaged in drilling or re-working operations thereon, the lease shall remain in force so long as operations on said well or for drilling or re-working of any additional well are prosecuted with no cessation of more than sixty (60) consecutive days and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

5. Lessee shall have the right at any time until six months after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent.

6. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, successors and assigns, but no change or division in ownership of the land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessor. No sale or enlargement by either party shall be binding on the other party hereto until such party shall have been furnished with a certified copy of recorded instrument evidencing same. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

7. Lessor herein makes no warranty of title, either express or implied. Lessor hereby 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 royalties accruing hereunder toward satisfying same. It is agreed that if Lessor owns an interest in said land less than the entire fee simple, then the royalties to be paid Lessor shall be reduced proportionately.

8. If any operations permitted or required hereunder or the performance by Lessee of any covenant, agreement or requirement hereof is delayed or interrupted directly or indirectly by any past or future acts, orders, regulations, or requirements of the Government of the United States or of any state or other governmental body, or any agent, officer, representative or authority of any of them, the period of such Delay or interruption shall not be counted against the Lessee, and the primary term of this lease shall automatically be extended after the expiration of the primary term set forth in Section 2 above so long as the cause or causes for such delay or interruption continue and for a period of six (6) months thereafter; and such extended term shall constitute and shall be considered for the purposes of this lease as a part of the primary term hereof. The Lessee shall not be liable to Lessor in damages for failure to perform any operation permitted or required hereunder or to comply with any covenant, agreement or requirement hereof during the time Lessee is relieved from the obligations to comply with such covenants, agreements, or requirements.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated
September 23, 1980, by and between Southland Royalty Company,
Operator, and other signatory parties, Non-Operators.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

H. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed ~~twenty per cent (20%)~~ the most recent rate recommended by COPAS.

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD**1. Overhead - Drilling and Producing Operations**

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 3,000.00
Producing Well Rate \$ 300.000

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

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

~~B. Overhead - Percentage Basis~~

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

- A. 5.0 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00 ; plus
 B. 2.0 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus
 C. 2.0 % of total costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

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

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

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

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

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

INSURANCE

Attached to and made a part of Operating Agreement dated September 23, 1980, by and between Southland Royalty Company, Operator, and other signatory parties, Non-Operators.

(a) Operator shall at all times during the terms of this Agreement carry insurance to protect the parties hereto as follows:

- (1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employer's liability insurance with a limit of not less than \$100,000.
- (2) Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$300,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident and \$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.
- (3) Automotive public liability insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$300,000 for more than one person in any one accident.

(b) Operator shall require all contractors performing work under this Agreement to carry the following insurance:

- (1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.
- (2) Comprehensive general liability insurance with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$300,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident and \$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.
- (3) Automotive public liability insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$300,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident.

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of Operating Agreement dated September 23, 1980, by and between Southland Royalty Company, Operator, and other signatory parties, NonOperators.

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

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

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

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

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

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

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

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

EXHIBIT "F"

Attached to and made a part of Operating Agreement dated September 23, 1980, by and between Southland Royalty Company, Operator, and other signatory parties, NonOperators.

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

1. The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, national origin or sex. Such action will include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.
2. The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
3. The Operator will send to each labor union or representative of workers with which it 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' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
4. The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
5. The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its 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 the Operator's non-compliance with the non-discrimination 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 Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
7. The Operator 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 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator 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 non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

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

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

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

Operator acknowledges that it may be required to file Standard Form 100 (EE01) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so requested.

APPROVAL - CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior under Section 17 (j) of the Mineral Leasing Act of 1920, as amended (74 Stat. 784; 30 U.S.C. 226 j), and delegated to the Area Oil and Gas Supervisors of the U. S. Geological Survey, I do hereby:

- A. Approve the attached Communitization Agreement covering the South One-Half (S/2) Section 21, Township 18 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, as to natural gas and associated liquid hydrocarbons producible from the Cisco, Canyon, Strawn, formations.
- B. Determine that the Federal lease or leases as to the lands committed to the attached agreement cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located, and that consummation and approval of the agreement will be in the public interest.
- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of the agreement.

Approved: _____

Area Oil and Gas Supervisor
U.S. Geological Survey

Effective: _____

Contract No.: Com. Agr. _____

S/2

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
SEC	EXHIBIT NO. 7
CASE NO. 7616 + 7617	

COMMUNITIZATION AGREEMENT

Contract No. _____

THIS AGREEMENT entered into as of the 8th day of October, 1981, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

W I T N E S S E T H:

WHEREAS, the Act of February 25, 1920, (41 Stat. 437), as amended and supplemented authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

South One-Half (S/2) of Section 21, Township 18 South,
Range 29 East, N.M.P.M., Eddy County, New Mexico

Containing 320 acres, more or less, and this agreement shall include only the Cisco, Canyon and Strawn formations underlying said lands and the natural gas and associated liquid hydrocarbons, hereinafter referred to as "communitized substances", producible from such formations. This agreement shall apply separately to the Cisco, Canyon, and Strawn formations in the same manner as though a separate agreement for each formation had been entered into.

2. Attached hereto, and made a part of this agreement for all purposes in Exhibit "B", designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.
3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports or operations, statements of oil and gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.
5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.
6. The royalties payable on communitized substances allocated to the individual leases, comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued. It is agreed that for any Federal lease bearing a sliding or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease plus any noncommunitized lease production.
7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.
8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.
9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by and duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.
10. This agreement is effective _____, _____, _____
(Month) (Day) (Year)
upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect as to the Cisco, Canyon, Strawn, Atoka and Morrow formations individually for a period of two (2) years, and so long thereafter as communitized substances are or can be produced in paying quantities from

communitized formations or formation: provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interests until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.
12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.
13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.
14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.
15. Nondiscrimination: In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (20 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names, the date of execution.

DENTON OIL COMPANY, A Partnership

By: _____

ATLANTIC RICHFIELD COMPANY

By: _____

T. J. SIVLEY

SOUTHLAND ROYALTY COMPANY

By: C. E. Mear
Attorney-In-Fact

J. H. TRIGG

W. T. WYNN

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
 I
COUNTY OF Midland I

BEFORE ME, the undersigned authority, on this day personally appeared C. E. Meier, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Southland Royalty Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 14th day of October A.D. 1981.

My Commission Expires:
Oct. 31, 1984

Lee Garrett
Notary Public in and for Midland
County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
 I
COUNTY OF I

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

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

THE STATE OF I SINGLE ACKNOWLEDGEMENT
 I
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared _____ known to me to be the person whose name are/is subscribed to the foregoing instrument and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19____.

My Commission Expires: _____
Notary Public in and for _____
County, _____

THE STATE OF I SINGLE ACKNOWLEDGEMENT
 I
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared _____ known to me to be the person whose name are/is subscribed to the foregoing instrument and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19____.

My Commission Expires: _____
Notary Public in and for _____

communitized formations or formation: provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interests until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.
12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.
13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.
14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.
15. Nondiscrimination: In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (20 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names, the date of execution.

DENTON OIL COMPANY, A Partnership

SOUTHLAND ROYALTY COMPANY

By: _____

By: C. E. Mear
Attorney-In-Fact

ATLANTIC RICHFIELD COMPANY

By: C. E. Cardwell Jr.
ATTORNEY IN FACT

J. H. TRIGG

T. J. SIVLEY

W. T. WYNN

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
COUNTY OF Midland I

BEFORE ME, the undersigned authority, on this day personally appeared C. E. Green, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Southland Royalty Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 14th day of October A.D. 1981.

My Commission Expires: Oct. 31, 1984

Len Harrell
Notary Public in and for Midland
County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
COUNTY OF Midland I

BEFORE ME, the undersigned authority, on this day personally appeared C. E. Cardwell, Jr., known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney in Fact of Atlantic Richfield Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 18th day of December A.D. 1981.

My Commission Expires: July 3, 1984 Yvonne Brooks Notary Public Yvonne Brooks

THE STATE OF I SINGLE ACKNOWLEDGEMENT
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared

known to me to be the person whose name are/is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19____.

My Commission Expires:

Notary Public in and for _____
County, _____

THE STATE OF I SINGLE ACKNOWLEDGEMENT
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared

known to me to be the person whose name are/is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19____.

My Commission Expires:

Notary Public in and for _____

communitized formations or formation: provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interests until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.
12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.
13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.
14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.
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IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names, the date of execution.

DENTON OIL COMPANY, A Partnership

SOUTHLAND ROYALTY COMPANY

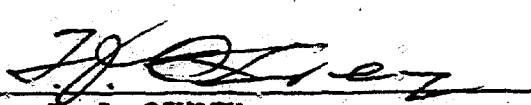
By: _____

By: _____
Attorney-In-Fact

ATLANTIC RICHFIELD COMPANY

By: _____

J. H. TRIGG


T. J. SIVLEY

W. T. WYNN

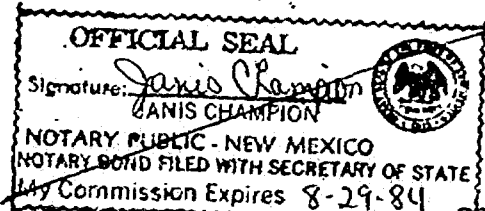
CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
COUNTY OF I

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

Given under my hand and seal of office this the 26th day of October A.D. 1981.

My Commission Expires: 8-29-84



Janis Champion
Notary Public in and for Eddy
County, New Mexico

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
COUNTY OF I

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

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

THE STATE OF
COUNTY OF

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SINGLE ACKNOWLEDGEMENT

BEFORE ME, the undersigned authority, on this day personally appeared _____ known to me to be the person whose name are/is subscribed to the foregoing instrument and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19____.

My Commission Expires:

Notary Public in and for _____
County, _____

THE STATE OF New Mexico I
COUNTY OF Eddy I

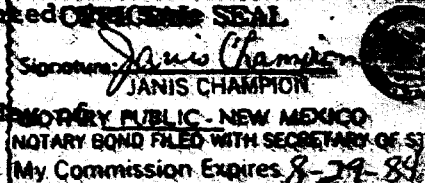
SINGLE ACKNOWLEDGEMENT

BEFORE ME, the undersigned authority, on this day personally appeared J. J. Stivley known to me to be the person whose name are/is subscribed to the foregoing instrument and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 26th day of October A.D., 1981.

My Commission Expires: 8-29-84

Janis Champion
Notary Public in and for _____
County, _____



communitized formations or formation: provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interests until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.
12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.
13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.
14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.
15. Nondiscrimination: In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (20 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names, the date of execution.

DENTON OIL COMPANY, A Partnership

SOUTHLAND ROYALTY COMPANY

By: George C. Denton

By: _____
Attorney-In-Fact

ATLANTIC RICHFIELD COMPANY

By: _____

J. H. TRIGG

T. J. SIVLEY

W. T. WYNN

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
 I
COUNTY OF I

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

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

Notary Public in and for _____
County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
 I
COUNTY OF I

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

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

THE STATE OF New Mexico
COUNTY OF Eddy

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SINGLE ACKNOWLEDGEMENT

BEFORE ME, the undersigned authority, on this day personally appeared GEORGE C. DENTON, A PARTNER OF DENTON OIL COMPANY known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 21st day of OCTOBER A.D., 1981.

My Commission Expires:
AUGUST 22, 1985

Jerome Brannum
Notary Public in and for _____
Eddy County, NEW MEXICO

THE STATE OF
COUNTY OF

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SINGLE ACKNOWLEDGEMENT

BEFORE ME, the undersigned authority, on this day personally appeared _____ known to me to be the person whose name _____ are/is subscribed to the foregoing instrument and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19____.

My Commission Expires:

communitized formations or formation: provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interests until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.
12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.
13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.
14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.
15. Nondiscrimination: In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (20 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names, the date of execution.

DENTON OIL COMPANY, A Partnership

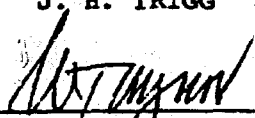
SOUTHLAND ROYALTY COMPANY

By: _____

By: _____
Attorney-In-Fact

ATLANTIC RICHFIELD COMPANY

By: _____

J. H. TRIGG


W. T. GINN

T. J. SIVLEY

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
 I
COUNTY OF I

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

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

Notary Public in and for _____
County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS I
 I
COUNTY OF I

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

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

THE STATE OF TEXAS I SINGLE ACKNOWLEDGEMENT
 I
COUNTY OF MIDLAND I

BEFORE ME, the undersigned authority, on this day personally appeared
W. T. WYNN
known to me to be the person _____ whose name ~~was~~ is subscribed to the foregoing instrument and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 1st day of February
A.D., 19 82.

My Commission Expires:
November 24, 1985

Ann McCrary (Ann McCrary)
Notary Public in and for Midland
County, Texas

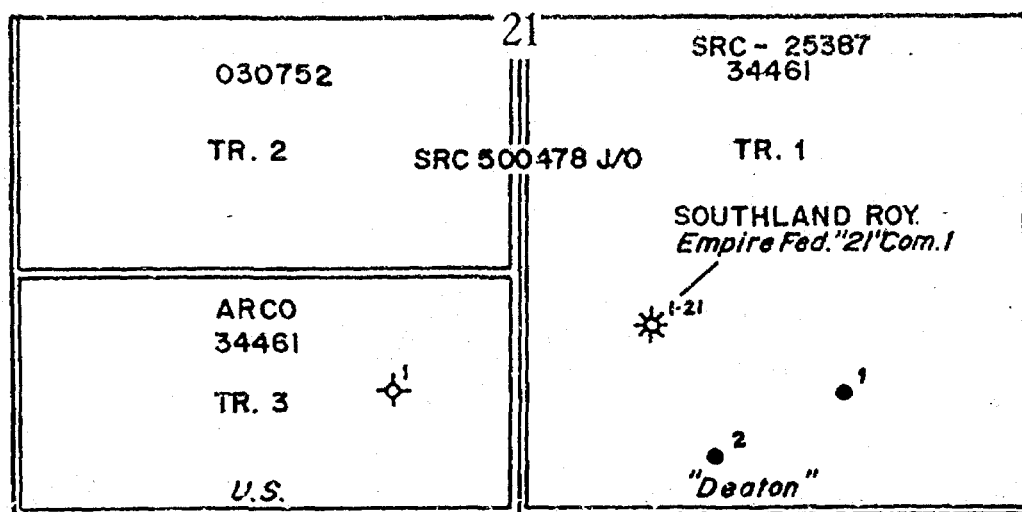
THE STATE OF I SINGLE ACKNOWLEDGEMENT
 I
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared
known to me to be the person _____ whose name _____ are/is subscribed to the foregoing instrument and acknowledged to me that _____ he _____ executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____ A.D., 19____.

My Commission Expires:

Notary Public in and for _____
County, Texas



TOWNSHIP 18 SOUTH , RANGE 29 EAST , N.M.P.M.
S / 2 SECTION 21
EDDY COUNTY
NEW MEXICO

EXHIBIT "A" TO COMMUNITIZATION AGREEMENT
 DATED: October 8, 1981

NEW MEXICO

EXHIBIT "B" TO COMMUNITIZATION AGREEMENT

Dated: October 8, 1981

Embracing: S/2 Section 21, T18S, R29E
Eddy County, New Mexico

Operator of Communitized Area:

Southland Royalty Company
1100 Wall Towers West
Midland, Texas 79701

DESCRIPTION OF LEASES COMMITTED

TRACT NO. 1:

Lessor:	United States of America
Lessee of Record:	Edith A. Hover, Executrix of the Estate of A. H. Hover
Serial No. of Lease:	LC-067132
Date of Lease:	August 1, 1948
Description of Land Committed:	SE/4 Sec. 21, T18S, R29E, Eddy County, New Mexico
Number of Net Acres:	160
Working Interest & Percentage:	Southland Royalty Company - 100%
ORRI Owners & Percentage:	Carol Neal Nantker and Wade H. Hover, Trustees - 5% Robert E. Boling & wife, Jean C. Boling - 1/2% Denton Oil Co. - 2%

TRACT NO. 2:

Lessor:	United States of America
Lessee of Record:	Howard W. Jennings
Serial No. of Lease:	NM-030752
Date of Lease:	February 1, 1957
Description of Land Committed:	N/2SW/4 Sec. 21, T18S, R29E Eddy County, New Mexico
Number of Net Acres:	80
Working Interest & Percentage:	J. H. Trigg - 50% T. J. Sivley - 37.5% W. T. Wynn - 12.5%
ORRI Owners & Percentage:	Howard W. Jennings & wife, Peggy P. Jennings - 5% production payment

TRACT NO. 3:

Lessor:	United States of America
Lessee of Record:	Atlantic Richfield Company
Serial No. of Lease:	NM-34461
Date of Lease:	November 1, 1978
Description of Land Committed:	S/2SW/4 Sec. 21, T18S, R29E Eddy County, New Mexico
Number of Net Acres:	80
Working Interest & Percentage:	Atlantic Richfield Co. - 100%
ORRI Owners & Percentage:	None

EXHIBIT "C"

RECAPITULATION

<u>Tract Number</u>	<u>Number of Acres Communitized</u>	<u>Int. in Communitized AREA</u>
1	160	.50
2	80	.25
3	80	.25

Dockets Nos. 21-82 and 22-82 are tentatively set for July 7 and 21, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - JUNE 22, 1982

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

The following cases were continued from the June 2, 1982, Commission hearing:

CASE 7522: (DE NOVO)

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.

Docket No. 20-82

DOCKET: EXAMINER HEARING - WEDNESDAY - JUNE 23, 1982

9 A.M., MORGAN HALL, STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO

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

CASE 7610: Application of Stevens Oil Company for salt water disposal, Chaves 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 2724 feet to 2745 feet in its O'Brien "J" Well No. 9 located in Unit A, Section 31, Township 8 South, Range 29 East, Twinlakes-San Andres Pool.

CASE 7611: Application of Texaco Inc. for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks special pool rules for the Skaggs-Drinkard Pool, including provision for a limiting gas-oil ratio of 10,000 cubic feet of gas per barrel of oil.

CASE 7612: Application of B & E, Inc. for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to install and operate a commercial facility for the disposal of salt water into the Southeast end of Laguna Tres in Section 12, Township 23 South, Range 29 East and/or into the Northeast side of Laguna Cuatro in Section 6, Township 23 South, Range 30 East.

CASE 7613: Application of Tenneco Oil Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Pennsylvanian test well to be located 660 feet from the South and West lines of Section 28, Township 16 South, Range 34 East, the W/2 of said Section 28 to be dedicated to the well.

CASE 7548: (Continued from June 9, 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.

CASES 7614 AND 7615: Application of Inexco Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in each of the following cases seeks an order pooling all mineral interests from the surface through the Strawn formation underlying the lands specified in each case, to form a standard 80-acre oil proration unit in the South Humble City-Strawn Pool to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7614: W/2 NE/4 Section 23, Township 17 South, Range 37 East

CASE 7615: E/2 NE/4 Section 23, Township 17 South, Range 37 East

CASES 7616 AND 7617: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in each of the following cases seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the lands specified in each case, to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7616: N/2 Section 21, Township 18 South, Range 29 East

CASE 7617: S/2 Section 21, Township 18 South, Range 29 East

CASE 7618: Application of Doyle Hartman for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a gas well to be drilled 1450 feet from the South line and 1980 feet from the East line of Section 20, Township 20 South, Range 37 East, Eunont Gas Pool, the SE/4 of said Section 20 to be dedicated to the well.

CASE 7605: (Continued from June 9, 1982, Examiner Hearing)

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 7458: (Continued from April 28, 1982, Examiner Hearing)

Application of Marks & Garner Production Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of salt water into the Bough C formation in the perforated interval from 9596 feet to 9616 feet in its Betenbough Well No. 2, located in Unit M of Section 12, Township 9 South, Range 35 East.

CASE 7598: (This case was heard on May 26, 1982. However, due to an error in originally advertising the case in the Torrance County newspaper, it has been readvertised in Torrance County only and will be reopened June 23, 1982, with respect to Torrance County only.)

Application of ANR Production Company and Yates Petroleum Corporation for designation of a tight formation in San Miguel, Torrance, Guadalupe, De Baca, Lincoln and Chaves Counties, New Mexico. Pursuant to Section 107 of the Natural Gas Policy Act of 1978 and 18 CFR Section 271.701-705, applicants, in the above-styled cause, seeks the designation as a tight formation of the Abo formation underlying the following described lands in the above-named counties.

All of:

Townships 1 thru 4 North, Ranges 14 thru 27 East;
Townships 5 thru 11 North, Ranges 14 thru 26 East;
Township 1 South, Ranges 14 thru 27 East;
Townships 2 thru 5 South, Ranges 14 thru 21 East;
Townships 6 thru 11 South, Ranges 15 thru 21 East;
Township 12 South, Ranges 17 thru 21 1/2 East; and
Townships 13 and 14 South, Ranges 17 thru 21 East;
containing 5,168,563 acres, more or less, but excluding the not yet defined Capitan Wilderness Area.

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
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May 24, 1982

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

Case 7617

Re: Application of Southland Royalty Company for Compulsory
Pooling, Eddy County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Southland Royalty Company in the above-referenced matter.

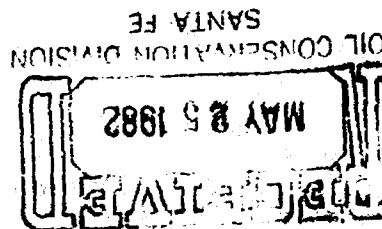
The applicant requests that this matter be included on the docket for the examiner hearing scheduled to be held on June 23, 1982.

Very truly yours,

William F. Carr

William F. Carr

WFC:jh
w/enc.
cc: Mr. Don Davis



501126 MAY 25 1982

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF SOUTHLAND ROYALTY COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

CASE 7612

APPLICATION

Comes now, Southland Royalty Company, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in all Pennsylvanian formations in and under the S/2 of Section 21, Township 18 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show the Division:

1. Applicant owns 26.875% of the working interest in and under the S/2 of Section 21, and application has the right to drill thereon.
2. Applicant proposes to dedicate the above-referenced pooled unit to its SRC Empire Federal 21 Com. Well drilled at an orthodox location 860 feet from the South line and 2,180 feet from the East line of said Section 21.
3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the S/2 of said Section 21 except the following:

John H. Trigg
Post Office Box 520
Roswell, New Mexico 88201

18.75% WI

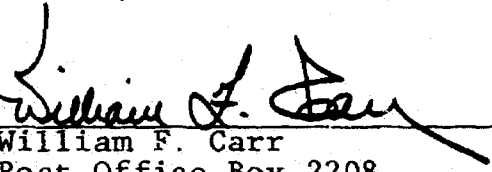
4. Said pooling of interests and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

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 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 application to recover its costs of drilling, equipping and completing the well, and its costs of supervision while drilling, and after completion, including overhead charges, and imposing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By 
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

CASE 5.

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:

[Handwritten signature]
MS.

[Handwritten signature]

CASE NO. 7617
Order No. R- 7019

APPLICATION OF SOUTHLAND ROYALTY
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

[Handwritten signature]

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 23, 1982,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of July, 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, Southland Royalty Company, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 21, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and ^{has} ~~proposes~~ ^{drilled} ~~to drill~~ a well at a standard location thereon.

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

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(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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 21, Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

(2) That Southland Royalty Company is hereby designated the operator of the subject well and unit.

3 (20) 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.

4 (41) 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.

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

6 (49) 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