

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 1 , 2005 ,
Year

OPERATOR Devon Energy Production Company, L.P.

CONTRACT AREA See Exhibit "A" attached hereto

COUNTY OR PARISH OF Lea STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED
FORM. A.A.P.L. NO. 610 - 1982 REVISED

**BEFORE THE
OIL CONSERVATION DIVISION**
Case 13501 Exhibit No. D
Submitted By:
Devon Energy Production Co.
Hearing Date: June 2, 2005

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OPERATING AGREEMENT

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THIS AGREEMENT, entered into by and between Devon Energy Production Company, L.P., 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.

See Article XV.A. for additional defined terms.

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 this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (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.
- G. Exhibit "G", Tax Partnership.

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

X H. Model Form Recording Supplement to Operating Agreement and Financing Statement.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties/ to the extent of one-eighth (1/8th) ^{and overriding royalties} which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a 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 settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and / is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest, and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations ^{and} ~~or~~ if ^{Operator so elects,} ~~the Drilling Parties so request,~~ title examination shall be made on the ^{entire} ~~leases and/or oil and gas interests included, or planned to be included, in the drilling unit / around each well.~~ ^{or maximum anticipated drilling unit, of the 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 the 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 ^{Drilling Party,} ~~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.~~

ARTICLE IV
continued

and field landmen

1 Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys / for title examination
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
5 functions.
6

7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
10 This shall not prevent any party from appearing on its own behalf at any such hearing.
11

12 No well shall be drilled on the Contract Area until after (4) the title to the drillsite or drilling unit has been examined as above
13 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 partici-~~
14 ~~ipate in the drilling of the well.~~
15

16 B. Loss of Title:

17
18 ~~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~~
19 ~~reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days~~
20 ~~from final determination of title failure to acquire a new lease or other instrument during the entirety of the title failure, which acquisi-~~
21 ~~tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil~~
22 ~~and gas leases and interests; and;~~

23 ~~(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~~
24 ~~entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,~~
25 ~~but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

26 ~~(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has~~
27 ~~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 oc-~~
28 ~~curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract~~
29 ~~Area by the amount of the interest lost;~~

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

34 ~~(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~~
35 ~~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~~
36 ~~who bore the costs which are so refunded;~~

37 ~~(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~~
38 ~~borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and;~~

39 ~~(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest~~
40 ~~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~~
41 ~~connection therewith.~~
42

43 ~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well~~
44 ~~payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,~~
45 ~~there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required~~
46 ~~payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,~~
47 ~~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~~
48 ~~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~~
49 ~~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~~
50 ~~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~~
51 ~~the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it~~
52 ~~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~~
53 ~~or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

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

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

60 ~~(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~~
61 ~~lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~
62

63 3. Other Losses: All losses / incurred, ~~other than those set forth in Articles IV.B.1. and IV.B.2. above,~~ through failure of title
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
65 the Contract Area.
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ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Devon Energy Production Company, L.P. 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. See Article XV.R.

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 hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of ~~two (2) or more~~ ^{the party or} Non-Operators owning a majority interest based on ownership / as shown on Exhibit "A" 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 / ^{affiliate,} ~~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. The successor Operator shall be selected by the affirmative vote of / ^{the party or} ~~two (2) or more~~ parties owning a majority interest based on ownership / as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of / ^{the party or} ~~two (2) or more~~ parties owning a majority interest based on ownership / as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed. See Article XV.B. Effect of Bankruptcy.

C. Employees and Contractors:

The number of employees / ^{or contractors} 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 / ^{or contractors} shall be the employees / ^{or contractors} 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.

in the formation producing as of the time of the resignation or removal of Operator (or, if more than one formation is producing, the deepest producing formation)

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of September, (over) 2005, Operator shall commence the drilling of a well for oil and gas at the following location:

1980 FSL and 990 FWL
Section 4 Township 23 South, Range 35 East, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 14,200 feet or a depth sufficient to test the Morrow/Atoka formation, whichever is the lesser depth,

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

Operator shall make reasonable tests of all / ^{zones} ~~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 / ^{zone or zones} ~~formation or formations~~, in which event Operator shall be required to test only the / ^{zone or zones} ~~formation or formations~~ to which this agreement may apply.

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2 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
3 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.
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7 **B. Subsequent Operations: See Article XV for additional provisions affecting Subsequent Operations.**
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9 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided
10 for in Article VI.A., or to rework, ~~deepen~~ ^{recomplete, sidetrack} or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all
11 the parties and not then producing in paying quantities, the party desiring to drill, rework, ~~deepen~~ ^{recomplete, sidetrack} or plug back such a well shall give the
12 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective ~~formation~~ ^{zone}
13 ~~and the estimated cost of the operation.~~ The parties receiving such a notice shall have thirty (30) days after receipt of the notice
14 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
15 ing rig is on location, notice of a proposal to rework, ~~deepen~~ ^{recomplete, sidetrack} or plug back / or drill deeper may be given by telephone and the response period shall be
16 limited to forty-eight (48) hours, ~~exclusive~~ ^{inclusive} of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within
17 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
18 response given by telephone shall be promptly confirmed in writing. See Article XV.C.
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22 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
23 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
24 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
25 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
26 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
27 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
28 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
29 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
30 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
31 dance with the provisions hereof as if no prior proposal had been made.
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35 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
36 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
37 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
38 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
39 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
40 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
41 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
42 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
43 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and condi-
44 tions of this agreement. See Article XV.D.
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48 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
49 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
50 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
51 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
52 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
53 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
54 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays) ~~and failure to so advise the proposing party shall constitute an election under (a).~~ The proposing party,
55 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.
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59 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
60 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
61 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
62 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
63 sole cost, risk and expense ~~and failure to so advise the proposing party shall constitute an election under (a).~~ If any well drilled, reworked, ~~deepened~~ ^{completed, sidetracked,} or plugged back under the provisions of this Article results in a pro-
64 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,
65 ~~provided, however, that those Non-Consenting Parties that participated in the drilling, deepening or sidetracking of the well shall~~
66 ~~remain liable for and shall pay their proportionate shares of the cost of plugging and abandoning the well and restoring the surface~~
67 ~~location, insofar as those costs were not increased by the subsequent operations of the Consenting Parties.~~
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ARTICLE VI
continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties
2 in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties,
3 and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting
4 Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or
5 market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other in-
6 terests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest
7 until it reverts) shall equal the total of the following:
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11

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

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21 (b) 400 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing,
22 after deducting any cash contributions received under Article VIII.C., and 400 % of that portion of the cost of newly acquired equip-
23 ment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had
24 participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any re-
29 working or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is
30 conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such
31 reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well
32 and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of
33 the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If
34 such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be ap-
35 plicable as between said Consenting Parties in said well.

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39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the
40 proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other
41 taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Ar-
42 ticle III.D.

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45

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

50

51

52

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

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ARTICLE VI
continued

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

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10 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall
11 ~~be proposed,~~ ^{be completed} in or produced from a / ~~source of supply~~ ^{zone} from which a well located elsewhere on the Contract Area is producing, unless such
12 well conforms to the then-existing well spacing pattern for such ~~source of supply~~ zone or has been approved for drilling, completion in
13 and production from such zone by order of the regulatory agency with responsibility for such matters.

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16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.
17 except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-
19 duction, ceases to produce in paying quantities.

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23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening
26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-
28 matical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-
31 ties.

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35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole
37 location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

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44 (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in
45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

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49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's
50 salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

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55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
56 shall be limited to forty-eight (48) hours, ^{inclusive} of Saturday, Sunday and legal holidays; provided, however, any party may request and
57 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

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64

65 C. TAKING PRODUCTION IN KIND:

66 ^{have the right to}
67 Each party shall / take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,
68 exclusive of / ^(a) production which may be used in development and producing operations and in preparing ~~and treating~~ oil and gas for
69 marketing purposes and / ^(b) production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any
70 party of its proportionate share of the production shall be borne by such party. ~~Any party taking its share of production in kind shall be~~

ARTICLE VI
continued

1 ~~required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.~~

2
3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from
4 the Contract Area, and, ~~except as provided in Article VII.B., and~~ ^{Article VI.B. and} shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all production.

6
7 * ~~In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of~~
8 ~~the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not~~
9 ~~the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the~~
10 ~~best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the~~
11 ~~owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously~~
12 ~~delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of~~
13 ~~time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess~~
14 ~~of one (1) year.~~

15
16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with ^{the} any gas balancing
19 agreement between the parties hereto, ~~whether such an agreement is attached as Exhibit "E" / or is a separate agreement.~~ ^{hereto.}

20
21 D. Access to Contract Area and Information:

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

30
31 E. Abandonment of Wells:

32
33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
34 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
38 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling ^{and tracking} / or deepening
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
40 operations in search of oil and/or gas subject to the provisions of Article VI.B.

41
42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties ^{who participated in the cost of drilling the well}. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the ~~interval(s) of the formation(s)~~ ^{zone(s)} then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning ^(See Article XV.E.). Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 material, all of its interest in the ^{wellbore of the} / well and related equipment, together with its interest in the leasehold estate ~~/ as to, but only as to, the in-~~
52 ~~terval or intervals of the formation or formations then open to production.~~ [#] If the interest of the abandoning party is or includes an oil and
53 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the ^{wellbore and} / interval or in-
54 ~~tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-~~
55 ~~duced from the / interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit~~

56
57
58 *In the event any Party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share
59 of the oil and gas produced from the Contract Area, Operator shall have the right, but not the obligation, to purchase such oil and gas
60 or sell it to others at any time and from time to time, for the account of the non-taking party and Operator will use its best efforts to
61 market Non-Operators share of oil and gas on the same terms that Operator markets its own share of such production. Any such
62 purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to
63 take in kind or separately dispose of its share of all oil and gas not previously delivered to a purchaser by the giving of written notice
64 thereof to Operator at least thirty (30) days prior to its requested taking (the "Taking Date"); such notice shall be deemed effective on
65 the first day of the next month following the Taking Date. Any purchase or sale by Operator of any other party's share of oil and gas
66 shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular
67 circumstances, but in no event for a period in excess of one (1) year.

68 # insofar and only insofar as such leasehold estate covers the right to obtain production from that wellbore in the zone then open to
69 production.

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ARTICLE VI
continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

2
3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all production.

6
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it,
9 but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-
10 taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to
11 the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas
12 not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such
13 reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event
14 for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate com-
15 merce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

16
17 **D. Access to Contract Area and Information:**

18
19 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
20 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
21 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
22 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of
23 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
24 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
25 quests the Information.

26
27 **E. Abandonment of Wells:**

28
29 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
30 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
31 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
32 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
33 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
34 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
35 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
36 operations in search of oil and/or gas subject to the provisions of Article VI.B.

37
38 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
39 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
40 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
41 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
42 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
43 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
44 parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of
45 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
46 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
47 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
48 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
49 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-
50 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-
51 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

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ARTICLE VI
continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of
4 interests in the remaining portion of the Contract Area.

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the ~~zone or zones~~ ^{zone or zones} / ~~intervals or intervals~~ then open other than the royalties retained in any lease made under the terms of this Article. ~~Upon re-~~
8 ~~quest,~~ ^{At its option,} Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing ~~intervals~~ ^{zone(s)} assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

23 **A. Liability of Parties:**

24
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 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
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

29
30 **B. Liens and Payment Defaults:**

31
32 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
33 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
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 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 obtain-
36 ing of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 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
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense. See Article XV.N.

42
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 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
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

47 See Article XV.O.

48 **C. Payments and Accounting:**

49
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
53 showing expenses incurred and charges and credits made and received.

54
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in ~~operations hereunder during the next succeeding~~ ^{all operations other than routine monthly}
57 ~~month,~~ which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. ~~Each such statement and invoice for the payment in advance of estimated expense shall be submitted~~
59 ~~on or before the 20th day of the next preceding month.~~ Each party shall pay to Operator its proportionate share of such estimate within
60 ~~fifteen (15) / thirty (30)~~ days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63 Also see Articles XV.L., XV.M., XV.R.1, and XV.T.

64 **D. Limitation of Expenditures:**

65
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

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ARTICLE VII
continued

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

3
4 **Option No. 2:** All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof ^{made available} furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have ^{twenty-four}
7 ~~(48)~~ ⁽²⁴⁾ hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 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,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties. Operator's notice shall be written and delivered via telefax where feasible, and Non-Operator's election shall be
14 made by telephone or telefax. An election made by Non-Operator by telephone shall be confirmed in writing within forty-eight (48)
15 hours.

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

20 **3. Other Operations:** Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of twenty-five thousand Dollars (\$ 25,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of fifteen thousand
28 Dollars (\$ 15,000.00) but less than the amount first set forth above in this paragraph.
29

30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 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 con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 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
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2. 3.
39

40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 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
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.
45

46 **F. Taxes:**

47
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".
59

60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".
66

67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
68 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.
69
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ARTICLE VII
continued

1 **G. Insurance:**

2
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 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
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9
10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12
13 **ARTICLE VIII.**
14 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

15
16 **A. Surrender of Leases:**

17
18 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
19 or in part unless all parties consent thereto; however, no consent shall be necessary to release a lease which has expired or otherwise
20 terminated.

21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced / from the land covered thereby, such
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

35
36 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering
37 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage
38 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this
39 agreement.

40
41 **B. Renewal or Extension of Leases:**

42
43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
44 shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
47 interests held at that time by the parties in the Contract Area.

48
49 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

53
54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
55 by the acquiring party, without warranty of title, except as to acts by, through or under the acquiring party.

56
57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to
61 the provisions of this agreement.

62
63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64
65 **C. Acreage or Cash Contributions:**

66
67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
69 applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the con-
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8
9 **D. Maintenance of Uniform Interests:**

10
11 ~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no~~
12 ~~party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,~~
13 ~~equipment and production unless such disposition covers either:~~

14
15 ~~1. the entire interest of the party in all leases and equipment and production; or~~

16
17 ~~2. an equal undivided interest in all leases and equipment and production in the Contract Area.~~

18
19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
20 and shall be made without prejudice to the right of the other parties.

21
22 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
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
24 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
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof. See Articles XV.K. and XV.L.

28
29 **E. Waiver of Rights to Partition:**

30
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
32 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
33 interest therein.

34
35 **F. Preferential Right to Purchase:**

36
37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~
39 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~
40 ~~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~~
41 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~
42 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~
43 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~
44 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~
45 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46
47 **ARTICLE IX.**
48 **INTERNAL REVENUE CODE ELECTION**
49

50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986^{as amended ("Code")}, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.

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ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Twenty-Five Thousand Dollars (\$ 25,000.00) 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 expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. 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, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or suit against all parties hereto.

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 suspending 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 mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties 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 mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof 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 subject 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.

~~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 ninety (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, reworking, deepening, plugging back, testing or attempting to complete 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, deepening, plugging back or reworking operations are commenced within ninety (90) days from the date of abandonment of said well.~~

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

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A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area 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:

This agreement and all matters pertaining hereto, 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 of New Mexico shall govern. See Article XV.I.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application. See Article XV.J.

~~Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.~~

ARTICLE XV.
OTHER PROVISIONS

See attached for additional provisions.

ARTICLE XV.
OTHER PROVISIONS

to that certain Joint Operating Agreement dated March 1, 2005,
by and between DEVON ENERGY PRODUCTION COMPANY, L.P.
and YATES PETROLEUM CORP. et al.

A. Additional Definitions:

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

1. The term "completion" or "complete" shall mean a single operation intended to complete a well as a producer of oil and gas in one or more zones, including, but not limited to, the setting of production casing, perforating, well simulation and production testing conducted in such operation.
2. The term "deepen" shall mean a single operation whereby a well is drilled to an objective zone below the deepest zone in which the well was previously drilled, or below the deepest zone proposed in the associated cost estimate, whichever is the lesser depth.
3. The term "plug back" shall mean a single operation whereby a deeper zone is abandoned in order to attempt a completion in a shallower zone.
4. The term "recompletion" or "recomplete" shall mean an operation whereby a completion in one zone is abandoned in order to attempt a completion in a different zone within the existing wellbore.
5. The term "rework" shall mean an operation conducted in the wellbore of a well after it is completed to secure, restore, or improve production in a zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations but exclude routine repair or maintenance work or drilling, sidetracking, deepening, completing, recompleting, or plugging back of a well.
6. The term "sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or to drill around junk in the hole to overcome other mechanical difficulties.
7. The term "zone" shall mean a stratum of earth containing or thought to contain a common accumulation of oil and gas separately producible from any other common accumulation of oil and gas.

B. Effect of Bankruptcy:

If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this Operating Agreement pursuant to the Bankruptcy Code, and an election to reject this Operating Agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A". In the event there are only two (2) parties to this Agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A".

If, following the granting or relief under the Bankruptcy Code to any party hereto as debtor thereunder, this Agreement should be held to be an executory contract within the meaning of 11 U.S.C. § 365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to a determination by debtor or any trustee for the debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said other party shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

C. Priority of Operations:

Where a well has been authorized under the terms of this Agreement by all parties (or by one or more, but less than all parties under Article VI.B.2) and the parties participating in the well cannot agree upon the sequence and timing of further operations regarding such well, the following elections shall control in the order enumerated below:

1. Prior to reaching the objective depth or zone:
 - a. Drilling a well to its objective depth or objective zone shall have first priority over all other operations and proposals.
 - b. In the event that impenetrable conditions or mechanical difficulties prevent reaching the objective depth or zone, a proposal to sidetrack in an effort to reach the objective depth or zone shall have priority over a proposal to attempt a completion in a zone already reached.
2. After the objective depth or zone has been reached:
 - a. An election to do additional logging, coring or testing;
 - b. An election to attempt to complete the well at either the objective depth or objective zone;
 - c. An election to deepen said well;
 - d. An election to plug back and attempt to complete said well;
 - e. An election to sidetrack the well;
 - f. An election to rework said well by generally accepted stimulation techniques whether or not said well had previously produced in commercial quantities or is capable of commercial production, subject to the provisions of Article XV.I (Reworking of Producing Completion) hereof;
 - g. An election to temporarily abandon the well;
 - h. An election to plug and abandon the well.

It is provided, however, that if at any time said participating parties are considering the above elections, the hole is in such a condition that, in the opinion of the party(ies) owning a majority in cost-bearing, possessory interest as set forth on Exhibit "A" hereto, a reasonably prudent operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing the same prior to completing the well in the objective depth or objective zone, such election shall not be given the priority hereinabove set forth. In such event, the operation which, in the opinion of the party(ies) owning a majority in cost-bearing, possessory interest as set forth on Exhibit "A" hereto, is less likely to jeopardize the well, will be conducted. It is further understood that if some, but not all parties,

1 elect to participate in the additional logging, coring, or testing, they may do so, and the party or parties not participating in such operations
2 shall not be entitled to the logs, cores or the results of the tests but shall suffer no other penalty.

3 **D. Operations by Less Than All Parties:**
4 Notwithstanding anything herein to the contrary, Article VI.B.2 shall apply separately to each separate completion or recompletion
5 attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one completion or recompletion attempt shall not
6 prevent a party from becoming a Consenting Party in subsequent completion or recompletion attempts, regardless of whether the Consenting
7 Parties as to earlier completions or recompletions have recouped their costs pursuant to Article VI.B.2; provided, further, that any
8 recoupment of costs by a Consenting Party shall be made solely from the production attributable to the zone in which the completion attempt
9 is made. Election by a previous Non-Consenting Party to participate in a subsequent completion or recompletion attempt shall require such
10 party to pay its proportionate share of the cost of salvable materials and equipment installed in the well pursuant to the previous completion
11 or recompletion attempt, insofar and only insofar as such materials and equipment benefit the zone in which such party participated in a
12 completion attempt.

13 **E. Proposal to Plug and Abandon:**
14 Notwithstanding anything herein to the contrary, if no written response to a proposal to plug and abandon the well is received within
15 thirty (30) days of the date of the receipt of the proposal, it will be conclusively deemed for all purposes that an affirmative election to plug
16 and abandon the well has been made.

17 **F. Access to Contract Area and Information:**
18 Notwithstanding anything herein to the contrary, it is agreed and understood that any Non-Consenting Party under Article VI.B or
19 Article VII.D.1 (Option 2) who is not an Operator shall be denied access to the well site until thirty (30) days following the date of the release
20 of the rig used to conduct the operation, and further, such Non-Consenting Party shall be denied any information relating to said operation
21 until the Consenting Parties have recouped the non-consent penalty provided for in Article VI.B.2.

22 **G. Public Announcement:**
23 No public announcement or statement regarding operations hereunder shall be made or released without the approval of the parties
24 unless required by law or regulation or such announcement or statement is the requirement of an applicable Stock Exchange. Any party
25 making a public announcement as required by law, regulation, order, or applicable Stock Exchange shall immediately furnish the other party
26 with a full transcript of such public announcement or statement. Except as otherwise provided in this paragraph, a public announcement or
27 statement regarding a well drilled under the terms of this Operating Agreement shall contain at a minimum the following information:
28 1. Name of well;
29 2. Location of well by section, township, range, county and state;
30 3. Tested zone(s), if appropriate;
31 4. Test results, if appropriate;
32 5. Development/confirmation plans, if appropriate;
33 6. Participants and percentages;
34 7. Acreage controlled, if appropriate.

35 Either party may elect to exclude its name from a proposed public announcement or statement and thus remove itself from the approval
36 process. The Operator, if it elects to be named in the announcement, of an affected well or operation will coordinate the approvals of any
37 proposed public announcement or statement. The Operator of an affected well or operation may make such public announcements as it
38 deems appropriate in the event of an emergency or imminent harm to people, property or environmental without prior consultation with the
39 Non-Operator.

40 **H. Other Operations: Article XV.H. is deleted from this Agreement.**
41

42 **I. Laws and Regulations:**
43 All of the provisions of this Agreement are expressly subject to all applicable laws, orders, rules and regulations of any governmental
44 body or agency having jurisdiction in the premises, and all operations contemplated hereby shall be conducted in conformity therewith. Any
45 provision of this Agreement which is inconsistent with any such laws, orders, rules or regulations is hereby modified so as to conform
46 therewith, and this Agreement, as so modified, shall continue in full force and effect.

47 **J. Regulatory Filings:**
48 Operator will file, and upon written request promptly furnish copies to each requesting Non-Operator, all operational notices,
49 filings, reports and applications required to be filed by local, State, Federal or Indian agencies or authorities having jurisdiction over
50 operations hereunder. Each Non-Operator shall provide to Operator on a timely basis all information necessary for Operator to make such
51 filings. Operator shall use its best judgment in making any of the filings, and preparing any of the notices, reports and applications referred
52 to above. However, in no event shall Operator have any liability to any Non-Operator in making and prosecuting any such filing or in
53 rendering any notice, report or application, absent bad faith, gross negligence or willful misconduct. Any penalties incurred as a result of any
54 incorrect filing, notice, report or application shall, in absence of bad faith, gross negligence or willful misconduct, be charged to the parties
55 owning the production to which the penalty pertains.

56 **K. All Transfers Subject to this Agreement:**
57 Each party hereto covenants and agrees for itself, its successors and assigns, that any sale, assignment, sublease, mortgage, pledge or
58 other instrument affecting the leases and lands subject to this instrument (whether of an operating or non-operating interest or a mortgage,
59 pledge or other security interest) will be made and accepted subject to this instrument and the party acquiring the interest or security shall
60 expressly agree to be bound by all its terms and provisions. Any party hereto who executes any instrument in favor of any party without
61 complying with the provisions of this paragraph shall indemnify, defend and hold the other parties hereto harmless from and against any and
62 all claims or causes of action by any person whomsoever and for any expenses and losses sustained as a result of the failure of such party to
63 comply with these provisions.

64 **L. Operator's Billing Requirements:**
65 Notwithstanding anything to the contrary contained herein, or in the accounting procedure attached hereto as Exhibit "C", the parties to
66 this agreement specifically agree that in no event during the term of this contract shall Operator be required to make more than one billing for
67 the entire interest credited to each party on Exhibit "A". It is further agreed that if any party to this agreement (hereinafter referred to as
68 "Selling Party") disposes of part of the interest credited to it on Exhibit "A", the Selling Party will be solely responsible for billing its
69 assignee(s), and shall remain primarily liable to the other parties hereto for the interest or interests assigned and shall make prompt payment
70 to Operator for the entire amount of statements and billings rendered to it or accountable to it by virtue of such interests as shown on Exhibit

1 "A". It is further understood and agreed that if Selling Party disposes of all its interest as set out on Exhibit "A", whether to one or to several
2 assignees, Operator shall continue to issue statements and billings to the Selling Party for the entire interest conveyed until such time as
3 Selling Party has designated and qualified one assignee to receive the billings for the entire interest and such designated assignee has been
4 approved and accepted by Operator.

5 In order to qualify one assignee to receive the billing for the entire interest credited to Selling Party on Exhibit "A", Selling Party shall
6 furnish to Operator such information as may be requested, including, but not limited to, the following:

7 1. Written notice to Operator of the conveyance followed by photostatic or certified copies of the recorded assignments as soon as
8 available.

9 2. The name of the assignee to be billed along with such assignee's written consent to receive statements and billings for the entire
10 interest credited to Selling Party on Exhibit "A", hereto, and further, agreeing to handle any necessary sub-billings attributable to such
11 interest in the event such designated assignee does not own the entire interest credited to Selling Party on Exhibit "A".

12 The parties agree that the sale of any interest in the leases covered by this Agreement shall be made specifically subject to the
13 provisions of this section.

14 **M. Billings to Direct Account:**

15 All expenses, including salaries, wages and expenses of personnel, legal or consultant fees, and administrative filing fees and court
16 costs, shall be a direct charge, borne by the Joint Account as provided in Exhibit "C" and shall not be included in administrative overhead
17 Part III on Exhibit "C" if incurred for obtaining spacing, pooling or other orders or rulings from state regulatory bodies or courts deemed by
18 the Operator, in its sole judgment, as necessary.

19 **N. Lien:**

20 The lien and security interest granted by each Non-Operator to Operator and by Operator to the Non-Operator under Article VII.B.
21 shall extend not only to such party's oil and gas rights in the Contract Area (which for greater certainty shall include all of each party's
22 leasehold interest and leasehold estate in the Contract Area), the oil and/or gas when extracted and equipment (as mentioned in said Article)
23 but also to all accounts, contract rights, inventory and general intangibles constituting a part of, relating or arising out of said oil and gas
24 rights, extracted oil and gas and said equipment or which are otherwise owned or held by any such party in the Contract Area. Further, the
25 lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this
26 paragraph and in Article VII.B. as being subject to said lien and security interest. Any party, to the extent it deems necessary to perfect the
27 lien and security interest provided herein, may file this Operating Agreement as a lien or mortgage in the applicable real estate records and as
28 a financing statement with the proper officer under the Uniform Commercial Code. Further, and not in limitation of the foregoing, each party
29 hereby grants to Operator full right, power and authority to execute in each such party's name and on its behalf any financing statement which
30 Operator deems necessary in order to perfect the security interest hereby granted under the applicable Uniform Commercial Code.

31 **O. Memorandum:**

32 At the request of any party, all the parties hereto shall execute the Model Form Recording Supplement to Operating Agreement and
33 Financing Statement attached hereto as Exhibit "H" referring to this Agreement, the Contract Area of this Agreement, and the rights and
34 obligations of the parties under this Agreement.

35 **P. Legal Costs:**

36 In the event Operator shall ever be required to bring legal proceedings in order to collect any sums due from any Non-Operators under
37 this Agreement, then Operator shall also be entitled to recover all court costs, costs of collection and a reasonable attorney's fee, which the
38 lien provided for herein shall also secure.

39 **Q. Controlling Language:**

40 In the event of a conflict between the provisions of this Article XV. and any other provision of this Operating Agreement, the
41 provisions of this Article XV. shall control and prevail. Should the provisions of this Operating Agreement conflict with the provisions of
42 that certain Exploration and Development Agreement dated September 1, 2004 between Devon Energy Production Company, L.P. and
43 Chesapeake Exploration Limited Partnership, the terms of the Exploration and Development Agreement shall control and prevail.

44 **R. Operator Indemnity:**

45 1. Notwithstanding any provision contained herein to the contrary, Operator shall not be obliged to perform nor shall be liable for its
46 failure to perform or to continue any work or incur any expenditure or indebtedness hereunder for the Joint Account until all funds requested
47 of Non-Operators pursuant to cash calls given in accordance with the applicable provisions hereof have been received by Operator.

48 2. Any provision of this Agreement to the contrary notwithstanding, and without limiting any other provision of this Agreement
49 (including, again without limitation Article V.A.), Operator shall not be liable to the other parties for any failure of Operator, except such
50 failures as may result from willful misconduct, to comply with the requirements of any Federal, state or local ordinance, statute, law, rule,
51 regulation or procedure, pertaining to the establishment of prices for oil, gas or other minerals, or to the classification of wells for such
52 purpose, or pertaining to any other matter related to the regulation of entitlements, supply, demand, allocation, delivery, contracting for or
53 pricing of oil, gas or other minerals, it being understood and agreed by all parties that compliance with current laws and regulations is subject
54 to confusion and to numerous risks, uncertainties, conflicting opinions and burdensome filing requirements. Any liability for refund of sums
55 obtained because the parties have been paid amounts in excess of lawful prices shall be borne severally by the parties to the same extent that
56 such excess funds were paid to the parties.

57 **S. AFE:**

58 An AFE is an estimate only of costs; in no way shall the execution of an AFE limit the liability of the party.

59 **T. Defaults and Remedies:**

60 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to make any
61 advance under Article VII.C. or any other provision of this agreement, within the period required for such payment hereunder, then in
62 addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the remedies specified below shall be applicable. For
63 purposes of this paragraph, all notices and elections shall be delivered only by Operator, except that Operator shall deliver any such notice
64 and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable notices and elections can
65 be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the subsequent use of any other
66 remedy specified below or otherwise available to a non-defaulting party.

67 1. **Suspension of Rights:** Any party may deliver to the party in default a Notice of Default, which shall specify the default, specify the
68 action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the remedies
69 provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of Default, all of the rights of the
70 defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of the non-

1 defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing under this
 2 agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of Non-Operators owning a
 3 majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective immediately.
 4 The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without
 5 limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to elect to
 6 participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being conducted under this
 7 agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of production from any
 8 well subject to this agreement.

9 **2. Suit for Damages:** Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint account expense) to
 10 collect the amounts in default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate
 11 specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from suing any defaulting party to collect consequential
 12 damages accruing to such party as a result of the default.

13 **3. Deemed Non-Consent:** The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting party at any
 14 time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the billing is for the
 15 drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged as a dry hole,
 16 or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to participate in the
 17 operation and to be a Non-Consenting Party with respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs
 18 unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then
 19 the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article XV.T.2 above.

20 Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure its default by
 21 paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such payment shall not prejudice the
 22 rights of the non-defaulting parties to pursue remedies for damages incurred by the non-defaulting parties as a result of the default. Any
 23 interest relinquished pursuant to this Article XV.T.3. shall be offered to the non-defaulting parties in proportion to their interests, and the
 24 non-defaulting parties electing to participate in the ownership of such interest shall be required to contribute their shares of the defaulted
 25 amount upon their election to participate therein.

26 **4. Advance Payment:** If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-Operators if
 27 Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's anticipated share
 28 of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement under any provision of
 29 this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not limited to, the right to
 30 require advance payment for the estimated costs of drilling a well or Completion of a well as to which an election to participate in drilling or
 31 Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of
 32 the remedies provided in the Article XV.T. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced
 33 remaining when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.
 34

35 **5. Costs and Attorneys' Fees:** In the event any party is required to bring legal proceedings to enforce any financial obligation of a party
 36 hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of collection, and a reasonable attorney's fee,
 37 which the lien provided for herein shall also secure.

38 **U. Mandatory Operations:**

39 Notwithstanding the other provisions hereof, and particularly Article VI, if any well proposed hereunder is an obligation well, a party
 40 not participating in drilling the well shall assign to the participating parties its interest in the leases or portion thereof which would be lost or
 41 not earned if the well was not drilled. Such assignment shall be due upon the commencement of operations for such well and shall be free
 42 and clear of all mortgages (unless such mortgages are subordinated to this Agreement), claims, liens, overriding royalty interests, production
 43 payments, net profits interests, and other encumbrances or leasehold burdens placed thereon by or resulting from the Assignor's ownership
 44 and operations subsequent to the date of this Operating Agreement, but otherwise without warranty of title, either express or implied. An
 45 "obligation well" is defined as a well which must be drilled to earn or maintain a lease or portion thereof which cannot otherwise be
 46 maintained. A well proposed within the last one hundred eighty (180) days of the primary term of a lease (whether as a unit well or lease
 47 well) shall constitute an "obligation well".

48 In the event a party should propose to rework or recomplete a well which has ceased to produce and such operation is necessary to
 49 perpetuate a lease or leases which would otherwise expire, a party choosing to go non-consent on such operation shall assign to the
 50 Consenting Parties its interest in the lease or leases or portion thereof which would expire if the proposed operation was not conducted. Such
 51 assignment shall be made in the manner provided for hereinabove for the drilling of an obligation well.

52 **V. AREAS OF OPERATION: Article XV.V. is deleted from this Agreement.**

53 **W. NON-CONSENT ELECTION:**

54 Should any party hereto be deemed a Non-Consenting Party in the initial well in a proration unit, and such well is timely commenced
 55 and completed as a commercial well, such Non-Consenting Party shall forfeit all of its right, title and interest in and to the proration unit for
 56 such well.

57 **X. WELL PROPOSAL LIMITATION:**

58 No party to this Operating Agreement shall propose the drilling of more than one well at a time nor shall any party to this Operating
 59 Agreement propose the drilling of a well during the time that another well is being drilled except:

- 60 1. By mutual consent of all parties hereto; or
- 61 2. In the event a well (or wells) is required to maintain any interest subject to this Operating Agreement, or to maintain any
 62 contractual rights jointly entered into by the parties which are subject to this Operating Agreement; or
- 63 3. In the event a party outside of this Operating Agreement is drilling or producing a well in a contiguous section which may be
 64 draining lands in the Contract Area.

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ARTICLE XVI
MISCELLANEOUS

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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 1st day of March, (year) 2005.

~~_____ who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the A.A.P.L. Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those in Articles _____, have been made to the form.~~

OPERATOR

Devon Energy Production Company, L.P.

NON-OPERATORS

Exhibit "A"

**Attached to and made a part of that certain Operating Agreement
dated March 1, 2005 by and between DEVON ENERGY PRODUCTION COMPANY, L.P.
and YATES PETROLEUM CORP., et al.**

1. Identification of lands subject to this agreement:

Township 22 South, Range 35 East, Lea County, New Mexico

Section 33: S/2

Township 22 South, Range 35 East, Lea County, New Mexico

Section 4: All

Section 9: All

Section 16: All

Section 21: All

2. Restrictions, if any, as to depths, formation, or substances:

None

3. Percentages or fractional interests of parties to this agreement and their addresses for notice purposes:

| <u>PARTNER</u> | <u>INTEREST</u> |
|--|-----------------|
| Devon Energy Production Company, L.P. 20 North Broadway Oklahoma City, Oklahoma 73102-8260 | 73.589520% |
| Yates Petroleum Corporation 105 S. 4 th Street Artesia, NM 88210 | 9.717900% |
| Magnum Hunter Production, Inc. P.O. Box 140907 Irving, TX 75014 | 9.717900% |
| Robert Landreth 505 N. Big Spring, Suite 507 Midland, TX 79701 | 4.198130% |
| Amerada Hess Corp P.O. Box 2040 Houston, TX 77252 | 1.388273% |
| Oxy USA WTP, L.P. 6 Desta Drive Midland, TX 79705 | .174645% |
| Kerr-McGee Onshore Oil and Gas, LLC P.O. Box 809004 Dallas, TX 75380 | .349012% |
| Sid R. Bass, Inc. 201 Main, Suite 3100 Fort Worth, TX 76102 | .216155% |
| Thru Line, Inc. 201 Main, Suite 3100 Fort Worth, TX 76102 | .216155% |
| Robert M. Bass Group, Inc. 201 Main, Suite 3100 Fort Worth, TX 76102 | .216155% |
| Lee M. Bass, Inc. 201 Main, Suite 3100 Fort Worth, TX 76102 | .216155% |

4. Oil and gas leases and/or oil and gas interests subject to this agreement:

| | | |
|----|-------------------|---|
| 1. | Lessor: | State of New Mexico |
| | Lessee: | Devon Energy Production Company, L.P. |
| | Serial Number: | ST NM V0-6334 |
| | Lease Date: | August 1, 2001 |
| | Land Description: | Township 23 South, Range 35 East Section 21: N/2 Lea County, New Mexico |
| 2. | Lessor: | State of New Mexico |
| | Lessee: | Devon Energy Production Company, L.P. |
| | Serial Number: | ST NM V0-6317 |

| | | |
|----|-------------------|---|
| | Lease Date: | August 1, 2001 |
| | Land Description: | Township 23 South, Range 35 East Section 21: S/2 Lea County, New Mexico |
| 4. | Lessor: | State of New Mexico |
| | Lessee: | Devon Energy Production Company, L.P. |
| | Serial Number: | ST NM V0-6366 |
| | Lease Date: | September 1, 2001 |
| | Land Description: | Township 23 South, Range 35 East Section 4: Lot 1, S/2N/2, S/2 Lea County, New Mexico |
| 5. | Lessor: | State of New Mexico |
| | Lessee: | Devon Energy Production Company, L.P. |
| | Serial Number: | ST NM V0-6368 |
| | Lease Date: | September 1, 2001 |
| | Land Description: | Township 23 South, Range 35 East Section 9: W/2 Lea County, New Mexico |
| 6. | Lessor: | State of New Mexico |
| | Lessee: | Devon Energy Production Company, L.P. |
| | Serial Number: | ST NM V0-6399 |
| | Lease Date: | October 1, 2001 |
| | Land Description: | Township 22 South, Range 35 East Section 33: S/2 Lea County, New Mexico |
| 7. | Lessor: | State of New Mexico |
| | Lessee: | Yates Petroleum Corp./Matador Exploration |
| | Serial Number: | ST NM V0-6369 |
| | Lease Date: | September 1, 2001 |
| | Land Description: | Township 23 South, Range 35 East Section 21: N/2 Lea County, New Mexico |
| 8. | Lessor: | United States of America |
| | Lessee: | Daniel Gonzales |
| | Serial Number: | NMNM - 108047 |
| | Lease Date: | March 1, 2002 |
| | Land Description: | Township 23 South, Range 35 East Section 4: Lots 2, 3, & 4 Lea County, New Mexico |
| 9. | Lessor: | State of New Mexico |
| | Lessee: | Amerada Hess Corp |
| | Serial Number: | ST NM B0-1040-001 |
| | Lease Date: | August 1, 1932 |
| | Land Description: | Township 23 South, Range 35 East Section 16: E/2SE/4 Lea County, New Mexico |

END OF EXHIBIT

EXHIBIT "B"

Attached to that certain Operating Agreement dated March 1, 2005
by and between Devon Energy Production Company, L.P., as Operator,
and Yates Petroleum Corp., et al, as Non-Operator.

There is no Exhibit "B" to this Operating Agreement.

COPAS

EXHIBIT " C "

1 Attached to and made a part of that certain Operating Agreement dated March 1, 2005 by and between Devon
2 Energy Production Company, L.P. and Yates Petroleum Corp., et al
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7 **ACCOUNTING PROCEDURE**
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9 **JOINT OPERATIONS**
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11 I. GENERAL PROVISIONS

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14 1. Definitions

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

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

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

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

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

24 "Parties" shall mean Operator and NonOperators.

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

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

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

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

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

35
36 2. Statement and Billings

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

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44 3. Advances and Payments by NonOperators

45
46 A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their
47 share of estimated cash outlay for the succeeding month's operation within ~~fifteen (15)~~ ^{thirty (30)} days after receipt of the
48 billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust
49 each monthly billing to reflect advances received from the NonOperators.

50
51 B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made
52 within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of America, Dallas, Texas
53 on the first day of the month in which delinquency occurs plus 1% or the
54 maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located,
55 whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid
56 amounts.

57
58 4. Adjustments

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

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68 **COPYRIGHT © 1985 by the Council of Petroleum Accountants Societies.**
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1 5. Audits

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3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four
5 (24) month period following the end of such calendar year, provided, however, the making of an audit shall not
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made
12 at the expense of those NonOperators approving such audit.

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14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

15

16 6. Approval By NonOperators

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

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24 II. DIRECT CHARGES

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Operator shall charge the Joint Account with the following items:

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28 1. Ecological and Environmental

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34 2. Rentals and Royalties

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63 4. Employee Benefits

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Operator's current costs or 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 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent
most recently recommended by the Council of Petroleum Accountants Societies.

1 5. Material

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

7

8 6. Transportation

9

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

11

12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15

16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the
20 Parties.

21

22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the
24 amount most recently recommended by the Council of Petroleum Accountants Societies.

25

26 7. Services

27

28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

33

34 8. Equipment and Facilities Furnished By Operator

35

36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to
39 exceed eight percent (8%) per annum. Such rates shall not exceed average commercial
40 rates currently prevailing in the immediate area of the Joint Property.

41

42 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the
43 immediate area of the Joint Property less 20%. For automobile equipment, Operator may elect to use rates
44 published by the Petroleum Motor Transport Association.

45

46 9. Damages and Losses to Joint Property

47

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

52

53 10. Legal Expense

54

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

61

62 11. Taxes

63

64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties
68 hereto in accordance with the tax value generated by each party's working interest.

69

70

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1 12. Insurance

2

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

7

8 13. Abandonment and Reclamation

9

10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory
11 authority.

12

13 14. Communications

14

15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint
17 Property are Operator owned, charges to the Joint Account shall be made as provided Paragraph 8 of this Section II.

18

19 15. Other Expenditures

20

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

24

25

26 III. OVERHEAD

27

28 1. Overhead - Drilling and Producing Operations

29

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

32

33 (X) Fixed Rate Basis, Paragraph 1A, or

34 () Percentage Basis, Paragraph 1B

35

36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under
38 Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are
41 agreed to by the Parties as a direct charge to the Joint Account.

42

43 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant
44 services and contract services of technical personnel directly employed on the Joint Property:

45

46 () shall be covered by the overhead rates, or

47 (X) shall not be covered by the overhead rates.

48

49 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services
50 and contract services of technical personnel either temporarily or permanently assigned to and directly employed in
51 the operation of the Joint Property:

52

53 (X) shall be covered by the overhead rates, or

54 () shall not be covered by the overhead rates.

55

56 A. Overhead - Fixed Rate Basis

57

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

59

60 Drilling Well Rate \$ 6,000.00

61 (Prorated for less than a full month)

62

63 Producing Well Rate \$ 600.00

64

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

66

67 (a) Drilling Well Rate

68

69 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date
70 the drilling rig, completion rig, or other units used in completion of the well is released, whichever

1 is later, except that no charge shall be made during suspension of drilling or completion operations
2 for fifteen (15) or more consecutive calendar days.

3
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be
6 applied for the period from date workover operations, with rig or other units used in workover,
7 commence through date of rig or other unit release, except that no charge shall be made during
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9
10 (b) Producing Well Rates

11
12 (1) An active well either produced or injected into for any portion of the month shall be considered as
13 a one-well charge for the entire month.

14
15 (2) Each active completion in a multi-completed well in which production is not commingled down
16 hole shall be considered as a one-well charge providing each completion is considered a separate
17 well by the governing regulatory authority.

18
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the
20 production shall be considered as a one-well charge providing the gas well is directly connected to
21 a permanent sales outlet.

22
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations
24 are completed on any well. This one-well charge shall be made whether or not the well has
25 produced except when drilling well rate applies.

26
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

29
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the
31 agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying
32 the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude
33 Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as
34 shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published
35 by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as
36 published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or
37 minus the computed adjustment.

38
39 ~~B.—Overhead—Percentage-Basis~~

40
41 ~~(1) Operator shall charge the Joint Account at the following rates:~~

42
43 ~~(a) Development~~

44
45 ~~_____ Percent (____%) of the cost of development of the Joint Property exclusive of costs~~
46 ~~provided under Paragraph 10 of Section II and all salvage credits.~~

47
48 ~~(b) Operating~~

49
50 ~~_____ Percent (____%) of the cost of operating the Joint Property exclusive of costs provided~~
51 ~~under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased~~
52 ~~for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the~~
53 ~~mineral interest in and to the Joint Property.~~

54
55 ~~(2) Application of Overhead Percentage Basis shall be as follows:~~

56
57 ~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III,~~
58 ~~development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial~~
59 ~~operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing~~
60 ~~interval on the Joint Property, also, preliminary expenditures necessary in preparation for drilling and~~
61 ~~expenditures incurred in abandoning when the well is not completed as a producer, and original cost of~~
62 ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly~~
63 ~~discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other~~
64 ~~costs shall be considered as operating.~~

65
66 2. Overhead - Major Construction

67
68 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of
69 fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the
70 Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

1 Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 _____:

- 2
3 A. 5 % of first \$100,000 or total cost if less, plus
4
5 B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
6
7 C. 2 % of costs in excess of \$1,000,000.
8

9 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single
10 project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be
11 excluded.
12

13 3. Catastrophe Overhead
14

15 To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due
16 to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are
17 necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the
18 expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account
19 for overhead based on the following rates:
20

- 21 A. 5 % of total costs through \$100,000; plus
22
23 B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
24
25 C. 2 % of total costs in excess of \$1,000,000.
26

27 Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead
28 provisions of this Section III shall apply.
29

30 4. Amendment of Rates
31

32 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement
33 between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.
34
35

36 IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS
37

38 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material
39 movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at
40 Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or
41 surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to
42 outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition
43 A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.
44

45 1. Purchases
46

47 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of
48 Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account
49 when adjustment has been received by the Operator.
50

51 2. Transfers and Dispositions
52

53 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator,
54 unless otherwise agreed to by the Parties, shall be priced on the following ~~is~~ exclusive of cash discounts:
55

56 A. New Material (Condition A)
57

58 (1) Tubular Goods Other than Line Pipe
59

- 60 (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill
61 published carload base prices effective as of date of movement plus transportation cost using the 80,000
62 pound carload weight basis to the railway receiving point nearest the Joint Property for which
63 published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound
64 or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio
65 and casing from Youngstown, Ohio.
66

- 67 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus
68 transportation cost from that mill to the railway receiving point nearest the Joint Property as provided
69 above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000
70

- 1 pound Oil Field Haulers Association interstate truck rate shall be used.
2
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,
5 to the railway receiving point nearest the Joint Property.
6
7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.
10
11 (2) Line Pipe
12
13 (a) Line pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) 30,000 pounds or
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.
15 Freight charges shall be calculated from Lorain, Ohio.
16
17 (b) Line Pipe movements (except size 24 inch OD) and larger with walls 1/4 inch and over) less than 30,000
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,
21 Ohio.
22
23 (c) Line pipe 24 inch OD and over and 1/4 inch wall and larger shall be priced f.o.b. the point of
24 manufacture at current new published prices plus transportation cost to the railway receiving point
25 nearest the Joint Property.
26
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at
29 prices agreed to by the Parties.
30
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the
33 railway receiving point nearest the Joint Property.
34
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and X2
39
40 B. Good Used Material (Condition B)
41
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:
43
44 (1) Material moved to the Joint Property
45
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.
47
48 (2) Material used on and moved from the Joint Property
49
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was
51 originally charged to the Joint Account as new Material or
52
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was
54 originally charged to the Joint Account as used Material
55
56 (3) Material not used on and moved from the Joint Property
57
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.
59
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.
61
62 C. Other Used Material
63
64 (1) Condition C
65
66 Material which is not in sound and serviceable condition and not suitable for its original function until
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition
69 C value plus cost of reconditioning does not exceed Condition B value.
70

1 (2) Condition D
2

3 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose
4 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material
5 under procedures normally used by Operator without prior approval of Non-Operators.
6

7 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe
8 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be
9 priced at used line pipe prices.
10

11 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.
12 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.
13 Upset tubular goods shall be priced on a non upset basis.
14

15 (3) Condition E
16

17 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under
18 procedures normally utilized by Operator without prior approval of Non-Operators.
19

20 D. Obsolete Material
21

22 Material which is serviceable and usable for its original function but condition and/or value of such Material
23 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by
24 the Parties. Such price should result in the Joint Account being charged with the value of the service
25 rendered by such Material.
26

27 E. Pricing Conditions
28

29 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢)
30 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs
31 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year
32 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in
33 Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and
34 shall be the rate in effect until the first day of April next year. Such rate shall be published each year
35 by the Council of Petroleum Accountants Societies.
36

37 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down
38 price of new Material.
39

40 3. Premium Prices
41

42 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other
43 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required
44 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it
45 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing
46 Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within
47 ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use
48 and acceptable to Operator.
49

50 4. Warranty of Material Furnished By Operator
51

52 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint
53 Account until adjustment has been received by Operator from the manufacturers or their agents.
54
55

56 V. INVENTORIES
57

58 The Operator shall maintain detailed records of Controllable Material.
59

60 1. Periodic Inventories, Notice and Representation
61

62 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice
63 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that
64 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an
65 inventory shall bind Non-Operators to accept the inventory taken by Operator.
66

67 2. Reconciliation and Adjustment of Inventories
68

69 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six
70 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

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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, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

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

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated March 1, 2005, by and between Devon Energy Production Company, L.P. and Yates Petroleum Corp., et al.

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

- a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of New Mexico, including employer's liability with minimum limits of \$1,000,000.00.
- b) Comprehensive general liability insurance, excluding products: A limit of \$1,000,000.00 each occurrence for bodily injuries, \$2,000,000.00 aggregate. Property damage liability limit being \$1,000,000.00 each occurrence, \$2,000,000.00 aggregate.
- c) Automobile public liability and property damage insurance. Limits of bodily injury \$1,000,000.00 each person; \$1,000,000.00 each occurrence; property damage \$1,000,000.00 each occurrence.

The Operator shall require its contracts and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the workmen's compensation laws of the State of New Mexico and to carry such other insurance and in such amounts as the Operator shall deem necessary.

During drilling operations, Operator shall also carry Operator's Extra Expense Indemnity insurance during drilling and completion including coverage for well seepage, pollution, cleanup and containment and evacuation expenses. The limit of such insurance is \$50,000,000.00 any one occurrence, which should apply to all coverage except (a) above. Non-Operators shall elect, in writing prior to spudding, to be covered under such policy or shall furnish Operator with evidence that it carries for its own account such insurance with minimum limits corresponding to those provided for in Operator's policy. At all times while operations are being conducted under this agreement, Operator, or the designated Operator for the account of the Non-Operators, shall maintain insurance in accordance with this Exhibit. If a Non-Operator elects to be an additional insured on Operator's policy, it shall bear its proportionate part of the expense of such policy.

1 NOTE: Instructions For Use of Gas Balancing
2 Agreement MUST be reviewed before finalizing
3 this document.
4
5
6
7

8 EXHIBIT "E"

9 GAS BALANCING AGREEMENT ("AGREEMENT")
10 ATTACHED TO AND MADE PART OF THAT CERTAIN

11 OPERATING AGREEMENT DATED March 1, 2005

12 BY AND BETWEEN Devon Energy Production Company, L.P.
13 AND Yates Petroleum Corp., et al ("OPERATING AGREEMENT")
14 RELATING TO THE North Custer Mountain State Unit AREA,
15 Lea COUNTY/PARISH, STATE OF New Mexico

16 1. DEFINITIONS

17 The following definitions shall apply to this Agreement:

18 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales
19 agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are
20 representative of prices and delivery conditions existing under other similar agreements in the area between
21 unaffiliated parties at the same time for natural gas of comparable quality and quantity.

22 1.02 "Balancing Area" shall mean (select one):

23 each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a
24 single well is completed in two or more producing intervals, each producing interval from which the Gas
25 production is not commingled in the wellbore shall be considered a separate well.

26 all of the acreage and depths subject to the Operating Agreement.

27 _____
28 _____
29 _____
30 _____

31 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced
32 from the Balancing Area during each month.

33 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified
34 as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made
35 available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by
36 field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel,
37 recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

38 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full
39 Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

40 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic
41 foot of space at a standard pressure base and at a standard temperature base.

42 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat
43 required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a
44 constant pressure of 14.73 pounds per square inch absolute.

45 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the
46 event this Agreement is not employed in connection with an operating agreement, the individual or entity
47 designated as the operator of the well(s) located in the Balancing Area.

48 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than
49 the Percentage interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

50 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in
51 the cumulative quantity of all Gas produced from the Balancing Area.

52 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors,
53 transferees and assigns.

54 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the
55 Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

56 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding
57 royalties, production payments or similar interests.

58 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than
59 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

60 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its
61 Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

62 1.16 ~~Optional "Winter Period" shall mean the month(s) of _____ in one~~
63 ~~calendar year and the month(s) of _____ in the succeeding calendar year.~~

64 2. BALANCING AREA

65 2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered
66 by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area
67 measured in (Alternative 1) Mcfs or (Alternative 2) MMBtus.

68 2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more
69 maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area
70 and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

71 3. RIGHT OF PARTIES TO TAKE GAS

72 3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes
73 nominated, the name of the transporting pipeline and the pipeline contract number (if available) or other identifying description
74 to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

1 requirements. Operator is authorized to deliver the volumes so nominated ^{in accordance with each Parties' interest in the well} and confirmed (if confirmation is required) to the
 2 transporting pipeline in accordance with the terms of this Agreement, ^{provided, however, the Well is capable of delivering the nominated volume for}
 3 ~~the applicable Party or Parties.~~

3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the
 4 extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to
 5 preserve correlative rights, or to maintain oil production.

3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the
 7 right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any
 8 Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced
 9 Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all
 10 Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not
 11 taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the
 12 Balancing Area bear to the total Percentage Interests of such Parties.

3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is
 14 underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking
 15 Party.

3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any
 17 Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum
 18 Monthly Availability ^{unless agreed to by all Parties hereto.} provided, however, that this limitation shall not apply to the extent that it would preclude production
 19 that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative
 20 rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of
 21 production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum
 22 efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency,
 23 mode of operation, production facility capabilities and pipeline pressures.

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be
 25 produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or
 26 to maintain oil production, the Operator may sell ^{if so elected} any part of such Party's Full Share of Current Production that such Party fails
 27 to take for the account of such Party and tender to such Party, on a current basis, the full proceeds of the sale, less any
 28 reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of
 29 such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain
 30 such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its
 31 markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent
 32 with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one
 33 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall
 34 be deemed to be Gas taken for the account of such Party.

35 4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following / at least ^{reasonable notice of} thirty (30) days prior
 37 written notice to the Operator ^{if required by Operator}, any Underproduced Party may begin taking, in addition to its Full Share of Current
 38 Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined
 39 by multiplying thirty-five percent (35 %) of the Full Shares of Current Production of all Overproduced Parties by
 40 a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which
 41 is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an
 42 Overproduced Party be required to provide more than thirty-five percent (35 %) of its Full Share of Current
 43 Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced
 44 Party to begin taking Makeup Gas.

4.2 (Optional Seasonal Limitation on Makeup Option 1) Notwithstanding the provisions of Section 4.1, the
 46 average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1
 47 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the
 48 six (6) months immediately preceding the Winter Period.

4.2 (Optional Seasonal Limitation on Makeup Option 2) Notwithstanding the provisions of Section 4.1, no
 50 Overproduced Party will be required to provide more than _____ percent (_____ %) of its Full Share
 51 of Current Production for Makeup Gas during the Winter Period.

4.3 (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or
 53 (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced
 54 Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may
 55 be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to
 56 one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

57 5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each
 59 Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within / ^{sixty (60)} ~~forty-five (45)~~ days
 60 after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of
 61 Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between
 62 the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or
 63 Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum
 64 Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to
 65 the Operator any data required by the Operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or
 67 where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation
 68 volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and
 69 during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit
 70 will be charged to the account of the Party failing to provide the required data.

71 6. PAYMENTS ON PRODUCTION

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas
 72 actually taken by such Party.

6.2 (Alternative 1 Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty

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1 owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of
2 Current Production.

3 ~~6.2.1 (Optional - For use only with Section 6.2 - Alternative 1 - Entitlement) Upon written request of a Party~~
4 ~~taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than~~
5 ~~its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an~~
6 ~~amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of~~
7 ~~the Current Underproducer's Full Share of Current Production taken by the Current Overproducer, provided, however, that~~
8 ~~such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments~~
9 ~~made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of~~
10 ~~Section 7.5.~~

11 6.2 (Alternative 2 - Sales) Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to
12 whom it is accountable based on the volume of Gas actually taken for its account.

13 6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that
14 provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date
15 required by such governmental authority, and the method provided for herein shall be thereby superseded.

16 7. CASH SETTLEMENTS

17 7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination
18 of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken
19 from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash
20 settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

21 7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each
22 Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each
23 Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology
24 set out in Section 7.4.

25 ~~7.3 (Alternative 1 - Direct Party to Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement~~
26 ~~Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash~~
27 ~~settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the~~
28 ~~Operator of the Gas imbalance settled by the Overproduced Party's payment.~~

29 7.3 (Alternative 2 - Settlement Through Operator) Within sixty (60) days after receipt of the Final Gas Settlement
30 Statement, each Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the
31 Operator. The Operator will distribute the monies so received, along with any settlement owed by the Operator as an
32 Overproduced Party, to each Underproduced Party to whom settlement is due within ninety (90) days after issuance of the
33 Final Gas Settlement Statement. In the event that any Overproduced Party fails to pay any settlement due hereunder, the
34 Operator may turn over responsibility for the collection of such settlement to the Party to whom it is owed, and the Operator
35 will have no further responsibility with regard to such settlement.

36 7.3.1 (Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator) Any Party shall have
37 the right at any time upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such
38 Party for Overproduction be paid directly to such Party by the Overproduced Party, rather than being paid through the
39 Operator. In the event that an Overproduced Party pays the Operator any sums due to an Underproduced Party at any time
40 after thirty (30) days following the receipt of the notice provided for herein, the Overproduced Party will continue to be liable
41 to such Underproduced Party for any sums so paid, until payment is actually received by the Underproduced Party.

42 7.4 (Alternative 1 - Historical Sales Basis) The amount of the cash settlement will be based on the proceeds
43 received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the
44 Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the
45 Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the
46 order of accrual.

47 ~~7.4 (Alternative 2 - Most Recent Sales Basis) The amount of the cash settlement will be based on the proceeds~~
48 ~~received by the Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction~~
49 ~~by the Overproduced Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the~~
50 ~~Section 7, an Overproduced Party will not be considered to have produced any of an Underproduced Party's share of Gas until~~
51 ~~the Overproduced Party has produced cumulatively all of its Percentage Interest share of the Gas ultimately produced from the~~
52 ~~Balancing Area.~~

53 7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the
54 Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any
55 Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments
56 amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression,
57 treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

58 7.5.1 (Optional - For Valuation Under Percentage of Proceeds Contracts) For Overproduction sold under a gas
59 purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser upon resale of
60 residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will
61 include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the
62 Overproduction.

63 ~~7.5.2 (Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the~~
64 ~~Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction~~
65 ~~will be valued for purposes of cash settlement at the prices received by the Overproduced Party for the sale of the residue gas~~
66 ~~attributable to the Overproduction without regard to proceeds attributable to liquid hydrocarbons which may have been~~
67 ~~extracted from the Overproduction.~~

68 7.5.2 (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the
69 Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash
70 settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from
71 the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to
72 transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

73 7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash
74 settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the

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1 Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event
2 that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be
3 based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing
4 bulletin.

5 7.7 Interest compounded at the rate of twelve percent (12 %) per annum or the maximum lawful
6 rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1 beginning
7 the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any
8 Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3
9 contributed to the accrual of the interest. ~~The Operator shall also be required to pay such interest if it has received payment from any Overproduced
Party but failed to timely pay the Underproduced Party.~~

10 7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party
11 an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the
12 Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be
13 furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by
14 agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an
15 in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties
16 fail to reach agreement on an in-kind settlement.

17 7.9 (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an
18 Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or
19 other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such
20 governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced
21 Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental
22 authority.

23 7.10 (Optional - Interim Cash Balancing) ~~At any time during the term of this Agreement, any Overproduced Party
24 may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas
25 imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative
26 imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once
27 every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash
28 settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30)
29 days after the settlement is made.~~

30 8. TESTING

31 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to
32 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)
33 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to
34 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only
35 after thirty (30) days' prior written notice to the Operator and shall last no longer than
36 seven (7) hours days including prior shut-in time.

37 9. OPERATING COSTS

38 Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and
39 liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating
40 Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in
41 proportion to its Percentage Interest in the Balancing Area.

42 10. LIQUIDS

43 The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated
44 for the joint account in accordance with their Percentage Interests in the Balancing Area.

45 11. AUDIT RIGHTS

46 Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further
47 notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar
48 year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit
49 the records of any other Party regarding quantity, including but not limited to information regarding Btu-content.
50 Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any
51 cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning
52 values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such
53 audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable
54 notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to
55 maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations,
56 along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this
57 Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

58 12. MISCELLANEOUS

59 12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of
60 any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the
61 Operating Agreement, the provisions of this Agreement shall govern.

62 12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for
63 any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such
64 indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under
65 the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages
66 sustained and costs incurred in connection therewith.

67 12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this
68 Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in
69 connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or
70 willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other
71 than Operator) to pay any amounts owed pursuant to the terms hereof.

72 12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and
73 effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to
74 the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives

1 and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of
 2 any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of
 3 any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

4 12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the
 5 singular, and the neuter gender includes the masculine and the feminine.

6 12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a
 7 typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be
 8 made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not
 9 so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result
 10 of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative
 11 is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected;
 12 and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the
 13 selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to
 14 include an associated Optional provision.

15 12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed
 16 or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any
 17 such person or entity.

18 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party
 19 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and
 20 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such
 21 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request
 22 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the
 23 Balancing Area.

24 ~~12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all~~
 25 ~~Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one) as if such Party were~~
 26 ~~taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same~~
 27 ~~relate to entitlement method tax computations; or based on the quantity of Gas taken for its account in accordance with~~
 28 ~~such regulations, insofar as same relate to sales method tax computations. See 14.J on Page -5a.~~

29 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

30 13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement
 31 or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its
 32 working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other
 33 act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the
 34 Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any
 35 monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall
 36 thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other
 37 transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall
 38 cause its assignee or other transferee to assume its obligations hereunder.

39 ~~13.2 (Optional Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not~~
 40 ~~limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions~~
 41 ~~of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its~~
 42 ~~interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are~~
 43 ~~Parties hereto in such Balancing Area of such fact at least _____ (_____) days prior to closing the~~
 44 ~~transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within~~
 45 ~~_____ (_____) days after receipt of the Overproduced Party's notice, a cash settlement of its~~
 46 ~~Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement~~
 47 ~~pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash~~
 48 ~~settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60)~~
 49 ~~days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced~~
 50 ~~Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in~~
 51 ~~Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days~~
 52 ~~after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not~~
 53 ~~paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the~~
 54 ~~Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the~~
 55 ~~Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance~~
 56 ~~with the provisions of Section 13.1 hereof.~~

57 13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its
 58 interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to
 59 any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

60 14. OTHER PROVISIONS

61 See Attachment.
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14. OTHER PROVISIONS

- 14.1 Any Underproduced party can require cash settlement from the Overproduced Parties in January of each even numbered year by providing written notice to the Operator. Section 7 of this Gas Balancing Agreement shall govern cash settlement under this provision.
- 14.2 In the event any Party feels a Party has produced more than its share of recoverable reserves and wants to prohibit said Party from selling additional Gas, the Party shall notify the Operator, including its estimate of remaining recoverable reserves. The Operator shall notify all other Parties. If Parties concur with the recoverable reserve estimate, said Overproduced Party shall be prohibited from selling Gas until the Overproduced Party is back in balance. If the Parties cannot agree on the remaining recoverable reserves, the Operator shall retain an independent reservoir engineer, experienced and competent in the geographical areas of the well(s) in question, to compute the reserves. Its decision shall be final. Costs incurred by the independent engineer shall be borne by the Parties hereto.
- 14.3 The Parties to this Agreement agree to abide by Regulation 1.761-2(d)(2) as promulgated by the Internal Revenue Service. Regulation 1.761-2(d)(2) requires that all co-producers of natural gas operating under the same joint operating agreement must use the cumulative gas balancing method, as described under this regulation, to report gas balancing for tax purposes. In the event of a conflict between the provisions of this Section and any other provisions of this Agreement, the provisions of this Section shall control.

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1 15. COUNTERPARTS

2 This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute
3 a binding agreement between the Parties hereto; provided, however, that if a Party or Parties owning a Percentage Interest in
4 the Balancing Area equal to or greater than a _____ percent (_____ %) therein fail(s) to execute this
5 Agreement on or before _____, this Agreement shall not be binding upon any Party and shall be of
6 no further force and effect.

7 IN WITNESS WHEREOF, this Agreement shall be effective as of the _____ 1st day of _____ March _____, 2005.

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10 ATTEST OR WITNESS:

OPERATOR

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BY: _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

NON-OPERATORS

BY: _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

BY: _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

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ACKNOWLEDGMENTS

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Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____
_____ by _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____
_____ by _____ as

_____ of _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____

EXHIBIT "F"

**Attached to and made a part of that certain Operating Agreement dated March 1, 2005
by and between DEVON ENERGY PRODUCTION COMPANY, L.P.
and YATES PETROLEUM CORP., ET AL.**

FEDERAL GOVERNMENT CONTRACT COMPLIANCE CERTIFICATION

The subsidiaries and affiliates of the party with whom you are contracting (Company), may be a Government contractor as defined by law, and therefore required to obtain certification of compliance with certain applicable laws, orders, regulations and requirements promulgated by Federal and State authorities from the party designated or acting as contractor, Operator or Seller (Contractor) in the foregoing agreement of which this supplement is a part.

Contractor hereby agrees to comply with the provisions of the Equal Opportunity clause, and any amendments thereto, all of which are incorporated in this agreement by reference, and as are set forth in paragraph 60.4 of the regulations of the Secretary of Labor (41 CFR Chapter 60), issued pursuant to Executive Order 11246 dated September 24, 1965, as well as all other rules and regulations set forth herein. Contractor is also aware of and informed of his responsibilities under the Rehabilitation Act of 1973 Section 503 (41 CFR 60-741) and Executive Order 11758 dated January 15, 1974 (41 CFR 60-250) and hereby agrees that it shall comply with the requirement of said order. To ensure compliance with such requirements and to direct attention to such laws, Contractor hereby agrees that the provisions set forth below which may be applicable to contracts and purchase orders between the parties shall, if applicable, apply to all such transactions, and certifies its compliance as follows:

WRITTEN AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The contractor certifies that it has 50 or more employees and is covered by a Federal Government contract or subcontract valued at \$50,000 or more, and has developed written Affirmative Action Compliance Programs for each of its establishments consistent with the rules and regulations published by the Department of Labor in 41 C.F.R. Chapter 60.

[41 C.F.R. §60-1.4]

EMPLOYER INFORMATION REPORT EEO1 STANDARD FORM 100

The contractor certifies that it files an annual Employer Information Report EEO Standard Form 100.

[41 C.F.R. §60-1.7]

CERTIFICATION OF NON-SEGREGATED FACILITIES

The contractor certifies that it does not, and will not maintain any facilities for employees in a segregated manner or permit its employees to perform their services at any location under its control, where segregated facilities are maintained. The contractor or subcontract will insure that facilities provided for employees are provided in such a manner that segregation on the basis of race, color, religion, or national origin cannot result. The term "facilities" means any waiting rooms, work areas, restaurants and other eating areas, time clocks, restrooms, washrooms, locker rooms, and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees.

The contractor further certifies that, where necessary, it will obtain identical certification from its subcontractors and notify its subcontractors of their responsibilities under Executive Order 11246, as amended.

[41 C.F.R. §60-1.8]

EQUAL OPPORTUNITY CLAUSE

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

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

(C) The contractor will send to each labor union or representative of workers with which it has a collective bargaining agreement or contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor's commitment 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.

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

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

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

(G) The contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontractor or purchase order as may be directed by the Secretary of Labor as a means of enforcing such provisions including sanctions for noncompliance provided, however, that in the event the contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction, the contractor may request the United States to enter into such litigation to protect the interest of the United States.

[Executive Order No. 11246, 42 U.S.C. §200e and 41 C.F.R. §60-1.4(a).]

EQUAL EMPLOYMENT OPPORTUNITY FOR WORKERS WITH DISABILITIES

The contractor agrees that the affirmative action clause for disabled workers as set forth in 41 C.F.R. 60-741.5(a) is incorporated by reference into each of its covered Government contracts or subcontracts.

**AFFIRMATIVE ACTION FOR DISABLED VETERANS
AND VETERANS OF THE VIETNAM ERA**

(A) The contractor will not discriminate against any employee or applicant for employment because he or she is a disabled veteran or veteran of the Vietnam era in regard to any position for which the employee or applicant for employment is qualified. The contractor agrees to take affirmative action to employ, advance in employment and otherwise treat qualified disabled veterans and veterans of the Vietnam era without discrimination based upon their disability or veterans status in all employment practices such as the following: employment upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(B) The contractor agrees to list all employment openings which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed, but excluding those of independently operated corporate affiliates, at an appropriate local office of the State employment service system wherein the opening occurs. The contractor further agrees to provide such reports to such local office regarding employment openings and hires as may be required. State and local government agencies holding Federal contracts of \$10,000 or more

shall also list all of their employment openings with the appropriate office of the State employment service, but are not required to provide those reports set forth in paragraphs (D) and (E).

(C) Listing of employment openings with the employment service system pursuant to this clause shall be made at least concurrently with the use of any other recruitment source or effort and shall involve the normal obligations which attach to the placing of a bona fide job order, including the acceptance of referrals of veterans and nonveterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of applicants, and nothing herein is intended to relieve the contractor from any requirements in Executive orders or regulations regarding nondiscrimination in employment.

(D) The reports required by paragraph (B) of this clause shall include, but not be limited to periodic reports which shall be furnished quarterly with the appropriate local office or, where the contractor has more than one hiring location in a State, with the central office of that State employment service. Such reports shall indicate for each hiring location (1) the number of the individuals hired during the reporting period, (2) the number of nondisabled veterans of the Vietnam era hired, (3) the number of disabled veterans of the Vietnam era hired, and (4) the total number of disabled veterans hired. The reports should include covered veterans hired for on-the-job training under 38 U.S.C. 1787. The contractor shall submit a report within 30 days after the end of each reporting period wherein any performance is made on this contract identifying data for each hiring location. The contractor shall maintain at each hiring location copies of the reports submitted until the expiration of one year after final payment under the contract, during which time these reports and related documentation shall be made available, upon request, for examination by any authorized representatives of the contracting officer or of the Secretary of Labor. Documentation would include personnel records reflecting job openings, recruitment and placement.

(E) Whenever the contractor becomes contractually bound to the listing provisions of this clause, it shall advise the employment service system in each State where it has establishments of the name and location of each hiring location in the State. As long as the contractor is contractually bound to the provisions and has so advised the State system there is no need to advise the State system of subsequent contracts. The contractor may advise the State system when it is not longer bound by this contract clause.

(F) This clause does not apply to the listing of employment openings which occur and are filled outside of the 50 States, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.

(G) The provisions of paragraphs (B), (C), (D), and (E) of this clause do not apply to openings which the contractor proposes to fill from within his own organization. This exclusion does not apply to a particular opening once an employer decides to consider applicants outside his own organization for that opening.

(H) As used in this clause: (1) "All employment openings" includes all positions except executive and top management, those positions that will be filled from within the contractor's organization, and positions lasting three days or less. This term includes full-time employment, temporary employment of more than three days' duration, and part-time employment.

UTILIZATION OF SMALL BUSINESS CONCERNS AND SMALL DISADVANTAGED BUSINESS CONCERNS

(A) It is the policy of the United States that small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in performing contracts led by any federal agency, including contracts and subcontracts for subsystems, assemblies, components, and related services for major systems. It is further the policy of the United States that its prime contractors establish procedures to ensure the timely payment of amounts due pursuant to the terms of their subcontracts with small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals.

(B) The contractor hereby agrees to carry out this policy in the awarding of contracts to the fullest extent consistent with efficient contract performance. The contractor further agrees to cooperate in any studies or surveys as may be conducted by the United States Small Business Administration or the awarding agency of the United States as may be necessary to determine the extent of the undersigned's compliance with this clause.

(C) As used in this contract, the term "small business concern" shall mean a small business as defined pursuant to Section 3 of the Small Business Act and relevant regulations promulgated pursuant thereto. The term "small business concern owned and controlled by socially and economically disadvantaged individuals" shall mean a small business concern:

(1) Which is at least fifty-one percent owned by one or more socially and economically disadvantaged individuals; or in the case of any publicly owned business, at least fifty-one percent of the stock of which is owned by one or more socially and economically disadvantaged individuals; and

(2) Whose management and daily business operations are controlled by one or more individuals.

The contractor shall presume that socially and economically disadvantaged individuals include black Americans, Hispanic Americans, native Americans, Asian-Pacific Americans, Asian-Indian Americans and other minorities or any other individual found to be disadvantaged by the administration pursuant to Section 8(a) of the Small Business Act.

(D) The contractor acting in good faith may rely on written representations by its subcontractors regarding their status as either a small business concern or a small business concern owned and controlled by socially and economically disadvantaged individuals.

[48 C.F.R. §52.219-8]

PREFERENCE FOR LABOR SURPLUS AREA CONCERNS

(A) Applicability This clause is applicable if the contract exceeds the appropriate small purchase limitation in Part 13 of the Federal Acquisition Regulation.

(B) Policy It is the policy of the government to award contracts to concerns that agree to perform substantially in labor surplus areas (LSA's) when this can be done consistent with the efficient performance of the contract and at prices no higher than are obtainable elsewhere. The contractor agrees to use its best efforts to place subcontracts in accordance with this policy.

(C) Order of Preference In complying with paragraph B above and with paragraph C of the clause of this contract entitled Utilization of Small Business Concerns and Small Disadvantaged Business Concerns, the contractor shall observe the following order of preference in awarding subcontracts: (1) small business concerns that are LSA concerns, (2) other small business concerns, and (3) other LSA concerns.

(D) Definitions "Labor surplus area," as used in this clause, means a geographical area identified by the Department of Labor in accordance with 20 C.F.R. 634, Subpart A, as an area of concentrated unemployment or underemployment, or an area of labor surplus.

"Labor surplus area concern" as used in this clause, means a concern that together with its first tier subcontractors will perform substantially in labor surplus areas. Performance is substantially in labor surplus areas if the cost incurred under the contract on account of manufacturing, production, or performance of appropriate services in labor surplus areas exceed fifty percent of the contract price.

[48 C.F.R. §52.220-3]

UTILIZATION OF WOMEN-OWNED SMALL BUSINESSES

(A) "Women-owned businesses" as used in this clause, means small business concerns that are at least fifty-one percent owned by women who are United States citizens and who also control and operate the business.

"Control" as used in this clause, means exercising the power to make policy decisions.

"Operate" as used in this clause, means being actively involved in the day to day management of the business.

"Small business concern" as used in this clause, means a concern including its affiliates, that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts, and qualified as a small business under the criteria and size standards in 13 C.F.R. 121.

(B) It is the policy of the United States that women-owned businesses shall have the maximum practicable opportunity to participate in performing contracts awarded by any federal agency.

(C) The contractor agrees to use its best efforts to give women-owned small businesses the maximum practicable opportunity to participate in the subcontracts it awards to the fullest extent consistent with the efficient performance of its contract.

(D) The contractor may rely on written representations by its subcontractors regarding their status as women-owned small businesses.

[48 C.F.R. §52.219-13]

**CERTIFICATION REGARDING A DRUG-FREE WORKPLACE
(MARCH 1989)**

(A) Definitions. As used in this provision, "Controlled substance" means a controlled substance in schedules I through V of section 202 of the Controlled Substances Act (21 U.S.C. §12) and as further defined in regulation at 21 CFR 1308.15.

"Conviction" means a finding of guilt (including a plea of nolo contendere) or imposition of sentence, or both, by any judicial body charged with the responsibility to determine violations of the Federal or State criminal drug statutes.

"Criminal drug statute" means a Federal or non-Federal criminal statute involving the manufacture, distribution, dispensing, possession or use of any controlled substance.

"Drug-free workplace" means a site for the performance of work done in connection with a specific contract at which employees of the Contractor are prohibited from engaging in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance.

"Employee" means an employee of a Contractor directly engaged in the performance of work under a Government contract.

"Individual" means an offeror/contractor that has no more than one employee including the offeror/contractor.

(B) By submission of its offer, the offeror, if other than an individual, who is making an offer that equals or exceeds \$25,000, certifies and agrees, that with respect to all employees of the offeror to be employed under a contract resulting from this solicitation, it will

- (1) Publish a statement notifying such employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the Contractor's workplace and specifying the actions that will be taken against employees for violations of such prohibition;
- (2) Establish a drug-free awareness program to inform such employees about
 - (i) The dangers of drug abuse in the workplace;
 - (ii) The Contractor's policy of maintaining a drug-free workplace;
 - (iii) Any available drug counseling, rehabilitation, and employee assistance programs; and
 - (iv) The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;
- (3) Provide all employees engaged in performance of the contract with a copy of the statement required by subparagraph (b)(1) of this provision;
- (4) Notify such employees in the statement required by subparagraph (b)(1) of this provision, that as a condition of continued employment on the contract resulting from this solicitation, the employee will
 - (i) Abide by the terms of the statement; and
 - (ii) Notify the employer of any criminal drug statute conviction for a violation occurring in the workplace no later than five (5) days after such conviction;
- (5) Notify the contracting officer within ten (10) days after receiving notice under subdivision (b)(4)(ii) of this provision, from an employee or otherwise receiving actual notice of such conviction; and
- (6) Within 30 days after receiving notice under subparagraph (a)(4) of this provision of a conviction, impose the following sanctions or remedial measures on any employee who is convicted of drug abuse violations occurring in the workplace:
 - (i) Take appropriate personnel action against such employee, up to and including termination; or
 - (ii) Require such employee to satisfactorily participate in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency.
- (7) Make a good faith effort to maintain a drug-free workplace through implementation of subparagraphs (b)(1) through (b)(6) of this provision.

(C) By submission of its offer, the offeror, if an individual who is making an offer of any dollar value, certifies and agrees that the offeror will not engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in the performance of the contract resulting from this solicitation.

(D) Failure of the offeror to provide the certification required by paragraph (b) or (c) of this provision, renders the offeror unqualified and ineligible for award. (See FAR 9.104(g) and 19.602(a)(2)(i))

(E) In addition to other remedies available to the Government, the certification in paragraphs (b) and (c) of this provision concerns a matter within the jurisdiction of an agency of the United States and the making of a false, fictitious, or fraudulent certification may render the maker subject to prosecution under Title 18, United States Code, Section 1001.