





**OWNERSHIP MAP  
SPACING UNIT  
SOUTHWEST QUARTER (SW/4)  
SECTION 13, T-19-S, R-25-E,  
EDDY COUNTY, NEW MEXICO**

**FAIRCHILD 13 #2 WELL  
1980' FWL & 660' FSL**

NEARBURG EXPLORATION COMPANY	66.67%
YATES PETROLEUM CORPORATION	23.33%
YATES DRILLING COMPANY	3.33%
ABO PETROLEUM CORPORATION	3.33%
MYCO INDUSTRIES, INC.	3.33%
<b>TOTAL</b>	<b>100.00%</b>

*Sw 1/4 Sec 13*

**WELL LOCATION  
FAIRCHILD 13 #2**

**NMOCD HEARING  
APRIL 6, 1995  
CASE # 11233**

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11232/11233 Exhibit No. 2  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: April 7, 1995

**Nearburg Exploration Company**

Exploration and Production  
3300 North "A" Street  
Building 2, Suite 120  
Midland, Texas 79705  
915/686-8235  
Fax 915/686-7806

March 29, 1995

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Mr. Douglas W. Hurlbut  
S. P. Yates  
Estate of Martin Yates III  
105 South Fourth Street  
Artesia, New Mexico 88201

**FAX: 505/746-2268**

Re: Fairchild 24 #2 Well, NE/4 Section 24;  
Fairchild 13 #2 Well, SW/4 Section 13;  
Township 19 South, Range 25 East,  
Eddy County, New Mexico  
Fairchild 24 Prospect

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11232/11233 Exhibit No. 3  
Submitted By:  
Nearburg Exploration Company  
Hearing Date: April 7, 1995

Dear Doug:

Thank you for taking the opportunity to discuss with me a possible settlement and solution to the two poolings which are currently pending before the NMOCD. As we discussed, on the April 6, 1995 docket are competing poolings for the SW/4 of Section 13, T-19-S, R-25-E, Eddy County, New Mexico. Yates has proposed a location of 660' FS&WL, and Nearburg has proposed a location of 1980' FWL and 660' FSL. Both wells will be drilled to test the Cisco-Canyon formation. As we discussed, Nearburg has 2/3 interest while Yates et al has 1/3 interest in the SW/4 of Section 13.

With regard to the Fairchild 24 #2 well, both parties have proposed the same location being 1980' FEL and 660' FNL of Section 24. S. P. Yates and the Estate of Martin Yates III own approximately 27% interest while Nearburg owns 11.25% interest.

We believe that it is advantageous to both companies to operate properties in which they have the largest interest. In the spirit of cooperation as we have done in the past, we would like to eliminate unnecessary hearings before the NMOCD. We therefore propose the following.

S. P. Yates and the Estate of Martin Yates III would designate a Yates entity as Operator of the NE/4 of Section 24, and Nearburg would agree not to oppose the compulsory pooling which would designate Yates as Operator of the 160-acre spacing unit for the Cisco-Canyon test. Yates agrees to diligently prosecute a pooling hearing and commence a Cisco-Canyon test at a location of 1980' FEL and 660' FNL of Section 24. Such well would be commenced as soon as possible under the order issued by the NMOCD or, in the event of voluntary agreement between the remaining working interest owners, would be commenced pursuant to the terms of a mutually acceptable Joint Operating Agreement.

Mr. Douglas W. Hurlbut  
March 29, 1995  
Page -2-

Nearburg Producing Company would be designated Operator of the SW/4 of Section 13 with the Yates companies and Nearburg entering into a mutually acceptable Operating Agreement providing for the commencement of an 8300' Cisco-Canyon test at a location of 1980' FWL and 660' FSL of Section 13. Yates would advise the district NMOCD office in Artesia that it withdraws its existing permit to drill in the SW/4 SW/4 of said Section, thereby allowing Nearburg to obtain a permit for the aforesaid location.

Nearburg has ordered disposal lines laid to our recently drilled and completed Fairchild 24 #1 well located in the NW/4 of Section 24, and is agreeable to extending these lines to wells drilled by Yates in the NE/4 of Section 24 for the purpose of disposal of produced fluid.

In the alternative of the above settlement of the two compulsory pooling cases, we request that, at a minimum, the pooling hearing set for April 6 covering the SW/4 of Section 13 be postponed by both companies to the April 20 docket so one trip can be made, and the hearing examiner will only have to see the entire geologic picture one time. We believe this would help the NMOCD and save both companies a considerable amount of time and money.

Because we are both actively preparing for the April 6 hearing, I would appreciate your immediate response to this offer.

Again, thank you for your cooperation, and we look forward to your response.

Yours very truly,

  
Bob Shelton  
Consulting Landman

BS:kg

bcc: Mr. William J. LeMay  
NMOCD



LARGE FORMAT  
EXHIBIT HAS  
BEEN REMOVED  
AND IS LOCATED  
IN THE NEXT FILE

**Nearburg Exploration Company**

Exploration and Production  
3300 North "A" Street  
Building 2, Suite 120  
Midland, Texas 79705  
915/686-8235  
Fax 915/686-7806

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11232/11233 Exhibit No. 5  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: April 7, 1995

March 7, 1995

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Mr. Randy Patterson  
Yates Petroleum Corporation  
Yates Drilling Company  
Abo Petroleum Corporation  
Myco Industries, Inc.  
105 South Fourth Street  
Artesia, New Mexico 80201

Re: Fairchild 13 #2 Well;  
1980' FWL and 660' FSL of Section 13,  
T-19-S, R-25-E, Eddy County, New Mexico  
Fairchild 24 Prospect

Dear Randy:

Nearburg proposes the drilling of the Fairchild 13 #2 well, a proposed 8200' Cisco-Canyon test, to be located 1980' FWL and 660' FSL of Section 13, T-19-S, R-25-E, Eddy County, New Mexico. Enclosed herewith please find an AFE setting forth the anticipated costs of the proposed operation. Nearburg anticipates costs to drill the well to casing point at \$276,680 and total completed well costs of \$627,680. We invite you to participate with Nearburg in the drilling of this well.

Enclosed is an Operating Agreement designating Nearburg as Operator. We believe Nearburg should operate this spacing unit because of its operations in the area and because we have the largest working interest.

If you have any questions, please feel free to contact the undersigned.

Yours very truly,

Bob Shelton  
Consulting Landman

BS:kg

Enclosure



**Nearburg Exploration Company**

Exploration and Production  
3300 North "A" Street  
Building 2, Suite 120  
Midland, Texas 79705  
915/686-8235  
Fax 915/686-7806

March 7, 1995

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Mr. Randy Patterson  
Yates Petroleum Corporation  
Yates Drilling Company  
Abo Petroleum Corporation  
Myco Industries, Inc.  
105 South Fourth Street  
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1980' FWL and 660' FSL of Section 13,  
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Fairchild 24 Prospect

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Enclosed is an Operating Agreement designating Nearburg as Operator. We believe Nearburg should operate this spacing unit because of its operations in the area and because it owns the largest working interest.

If you have any questions, please feel free to contact the undersigned.

Yours very truly,



Bob Shelton  
Consulting Landman

BS:kg

Enclosure

Z 111-008 069



**Receipt for  
Certified Mail**

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to	
Street and No.	
P.O., State and ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date <i>Fairchild 13 #2</i>	

PS Form 3800, March 1993

Is your RETURN ADDRESS completed on the reverse side?

<b>3. Article Addressed to:</b> Mr. Randy Patterson Yates Petroleum Corp. et al 105 South Fourth Street Artesia, NM 88201	
<b>4a. Article Number:</b> 2-111008-069	
<b>4b. Service Type:</b> <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
<b>7. Date of Delivery:</b> 3-8-95	
<b>8. Addressee's Address (Only if requested and fee is paid):</b>	
<b>9. Signature (Agent):</b> <i>[Signature]</i>	
<b>SENDER:</b> • Complete items 1 and/or 2 for additional services. • Print your name and address on the reverse of this form so that we can return this card to you. • Attach this form to the front of the mailpiece, or on the back if space does not permit. • Write "Return Receipt Requested" on the mailpiece below the article number. • The Return Receipt will show to whom the article was delivered and the date delivered.	
<b>1. Addressee's Address:</b> I also wish to receive the following services (for an extra fee): <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	

Thank you for using Return Receipt Service.



**Nearburg Producing Company**

Exploration and Production

Dallas, Texas

Page 1 of 2

**AUTHORITY FOR EXPENDITURE**

LEASE: Fairchild 13

WELL NUMBER: 2

PROPOSED TOTAL DEPTH: 8,200'

LOCATION: 1,980 FWL, 660 FSL, Section 13, T19S, R25E, Eddy County, New Mexico.

FIELD: Dagger Draw Upper Penn, North PROSPECT:

EXPLORATORY, DEVELOPMENT, WORKOVER: D

DESCRIPTION OF WORK: Drill and complete as a pumping Cisco/Canyon oil producer.

DATE PREPARED: 3/3/95

EST. SPUD DATE: 3/30/95

EST. COMPLETION DATE: 5/1/95

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

<b>INTANGIBLE COSTS:</b>	<b>CODE</b>	<b>TO CSG PT</b>	<b>CODE</b>	<b>COMPLETION</b>	<b>TOTAL WELL</b>
Drilling Footage 8,200 Ft @ 14.50 \$/Ft	1514.101	118,900	NA		118,900
Drilling Daywork D/C\$/da 3 2 4400	1514.105	13,200	1515.105	8,800	22,000
Drilling Turnkey	1514.110		1515.110		0
Rig Mobilization and Demobilization	1514.115		1515.115		0
Road & Location Expense	1514.120	15,000	1515.120	1,000	16,000
Damages	1514.125	2,500	1515.125		2,500
Directional Drilling - Tools and Service	1514.130		1515.130		0
Drilling Fluids	1514.135	12,000	NA		12,000
Fuel, Power, and Water	1514.140	10,000	1515.140	1,500	11,500
Supplies - Bits	1514.145		1515.145	750	750
Supplies - Casing Equipment	1514.150	2,000	1515.150	3,500	5,500
Supplies - Liner Equipment	1514.155		1515.155		0
Supplies - Miscellaneous	1514.160	500	1515.160	500	1,000
Cement and Cmt. Services - Surface Csg	1514.165	17,000	NA		17,000
Cement and Cmt. Services - Int. Csg	1514.170		NA		0
Cement and Cmt. Services - Prod. Csg	NA		1515.172	30,000	30,000
Cement and Cmt. Services - Other	1514.175		1515.175		0
Rental - Drilling Tools and Equipment	1514.180	3,000	1515.180	1,000	4,000
Rental - Miscellaneous	1514.185	500	1515.185	1,000	1,500
Testing - Drill Stem / Production	1514.195	6,000	1515.195		6,000
Open Hole Logging	1514.200	9,000	NA		9,000
Mudlogging Services	1514.210	6,500	NA		6,500
Special Services	1514.190		1515.190		0
Plug and Abandon	1514.215	10,000	1515.215	(10,000)	0
Pulling and/or Swabbing Unit	NA		1515.217	12,000	12,000
Reverse Equipment	NA		1515.219	1,200	1,200
Wireline Services	1514.205		1515.205	5,000	5,000
Stimulation	NA		1515.221	20,000	20,000
Pump / Vacuum Truck Services	1514.220	500	1515.220	500	1,000
Transportation	1514.225	1,000	1515.225	1,500	2,500
Tubular Goods - Inspection & Testing	1514.230	500	1515.230	6,000	6,500
Unclassified	1514.245		1515.245		0
Telephone and Radio Expense	1514.240	500	1515.240	500	1,000
Engineer / Geologist	1514.250	2,500	1515.250	1,350	3,850
Company Labor - Field Supervision	1514.255	7,500	1515.255	4,500	12,000
Contract Labor / Roustabout	1514.265	1,000	1515.265	2,500	3,500
Legal and Professional Services	1514.270	2,000	1515.270	500	2,500
Insurance	1514.275	5,000	1515.275		5,000
Overhead	1514.280	4,600	1515.280	2,000	6,600
<b>SUBTOTAL</b>		<b>251,200</b>		<b>95,600</b>	<b>346,800</b>
Contingencies		5,000		1,500	6,500
<b>ESTIMATED TOTAL INTANGIBLES</b>		<b>256,200</b>		<b>97,100</b>	<b>353,300</b>

DATE PREPARED: 3/3/95 EST. SPUD DATE: 3/30/95 EST. COMPLETION DATE: 5/1/95  
ACCOUNTING WELL NUMBER:  
COMMUNICATIONS ACCOUNT NUMBER:

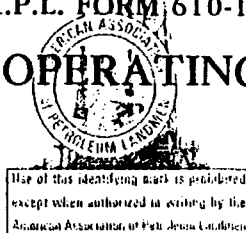
APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF THE OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE, OR LESS, UNLESS THE NON-OPERATOR GIVES NOTIFICATION ON THIS FORM OF HIS INTENT TO FURNISH HIS PROPORTIONATE SHARE IN KIND. THIS AFE IS ONLY AN ESTIMATE. BY SIGNING YOU AGREE TO PAY YOUR SHARE OF THE ACTUAL COSTS INCURRED.

<b>NPC APPROVAL</b>	<b>DATE</b>
<b>PREPARED BY:</b> TRM	3/3/95
<b>REVIEWED BY:</b>	
<b>APPROVED BY:</b>	

DATE \_\_\_\_\_



A.A.P.L. FORM 610-1982  
**MODEL FORM OPERATING AGREEMENT**



FAIRCHILD 24 PROSPECT

OPERATING AGREEMENT

DATED

March 3, 19 95,

OPERATOR NEARBURG PRODUCING COMPANY

CONTRACT AREA SW/4 Section 13, T-19-S, R-25-E,

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

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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.  
EXHIBITS

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

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

- (1) Identification of lands subject to 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. / Notice of Joint Operating Agreement Lien, Security

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

☐ G. Exhibit "G", Tax Partnership. There is no Exhibit "G" to this agreement.

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.



### 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~~ due on each party's share of production 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 or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of 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 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 title opinions, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "A" and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

## ARTICLE IV

## continued

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

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

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

## B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition 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 and gas leases and interests: and,

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

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

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

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

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

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

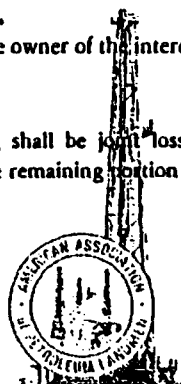
2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the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

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

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

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

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.



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ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest 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 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 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 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 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.

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 30th day of September, 1995, Operator shall be authorized to commence the drilling of a well for oil and gas at the following location:

1980' FWL and 660' FSL of Section 13, T-19-S, R-25-E,  
Eddy County, New Mexico,

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

a depth of 8200' or sufficient in Operator's  
opinion to test the Cisco-Canyon formation

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

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



ARTICLE VI  
continued

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

## B. Subsequent Operations:

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

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of 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 on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, 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 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

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 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 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and 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 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,



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## ARTICLE VI

## continued

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

200%

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

(b) 500 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 500 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well 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 the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, <sup>crude oil and</sup> excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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

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



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ARTICLE VI  
continued

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) 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 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 production, ceases to produce in paying quantities.

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and 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 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party'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 instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

**C. TAKING PRODUCTION IN KIND:**

have the right to

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

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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 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 any gas balancing  
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

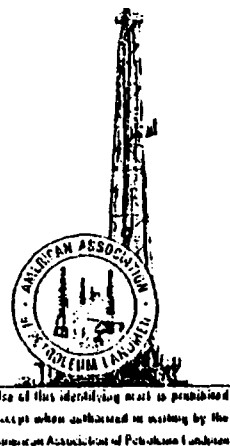
20  
21 **D. Access to Contract Area and Information:**

22  
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 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. 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) then open to production shall tender to each of the other  
48 parties its proportionate share of the value of the well's salvable 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. 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 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 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



# ARTICLE VI

## continued

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

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

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

# ARTICLE VII.

## EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

### B. Liens and Payment Defaults:

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

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

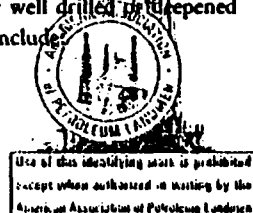
### C. Payments and Accounting:

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

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

### D. Limitation of Expenditures:

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



contained in Lease No. 5 from Richard Coats, et al. covering this tract.

2.

This opinion is limited by the materials examined, and I cannot be responsible for mistakes in or omissions from the records of Caprock Title Company which I have been unable to detect.

3.

Thelma S. Boyd conveyed to H. L. Lusk an undivided 1/2 interest in the surface of the SW/4 of Section 13 by Warranty Deed dated April 30, 1965, recorded in Book 188, page 353, Deed Records. Lusk conveyed said interest to David Caswell without the joinder of a spouse on October 15, 1991 by Warranty Deed recorded in Book 108, page 431. I have no information as to whether H. L. Lusk was married at the time of acquisition of this interest on April 30, 1965 and therefore cannot opine as to the validity of the Deed to Caswell. Moreover, the heirs of Thelma Boyd continue to claim said 1/2 interest in the surface subsequent to 1965. This is for your information regarding payment of surface damages only.

4.

This opinion incorporates all unsatisfied requirements and comments contained in my prior Drilling Opinion dated January 26, 1995.

5.

I do not cover herein questions of boundary, area, excesses, conflicts with adjacent tracts or surveys, unrecorded production purchase contracts, unpaid bills for labor or materials which may ripen into mechanic's or materialman's liens, rights of persons, if any, in possession, nor any other matters not covered by the materials examined.

Very truly yours,



Rudolph A. Woerndle, P. C.



## ARTICLE VII

continued

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

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

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

3. **Other Operations:** Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-five Thousand Dollars (\$ 25,000 ) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Fifteen Thousand Dollars (\$ 15,000 ) but less than the amount first set forth above in this paragraph.

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

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

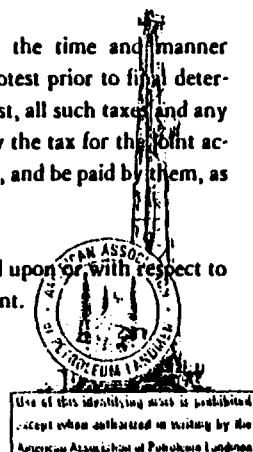
Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

#### F. Taxes:

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

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

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



# ARTICLE VII

## continued

### G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

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

# ARTICLE VIII.

## ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

### A. Surrender of Leases:

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

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

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

### ~~B. Renewal or Extension of Leases:~~

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

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

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

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

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

### C. Acreage or Cash Contributions:

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

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## 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. This paragraph shall not be  
 8 applicable to the contribution of acreage by the Contributing Parties toward the  
 9 Initial, Substitute, or Option Test Well.  
 10 D. Maintenance of Uniform Interest:

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 1. the entire interest of the party in all leases and equipment and production; or
- 15 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

16  
 17 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement  
 18 and shall be made without prejudice to the right of the other parties.

19 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  
 20 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for  
 21 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  
 22 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter  
 23 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract  
 24 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

25  
 26 E. Waiver of Rights to Partition:

27 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
 28 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  
 29 interest therein.

30  
 31 F. ~~Preferential Right to Purchase:~~

32 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
 33 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~  
 34 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~  
 35 ~~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~~  
 36 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~  
 37 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~  
 38 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~  
 39 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~  
 40 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

## ARTICLE IX.

## INTERNAL REVENUE CODE ELECTION

41 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
 42 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
 43 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
 44 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
 45 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-  
 46 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-  
 47 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  
 48 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
 49 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
 50 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
 51 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other  
 52 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
 53 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,  
 54 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-  
 55 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
 56 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
 57 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 Fifteen Thousand Dollars (\$ 15,000 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and 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.

ARTICLE XI.  
FORCE MAJEURE

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

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

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

ARTICLE XII.  
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by 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 180 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 120 days from the date of abandonment of said well.

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



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ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the 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 \_\_\_\_\_ shall govern.

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, or 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.

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

Notwithstanding any provisions herein to the contrary, the parties hereto agree as follows:

A. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in and to any oil and/or gas and other interest which may be owned by a third party or which, failing in such operation, may revert to a third party, or (3) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. The party desiring to drill, deepen, rework, plug back, sidetrack, recomplete, or to perform any other operation that may be required pursuant to this paragraph D, shall give the other parties written notice of the proposed operation specifying the work to be performed, the location, proposed depth, objective formation, and the estimated cost of the operation. The parties receiving such notice shall have fifteen (15) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the proposed operation, and any party electing to participate must pay its share of the cost within the fifteen (15) day period after receipt of the notice, failing in which the parties interest who elected to participate but did not timely pay will be subject to the reassignment provision as set forth below. If a drilling rig is on location, notice of a proposal to rework, drill, deepen, plug back, sidetrack, recomplete, or any other operation pursuant to this paragraph D may be given by telephone and the response period shall be limited to forty-eight (48) hours inclusive of Saturdays, Sundays, and legal holidays. Failure of a party receiving such notice to reply or pay its share of the cost within the period above fixed shall make such parties interest subject to the reassignment provision provided for below. Any notice or response given by telephone shall be promptly confirmed in writing.

B. Operator shall comply where applicable with the following clauses contained in 41 CFR:

60-1.4(a)	(Equal Employment Opportunity);
1-12.803-10	(Certification of Non-Segregated Facilities);
60-250	(Employment Opportunity for Veterans);
60-741	(Employment Opportunity for Handicapped Individuals);
1-1.710	(Subcontracting With Small Business Concerns);
1-1.805	(Subcontracting With Labor Surplus Area Concerns);
1.1.1310	(Subcontracting With Minority Business Enterprises);
1.1.2302-2	(Environmental Protection).

These clauses are incorporated herein by reference if and to the extent applicable to this contract by law, executive order, or regulation. Operator represents that he is in compliance with the reporting requirements of 41 CFR 60-1.7 and the Affirmative Action Program requirements of 41 CFR 60-1.40 and 60-2.

C. Non-Operators authorize Operator to receive, and direct all product purchasers to pay to Operator, all proceeds of production from or attributable to the Contract Area. As evidence of this authority all products purchasers may rely solely on a copy of this provision, authenticated by Operator, in lieu of the need for any additional consents or transfer orders from the Non-Operators. While Operator is receiving all proceeds of production, Operator obligates itself to make payments of all Working and Royalty Interests Revenues attributable to the Interests covered hereby.



1 D. Any party creating the necessity for separate measurement facilities shall alone bear all costs of such facilities. Any party using separate  
2 production measurement facilities shall keep accurate records of such production in accordance with applicable state and federal regulations,  
3 and upon Operator's request, under the terms of this agreement or any agreement executed in conjunction with this agreement, true and  
4 complete copies of said records shall be furnished to Operator. Said production records supplied to the Operator shall be treated as  
5 confidential information and shall be used by Operator only to the extent necessary to fulfill its duties as Operator.  
6

7 E. All costs and expenses incurred by Operator in securing attorneys, geologists, engineers, exhibits and related documentation, for the  
8 preparation and filing of material relative to the sale of oil and/or gas shall be borne by all parties in accordance with their respective interest  
9 as set forth on Exhibit "A" attached hereto and made a part hereof.  
10

11 F. All costs and expenses including fees and expenses of attorneys and consultants incurred by Operator which may arise due to other  
12 operators in the area applying for non-standard locations and/or other regulatory hearings shall be borne by all parties in accordance with  
13 their respective interests as set forth in Exhibit "A" attached hereto and made a part hereof.  
14

15 G. The parties hereto agree to execute a Notice of Joint Operating Agreement Lien in the form of Exhibit "F" to this agreement in order  
16 to permit perfection of the hereinabove described security interests by placing said NOTICE of record in the county in which the Contract  
17 Area is located and in accordance with the Uniform Commercial Code of the State in which the Contract Area is located.  
18

19 H. If a party to this agreement elects not to participate in a proposed operation or, if a non-consenting party fails to timely pay its share  
20 of the cost involved in such operation, and is determined to be a non-participating party, shall not have access to or be entitled to receive  
21 well information with regard to operations conducted on the Contract Area.  
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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of this 3rd day of March, 1995.

OPERATOR

NEARBURG PRODUCING COMPANY

By: \_\_\_\_\_  
Joe E. Fitzgerald  
Senior Landman  
Date: \_\_\_\_\_  
Tax ID No.: 74-1666262

NON-OPERATORS

NEARBURG EXPLORATION COMPANY

By: \_\_\_\_\_  
Robert G. Shelton  
Attorney-in-Fact  
Date: \_\_\_\_\_  
Tax ID No.: 462-80-5563

YATES PETROLEUM CORPORATION

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

YATES DRILLING COMPANY

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

ABO PETROLEUM CORPORATION

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

MYCO INDUSTRIES, INC.

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

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ACKNOWLEDGEMENTS

THE STATE OF TEXAS       §  
                                  §  
COUNTY OF MIDLAND       §

The foregoing instrument was acknowledged before me on this the 3rd day of March, 1995, by Joe E. Fitzgerald, Senior Landman of Nearburg Producing Company, a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of Texas

THE STATE OF TEXAS       §  
                                  §  
COUNTY OF MIDLAND       §

The foregoing instrument was acknowledged before me on this the 3rd day of March, 1995, by Robert G. Shelton, Attorney-in-Fact of Nearburg Exploration Company, a sole proprietorship, on behalf of said sole proprietorship.

\_\_\_\_\_  
Notary Public, State of Texas

STATE OF NEW MEXICO       §  
                                  §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 1995, by \_\_\_\_\_ as \_\_\_\_\_ of YATES PETROLEUM CORPORATION, a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of New Mexico

STATE OF NEW MEXICO       §  
                                  §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 1995, by \_\_\_\_\_ as \_\_\_\_\_ of YATES DRILLING COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of New Mexico

STATE OF NEW MEXICO       §  
                                  §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 1995, by \_\_\_\_\_ as \_\_\_\_\_ of ABO PETROLEUM CORPORATION, a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of New Mexico

STATE OF NEW MEXICO       §  
                                     §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_,  
1995, by \_\_\_\_\_ as \_\_\_\_\_ of MYCO INDUSTRIES, INC., a  
\_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of New Mexico

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated the 3rd day of March, 1995, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company, et al as Non-Operators

I. Identification of lands subject to agreement:

Southwest Quarter (SW/4) of Section 13, T-19-S, R-25-E, Eddy County, New Mexico.

II. Restrictions as to depths or formations:

This Operating Agreement is limited to the interval between the surface of the earth and the base of the Cisco-Canyon formation.

III. Percentage of parties to agreement:

Nearburg Exploration Company	66.67%
Yates Petroleum Corporation	23.34%
Yates Drilling Company	3.33%
Abo Petroleum Corporation	3.33%
Myco Industries, Inc.	3.33%
	<hr/> 100.00%

IV. A. Oil & Gas Leases subject to agreement:

See Exhibit A-1 attached hereto.

V. Addresses of parties to the agreement

Nearburg Exploration Company  
P. O. Box 823085  
Dallas, Texas 75382-3085

Nearburg Producing Company  
P. O. Box 823085  
Dallas, Texas 75382-3085

Yates Petroleum Corporation  
Yates Drilling Company  
Abo Petroleum Corporation  
Myco Industries, Inc.  
105 South Fourth Street  
Artesia, New Mexico 80210

EXHIBIT "A-1"

ATTACHED TO AND MADE A PART OF EXHIBIT "A" TO THAT CERTAIN OPERATING AGREEMENT DATED THE 3RD DAY OF MARCH, 1995, BY AND BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, ET AL, AS NON-OPERATORS

1.   Lessor:               Gideon M. Boyd and Ruth H. Boyd, Trustees  
     Lessee:             Nearburg Exploration Company  
     Expiration Date:   November 12, 1994  
     Description:       SW/4 Section 13, T-19-S, R-25-E,  
                         Eddy County, New Mexico
2.   Lessor:               Warren Akin, III, et al  
     Lessee:             Nearburg Exploration Company  
     Expiration Date:   November 12, 1994  
     Description:       SW/4 Section 13, T-19-S, R-25-E,  
                         Eddy County, New Mexico
3.   Lessor:               Dorothy B. Sinclair  
     Lessee:             Nearburg Exploration Company  
     Expiration Date:   November 12, 1995  
     Description:       SW/4 Section 13, T-19-S, R-25-E,  
                         Eddy County, New Mexico
4.   Lessor:               Richard H. Coats, et al  
     Lessee:             Nearburg Exploration Company  
     Expiration Date:   November 3, 1996  
     Description:       SW/4 Section 13, T-19-S, R-25-E,  
                         Eddy County, New Mexico
5.   Lessor:               Louise Holmquist  
     Lessee:             Yates Petroleum Corporation  
                         Yates Drilling Company  
                         Abo Petroleum Corp.  
                         Myco Industries, Inc.  
     Expiration Date:   January 31, 1997  
     Description:       SW/4 Section 13, T-19-S, R-25-E,  
                         Eddy County, New Mexico
6.   Lessor:               Charles Holmquist  
     Lessee:             Yates Petroleum Corporation  
                         Yates Drilling Company  
                         Abo Petroleum Corp.  
                         Myco Industries, Inc.  
     Expiration Date:   January 31, 1997  
     Description:       SW/4 Section 13, T-19-S, R-25-E,  
                         Eddy County, New Mexico
7.   Lessor:               Walter Bert Holmquist et ux, Trustees  
     Lessee:             Nearburg Exploration Company  
     Expiration Date:   February 7, 1998  
     Description:       SW/4 Section 13, T-19-S, R-25-E,  
                         Eddy County, New Mexico



ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MARCH 3, 1995, BY AND BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY ET AL, AS NON-OPERATORS

TEXAS & NEW MEXICO  
PRODUCERS 88 REV. 10-15-73

## OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by and between \_\_\_\_\_

hereinafter called "Lessor", whether one or more, and \_\_\_\_\_

hereinafter called "Lessee".

WITNESSETH; That, for and in consideration of the sum of \_\_\_\_\_

Dollars (\$\_\_\_\_\_), receipt of which is hereby acknowledged and of the royalties herein provided and the agreements of Lessee herein contained Lessor does hereby grant, lease and let exclusively unto Lessee, its successors and assigns, all of the land hereinafter described, together with any reversionary rights therein, for the purpose of exploring by geological, geophysical and all other methods, and of drilling, producing and operating wells or mines for the recovery of oil, gas and other hydrocarbons, and all other minerals or substances, whether similar or dissimilar, that may be produced from any well or mine on the leased premises, including primary, secondary, tertiary, cycling, pressure maintenance methods of recovery and all other methods, whether now known or unknown, with all incidental rights thereto, and to establish and utilize facilities for surface and subsurface disposal of salt water, and to construct, maintain and remove roadways, tanks, pipelines, electric power and telephone lines, power stations, machinery and structures thereon, to produce, store, transport, treat and move all substances described above, and the products therefrom, together with the right of ingress and egress to and from said land. The land hereby leased is situated in the County of \_\_\_\_\_, State of \_\_\_\_\_, and is described as follows:

This lease covers all of the land described above, including any interests therein that any signatory hereto has the right or power to lease, and in addition it covers, and there is hereby granted, leased and let, upon the same terms and conditions as herein set forth, all lands now or hereafter owned or claimed by Lessor, adjacent, contiguous, or a part of the tract or tracts described above, whether such additional lands be owned or claimed by deed, limitation, or otherwise, or are fenced or unfenced, and whether such lands are inside or outside of the metes and bounds description set forth above, or are in the named survey, or other survey or surveys. The bonus money paid for this lease is in gross, and not by the acre, and shall be effective to cover all such land irrespective of the number of acres contained therein, but the land included within this lease is estimated to comprise \_\_\_\_\_ acres, whether actually more or less, and such land is hereinafter referred to as the "leased premises".

TO HAVE AND TO HOLD the leased premises for a term of \_\_\_\_\_ years from the date hereof, hereinafter called "primary term", and as long thereafter as oil, gas or other hydrocarbons, or other minerals or leased substances, or either or any of them, are produced from the leased premises or from lands with which the leased premises are pooled or unitized.

In consideration of the premises, it is hereby agreed as follows:

1. **Royalty On Oil.** Lessee shall deliver to Lessor, at the well or to the credit of Lessor in the pipeline to which the well may be connected,  $\frac{75}{100}$ th of all oil and other liquid hydrocarbons produced and saved from the leased premises, or Lessee, at its option, may buy or sell such  $\frac{75}{100}$ th royalty and pay Lessor the market price for oil or liquid hydrocarbons of like grade and gravity prevailing in the field on the day such oil is run into pipelines or into storage tanks. Lessor's royalty interest in either case shall bear its proportion of any expenses for transporting and treating oil to make it marketable as crude.
2. **Royalty On Gas.** Lessee shall pay to Lessor as royalty on gas, including casinghead gas or other gaseous substances produced from said land and sold on or off the premises,  $\frac{75}{100}$ th of the net proceeds at the well received from the sale thereof, provided that on gas used off the premises or by Lessee in the manufacture of gasoline or other products therefrom, the royalty shall be the market value at the well of  $\frac{75}{100}$ th of the gas so used; as to all gas sold by Lessee under a written contract, the price received by Lessee for such gas shall be conclusively presumed to be the net proceeds at the well or the market value at the well for the gas so sold.
3. **Royalty On Other Substances.** Lessee shall pay to Lessor, as royalty on any substances covered by this lease other than oil and gas and the products thereof which Lessee may elect to produce, save and market from the leased premises,  $\frac{75}{100}$ th of the proceeds received by Lessee from the sale thereof after deducting the processing costs.

4. **Shut - In Gas Royalty.** If at any time, or from time to time, either before or after the expiration of the primary term of this lease, there is any gas well on the leased premises or on lands with which the leased premises are pooled or unitized and which is capable of producing in paying quantities, but which is shut in before or after production therefrom, such well shall be considered under all provisions of this lease as a well producing gas in paying quantities and this lease shall remain in force in like manner as though gas therefrom was actually being sold or used. In such event, Lessee covenants and agrees to pay Lessor, as royalty, the sum of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) per annum for the period commencing on the date such well is actually shut in, unless this lease is being maintained in force and effect by some other provision hereof, in which event, such period shall commence on the date this lease ceases to be maintained in full force and effect by some other provision hereof. Payment or tender shall be made to Lessor, or deposited to the credit of Lessor in the depository bank named in this lease. The first payment shall be due and payable on or before ninety (90) days after the date such well is shut in, or ninety (90) days from the date this lease ceases to be maintained in force by some other provision hereof. Unless gas from such well is produced and sold or used prior thereto, except temporary sales, or use for lease operations, subsequent payments shall be due annually thereafter on the anniversary date of the period for which such prior payment was made. No additional payments shall be required if there is more than one shut-in gas well on the leased premises or on lands with which the leased premises are pooled or unitized. The term "gas well" shall include wells capable of producing natural gas, condensate, or any gaseous substance, and wells classified as gas wells by any governmental authority having jurisdiction.

5. **Delay Rental.** If operations for drilling or mining on the leased premises, or on lands with which the leased premises are pooled or unitized, are not commenced on or before one (1) year from the date of this lease, as set forth above, this lease shall terminate as to both parties unless on or before one (1) year from the date of this lease, Lessee shall pay or tender to the Lessor a rental of \_\_\_\_\_ Dollars (\$\_\_\_\_\_), which shall cover the privilege of deferring commencement of such drilling or mining operation for a period of twelve (12) months from the expiration of said one (1) year period. In like manner and upon like payments or tenders annually, the commencement of such operations may be deferred for successive periods of the same number of months, during the primary term. Payments or tenders may be made to the Lessor or to the Lessor's credit in the \_\_\_\_\_ Bank at \_\_\_\_\_, which bank or any successor thereof shall continue to be the agent for the Lessor and the Lessor's successors and assigns. If such bank or any successor thereof shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept rental, the rental paying date for any year shall be extended until the expiration of thirty (30) days after Lessor shall have delivered to Lessee a recordable instrument making provision for another method of payment or tender and any depository charge shall be the liability of the Lessor. The payment or tender of rental may be made by check or draft of Lessee, mailed or delivered to said bank or Lessor, or to any Lessor if more than one, on or before the rental paying date. Mailing of rental on or before the rental paying date shall be deemed a timely tender thereof and shall preclude the termination of this lease.

6. **Drilling Operations.** If Lessee should drill and abandon as a dry hole a well on the leased premises, or if after the discovery of oil, gas or other minerals, the production thereof should cease from any cause, and, in either event, there are no other producing wells on the leased premises or on lands with which they are pooled or unitized, or drilling or reworking operations are not being conducted thereon, this lease shall not terminate if Lessee commences reworking or additional drilling operations on the leased premises within sixty (60) days thereafter or, if it be within the primary term, Lessee commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of ninety (90) days from the date of such abandonment or cessation of production. If such abandonment or cessation of production occurs at any time during the last fifteen (15) months of the primary term, no rental payment or drilling operations are necessary to keep the lease in force during the remainder of the primary term. If, at the expiration of the primary term, oil, gas or other minerals are not being produced from the leased premises or from lands with which the leased premises are pooled or unitized, but Lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such drilling or reworking operations are prosecuted, or reworking operations on any well or additional drilling operations are conducted on the leased premises, or on lands pooled or unitized therewith, with no cessation of more than sixty (60) consecutive days, and if any such operations result in production then as long thereafter as such production continues.

7. **Pooling.** Lessee is hereby granted the right, at any time and from time to time, whether before or after production, to pool this lease for the production of oil, gas or condensate, or any or either of them, as to the land covered hereby, or any zone or portion thereof, or as to any mineral or royalty interest therein, with any other lease covering the above described land, or lands adjacent, contiguous, adjoining, or in the immediate vicinity thereof, or as to any zone or portion of said lease or any mineral or royalty interest therein. Such pooling shall be into a unit or units not exceeding forty (40) acres plus an acreage tolerance of ten percent (10%) thereof for oil, and units not exceeding six hundred forty (640) acres plus an acreage tolerance of ten percent (10%) thereof for gas, provided that, should governmental authority having jurisdiction prescribe or permit the creation of any drilling, spacing or proration units larger than those specified above, such units may be created or enlarged to conform in size to the drilling or spacing units so prescribed or permitted or to the proration units as may be authorized for obtaining the maximum allowable production from one well. Lessee may pool the acreage or interests above described, or any portion thereof, as above provided, as to oil, or gas in any one or more zones, and units so formed need not conform in size or area with the unit or units into which the lease is pooled, or combined as to any other zone, and oil units need not conform as to area with gas units. Such pooling shall be effected by the filing by Lessee of a written designation, in the county, or counties, in which the premises are located, identifying and describing the pooled unit. The production of oil, gas or condensate from any zone or portion of the land so pooled and the development and operation on such land, including the commencement, drilling, completion and operation of a well thereon, or the existence thereof of a shut-in gas well, shall be considered and construed and shall have the same effect, except for the payment of royalty, as production, development and operation, or the existence of a shut-in gas well on the leased premises, regardless of the location of the well on the unit. Production from any unit well producing oil, gas or condensate shall be allocated to the leased premises in the proportion that the acreage of the leased premises included within the unit bears to the total acreage in the unit, and the royalty provided for herein shall be calculated on the portion of the production so allocated. The royalty so payable on allocated production shall be in lieu of any other royalty that would accrue to Lessor from the production of oil, gas or condensate from any zone or portion of the leased premises included within the unit. Shut-in gas royalty with respect to unit shut-in gas wells, shall be payable in accordance with the provisions and in the amount set forth in this lease. In the event any unit well shall fail to produce oil, gas or condensate in paying quantities, or in the event the production from any such well shall cease, Lessee may terminate the unit by filing for record, in the county, or counties where the land is situated, a written declaration of such termination.

8. **Use Of Oil, Gas And Water For Operations.** Lessee shall have the free use of oil, gas and water from the leased premises, except water from Lessor's wells and tanks, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting the amount so used.

9. **Removal Of Equipment.** Lessee shall have the right, at any time during or after the expiration of this lease, to remove all property and fixtures placed on the leased premises by Lessee, including the right to withdraw and remove all casing.

10. **Assignment Or Change Of Ownership.** The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change or division in the ownership of the land, rentals or royalties, however accomplished, shall be binding upon Lessee for any purpose and shall not impair the effectiveness of any payment theretofore made by Lessee (irrespective of whether Lessee has either actual or constructive knowledge thereof) until sixty (60) days after such person acquiring any interest has furnished Lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original Lessor. In the event of an assignment of this lease as to a segregated portion of the land covered by this lease, the rentals payable hereunder shall be apportioned as between the several leasehold owners, ratably, according to the surface area of each, and a default in rental payment by one Lessee shall not affect the rights of other leasehold owners hereunder who make due payments of rentals. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge Lessee of all obligations hereunder.

11. **Force Majeure.** Lessee shall not be liable for any delays in its performance of any covenant or condition hereunder, express or implied, or for total or partial nonperformance thereof, due to force majeure. The term "force majeure", as used herein, shall mean any circumstance or any condition beyond the control of Lessee, including but not limited to acts of God and actions of the elements; acts of the public enemy; strikes; lockouts; accidents; laws, acts, rules, regulations and orders of federal, state or municipal governments, or officers or agents thereof; failure of transportation; or the exhaustion, unavailability, or delays in delivery, of any product, labor, service or material. If Lessee is required to cease drilling or reworking or producing operations on the leased premises by force majeure, then until such time as such force majeure is terminated and for a period of ninety (90) days after such termination, each and every provision of this lease that might operate to terminate it shall be suspended and this lease shall continue in full force and effect during such suspension period. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

## EXHIBIT

" C "

Attached to and made a part of that certain Operating Agreement dated March 3, 1995, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company et al, as Non-Operator

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

### 3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Texas Commerce Bank of Dallas, Texas on the first day of the month in which delinquency occurs plus ~~4%~~ for the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

### 4. Adjustments

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

## 5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

## 6. Approval By Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

### 2. Rentals and Royalties

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

### 3. Labor

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

### 4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 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.

### 5. Material

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

### 6. Transportation

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

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

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

## 7. Services

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

## 8. Equipment and Facilities Furnished By Operator

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

## 9. Damages and Losses to Joint Property

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

## 10. Legal Expense

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

## 11. Taxes

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

## 12. Insurance

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

## 13. Abandonment and Reclamation

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

## 14. Communications

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

## 15. Other Expenditures

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

\*prime rate of interest in effect at Texas Commerce Bank of Dallas, Texas, on the first day of the month in which usage occurs plus two percent (2%).

### III. OVERHEAD

#### 1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:
  - ( x ) Fixed Rate Basis, Paragraph 1A, or
  - ( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.
- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:
  - ( ) shall be covered by the overhead rates, or
  - ( x ) shall not be covered by the overhead rates.
- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property, including the costs and expenses of professional employees associated with and employed for the sale of gas and/or casinghead gas from any well
  - ( ) shall be covered by the overhead rates, or located on the Contract Area.
  - ( x ) shall not be covered by the overhead rates.

#### A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5640  
(Prorated for less than a full month)

Producing Well Rate \$ 540

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

##### (a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

##### (b) Producing Well Rates

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

#### B. Overhead - Percentage Basis

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

## (a) Development

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

## (b) Operating

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

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

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

## 2. Overhead - Major Construction

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

- A. 7.5 % of first \$100,000 or total cost if less, plus
- B. 5.0 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2.5 % of costs in excess of \$1,000,000.

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

## 3. Catastrophe Overhead

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

- A. 7.5 % of total costs through \$100,000; plus
- B. 5.0 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2.5 % of total costs in excess of \$1,000,000.

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

## 4. Amendment of Rates

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

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

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

## 1. Purchases

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

## 2. Transfers and Dispositions

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



## A. New Material (Condition A)

### (1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

### (2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

## B. Good Used Material (Condition B)

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

### (1) Material moved to the Joint Property

At ~~seventy-five percent (75%)~~ <sup>eighty percent (80%)</sup> of current new price, as determined by Paragraph A.

### (2) Material used on and moved from the Joint Property

- (a) At ~~seventy-five percent (75%)~~ <sup>eighty percent (80%)</sup> of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

### (3) Material not used on and moved from the Joint Property

At ~~seventy-five percent (75%)~~ <sup>eighty percent (80%)</sup> of current new price as determined by Paragraph A.

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

## C. Other Used Material

### (1) Condition C

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

## (2) Condition D

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

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

## (3) Condition E

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

## D. Obsolete Material

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

## E. Pricing Conditions

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

## 3. Premium Prices

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

## 4. Warranty of Material Furnished By Operator

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

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

## 1. Periodic Inventories, Notice and Representation

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

## 2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made<sup>\*</sup> within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

## 3. Special Inventories

Special inventories may be taken<sup>\*</sup> 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.

<sup>\*</sup>at the expense of the party(s) causing such inventory to occur

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 3RD DAY OF MARCH, 1995, BY AND BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, ET AL, AS NON-OPERATORS

INSURANCE

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 accordance with the requirements of the laws of the State or States where work is conducted and employers liability insurance of Five Hundred Thousand Dollars (\$500,000.00) bodily injury by accident and Five Hundred Thousand Dollars (\$500,000.00) bodily injury by disease per employee, with a policy limit of Five Hundred Thousand Dollars (\$500,000.00) for bodily injury by disease.

(b) Public liability insurance with limits of One Million Dollars (\$1,000,000) as to any one person, and One Million Dollars (\$1,000,000) as to any one occurrence.

(c) Automobile public liability insurance with a combined single limit of up to One Million Dollars (\$1,000,000) per accident.

(d) Umbrella catastrophe liability of Ten Million Dollars (\$10,000,000) each occurrence and Ten Million Dollars (\$10,000,000) aggregate.

Each policy of insurance issued pursuant to the provisions of (a), (b), (c) or (d) of this section shall provide by endorsement or otherwise that the provisions of the policy are extended to cover the interest of the Non-Operator for whom the assured is acting as Operator, agent, or contractor under contract, but only with respect to operations conducted by named assured, and shall charge the premiums for all such insurance to the joint account.

Operator carries Control of Well Insurance covering his proportionate share of expenses involved in controlling a blowout, the expense of redrilling and certain other related costs. Coverage under this insurance is available to non-operating working interest owners. Such insurance is optional, however, and if not rejected by the non-operating working interest owners prior to spud date, they will be billed accordingly. Any working interest owner rejecting above coverage shall be responsible for his proportionate share of such loss, anything in this agreement to the contrary notwithstanding.

Operator shall furnish, upon request, to Non-Operators a certificate covering each policy of insurance issued pursuant to this section.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 3RD DAY OF MARCH, 1995 BY AND BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, ET AL, AS NON-OPERATORS

GAS BALANCING AGREEMENT

During the period or periods when any party hereto has no market for, or such party's purchaser is unable to take, or if any party fails to take its share of gas, the other parties shall be entitled to produce, take and deliver each month one hundred percent of the allowable gas production assigned to the unit area by the appropriate governmental entity having jurisdiction, and each of such parties shall be entitled to take its pro-rata share of such production. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser.

Each party unable to market its full share of the gas produced shall be credited with underproduction equal to its share of the gas produced, less its share of gas taken or sold, used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto annual statements showing the total quantity of gas produced, taken or sold, used in lease operations, vented or lost, and the total quantity of condensate recovered. After seventy two (72) hours prior notice to Operator, any party may begin taking or delivering its share of the gas produced.

In addition to its share, each underproduced party, until it has recovered its underproduction and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five percent (25%) of each overproduced party's share of gas produced. If more than one party is entitled to take additional gas, they shall divide such additional gas in proportion to their unit participation.

It is recognized that the purpose of this Provision is to permit any party not marketing or taking its share of current gas production to defer its production from the reservoir and permit the other party or parties to pass clear title to all gas which is marketed or taken on a current basis. Therefore, in the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, the complete balancing shall be made based upon the price actually received by each overproduced party for gas produced and sold in excess of its share, such gas being the last volumes produced from such well or wells.

Each party producing and taking gas shall pay any and all production taxes due on such gas. At all times while gas is produced from the contract area, each party hereto, while producing, taking or delivering any gas to a purchaser, shall pay or cause to be paid, all royalties due on the gas produced, taken or delivered to a purchaser. Such royalty payments shall be paid to all royalty owners in the well spaced unit of the well being produced and shall be for each royalty owner's proportionate share of the royalty due on the production.

If, after one (1) year from the date of first sales and on a quarterly basis thereafter, an out-of-balance condition exists because of any party's inability or failure to take or deliver its share of production, then at the election of either the over-balanced party or the under-balanced party, either may require a cash balancing. The price basis for a cash-balancing pursuant to terms of this paragraph shall be the lower of either the over-balanced party's or parties' average price received during the period for which the cash balancing covers or the under-balanced party's or parties' average gas purchase contract price for such period. In the event an under-balanced party does not have a gas purchase contract, the price basis shall be the average price received by the over-balanced party or parties. This option may be exercised quarterly by either party during the thirty day period immediately following the quarterly anniversary of the date of first sales of gas by the first party selling any gas from the well.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT  
DATED THE 3RD DAY OF MARCH, 1995, BETWEEN NEARBURG PRODUCING  
COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, ET AL, AS  
NON-OPERATORS

NOTICE OF JOINT OPERATING AGREEMENT, LIEN,  
SECURITY INTERESTS AND FINANCING STATEMENT

STATE OF NEW MEXICO       §  
                                  §  
COUNTY OF EDDY           §

WHEREAS, A Joint Operating Agreement dated March 3, 1995, has been entered into between Nearburg Producing Company, as Operator, and the undersigned parties, as Non-Operators, with respect to the exploration, development and operation of their Working Interest and Mineral Interest, insofar as said interests pertain to the following described land (hereinafter called "Contract Area") in Eddy County, New Mexico, to wit:

The Southwest Quarter of 13, Township-19-South, Range-25-East,  
Eddy County, New Mexico.

AND, WHEREAS the said Operating Agreement provides in part that the parties hereto have granted certain liens and security interests in the above referenced property, fixtures and production located thereon or produced therefrom, to wit:

"Liens and Payment Defaults:

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

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

WHEREAS, it is the intent of the parties to give third parties notice of this instrument by filing same in the records of Eddy County, New Mexico.

NOW, THEREFORE, the undersigned parties do hereby grant to each other those rights described in said Agreement regarding liens priority and security interests upon the property described above insofar as said parties' property is covered by the terms of the Joint Operating Agreement outlined herein.

Operator and Non-Operator agree that a carbon, photograph or other reproduction of this Notice shall be sufficient as a financing statement.

**ATTENTION OF RECORDING OFFICE:** This instrument gives notice of and grants liens and security interests to both Operator and Non-Operators. Operator is both a secured party and a debtor. Non-operators are both a secured party and debtor. This Notice, as a financing statement, should be indexed accordingly.

EXHIBIT "F"  
NOTICE OF JOINT OPERATING AGREEMENT LIEN,  
SECURITY INTERESTS AND FINANCING STATEMENT  
PAGE -2-

For the purpose of filing this Notice of Joint Operating Agreement Lien, Security Interests and Financing Statement as a financing statement, the mailing address of secured parties and debtor are set forth on the signature page attached hereto.

The original of the Operating Agreement herein referenced, or a copy thereof, is maintained at Operator's office at P. O Box 823085, Dallas, Texas 75382-3085.

This instrument may be executed in multi-counterparts, no one of which need be executed by all parties hereto and the same shall be binding upon those parties, as well as their successors and assigns, who execute same, whether or not all named parties join in execution hereof. Counterparts thus executed shall together constitute but one and the same instrument. In the interest of facilitating, filing or recording this instrument thus executed in multi-counterparts, each executing party hereby authorizes removal of signature and acknowledgement pages and reassembly of the same into a single document composed of one copy of the substantive portions of this instrument attached to multiple, separately executed signature and acknowledgement pages.

Executed this \_\_\_\_ day of \_\_\_\_\_, 1995, to be effective however, the 3rd day of March, 1995.

OPERATOR

P. O. Box 823085  
Dallas, Texas 75382-3085

NEARBURG PRODUCING COMPANY

By: \_\_\_\_\_  
Joe E. Fitzgerald  
Senior Landman  
Date: \_\_\_\_\_  
Tax ID No.: 74-1666262

NON-OPERATORS

P. O. Box 823085  
Dallas, Texas 75382-3085

NEARBURG EXPLORATION COMPANY

By: \_\_\_\_\_  
Robert G. Shelton  
Attorney-in-Fact  
Date: \_\_\_\_\_  
Tax ID No.: 462-80-5563

YATES PETROLEUM CORPORATION

105 South Fourth Street  
Artesia, New Mexico 80210

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

YATES DRILLING COMPANY

105 South Fourth Street  
Artesia, New Mexico 80210

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

ABO PETROLEUM CORPORATION

105 South Fourth Street  
Artesia, New Mexico 80210

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

MYCO INDUSTRIES, INC.

105 South Fourth Street  
Artesia, New Mexico 80210

By: \_\_\_\_\_  
Its: \_\_\_\_\_  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

ACKNOWLEDGEMENTS

THE STATE OF TEXAS       §  
                                 §  
COUNTY OF MIDLAND       §

The foregoing instrument was acknowledged before me on this the 3rd day of March, 1995, by Joe E. Fitzgerald, Senior Landman of Nearburg Producing Company, a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of Texas

THE STATE OF TEXAS       §  
                                 §  
COUNTY OF MIDLAND       §

The foregoing instrument was acknowledged before me on this the 3rd day of March, 1995, by Robert G. Shelton, Attorney-in-Fact of Nearburg Exploration Company, a sole proprietorship, on behalf of said sole proprietorship.

\_\_\_\_\_  
Notary Public, State of Texas

STATE OF NEW MEXICO       §  
                                 §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 1995, by \_\_\_\_\_ as \_\_\_\_\_ of YATES PETROLEUM CORPORATION, a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of New Mexico

STATE OF NEW MEXICO       §  
                                 §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 1995, by \_\_\_\_\_ as \_\_\_\_\_ of YATES DRILLING COMPANY, a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of New Mexico

STATE OF NEW MEXICO       §  
                                 §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_, 1995, by \_\_\_\_\_ as \_\_\_\_\_ of ABO PETROLEUM CORPORATION, a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of New Mexico

EXHIBIT "F"  
NOTICE OF JOINT OPERATING AGREEMENT LIEN,  
SECURITY INTERESTS AND FINANCING STATEMENT  
PAGE -4-

STATE OF NEW MEXICO       §  
                                  §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_,  
1995, by \_\_\_\_\_ as \_\_\_\_\_ of MYCO INDUSTRIES, INC., a  
\_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of New Mexico



## **WALTER BERT HOLMQUIST OIL AND GAS LEASE**

- 1) January 26, 1995 Received Drilling Title Opinion and recognized Walter Bert Holmquist interest is unleased.
- 2) January 26, 1995 Contacted Randy Watts to initiate leasing of open interest.
- 3) January 26 to February 6, 1995 Oil and gas lease negotiated and lease mailed to Mr. Holmquist; lease dated February 7, 1995.
- 4) February 21, 1995 Lease executed by Mr. and Mrs. Holmquist.
- 5) March 1, 1995 Oil and gas lease received by NationsBank. Telephone conversation with Mr. Holmquist and verification his interest was unleased.
- 6) March 3, 1995 Oil and gas lease draft paid off and lease recorded.
- 7) March 3, 1995 Received Yates' well proposal for Bert #1 well.
- 8) March 7, 1995 Nearburg proposes Fairchild 13 #1 well to Yates, et al.
- 9) March 13, 1995 Nearburg files application for compulsory pooling.
- 10) March 23, 1995 Received Supplemental Title Opinion showing Holmquist interest leased to NEC.
- 11) March 30, 1995 Received notice through Tom Kellahin Yates was protesting our Holmquist lease.
- 12) March 30, 1995 Conversation with Walter Holmquist. Mr. Holmquist confirms conversation of March 3, 1995 and that he has now advised Yates of my March 3, 1995 conversation and that Nearburg was advised no lease was in force and effect at date paid off and recorded.

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11232/11233 Exhibit No. 6  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: April 7, 1995

**NMOCD Hearing  
April 7, 1995  
Case #11233**

LAW OFFICES  
OF  
**WOERNDLE, PATTERSON, STRAIN & MILLER**  
ASSOCIATED ATTORNEYS  
1004 N. Big Spring, Suite 121  
Midland, Texas 79701

Rudolph A. Woerndle, P. C.\*

\*Licensed in Texas, New Mexico and Colorado

\*Board Certified Oil, Gas & Mineral Law

Texas Board of Legal Specialization

\*New Mexico Board of Legal Specialization

Recognized Specialist - Oil & Gas Law

March 23, 1995

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11232/11233 Exhibit No. 7  
Submitted By:  
Nearburg Exploration Company  
Hearing Date: April 7, 1995

) 682-8321  
) 682-3159

**SUPPLEMENTAL DRILLING OPINION - covering the SW/4 of Section 13, T-19-S, R-25-E, NMPM, EDDY COUNTY, NEW MEXICO.**

---

Nearburg Exploration Company  
3300 N. "A" Street, Building 2  
Suite 120  
Midland, Texas 79705

Att: Mr. Robert Shelton

Gentlemen:

Please refer to my Drilling Opinion dated January 26, 1995, covering the entire S/2 of this Section 13 based upon materials covering title from inception to December 16, 1994 at 7:00 a.m.

I have now examined the following:

**MATERIALS EXAMINED**

1. Personal examination of the records of Caprock Title Company purporting to cover title to the captioned tract from closing date of the prior opinion to March 3, 1995 at 7:00 a.m.
2. Copy of Oil and Gas Lease from Walter Bert Holmquist, et ux. dated February 7, 1995, recorded in Book 212, page 1085, Eddy County Records.

Based upon examination of the foregoing and subject to the below comments and requirements, I am of the opinion that title is vested as follows:

**FEE TITLE**

**Surface:**

David Caswell -----	1/2
Louise L. Holmquist* -----	1/6
Charles Holmquist* -----	1/6
Walter Bert Holmquist and wife, Fern Holmquist as joint tenants -----	1/6

**Minerals:**

**Lease**

**No. :**

3	James Richard Boyd* -----	1/16
---	---------------------------	------

6 Ruth H. Boyd, Trustee of  
 the Family Trust Share  
 under Gideon M. Boyd  
 and Ruth H. Boyd  
 Trust Agreement dated  
 April 18, 1975 ----- 1/16

3 Warren Akin, III\* ----- 1/32

3 Jean G. Akin\* ----- 1/32

3 William Morgan Akin\* ----- 1/16

4 Dorothy Boyd Sinclair\* ----- 1/16

5 Charles R. Wiggins, a  
 singleman ----- 1/32

5 Richard H. Coats, whose  
 wife is Sigrid M. Coats ----- 1/32

3 Mary Boyd for life,  
 remainder to Dorothy  
 Boyd Sinclair (1/2),  
 Margaret Ellen Love (1/4),  
 and John Robert Love (1/4) ----- 1/8

1 Louise L. Holmquist\* ----- 1/6

2 Charles Holmquist\* ----- 1/6

7 Walter Bert Holmquist and  
 wife, Fern Holmquist as  
 joint tenants ----- 1/6

\* Denotes separate property.

OIL AND GAS LEASEHOLD ESTATE

	<u>Calculation</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
Yates Petroleum Corporation (Leases 1 and 2)	70% x 2/6 x 13/16	23.33334%	.18958334
Yates Drilling Company (Leases 1 and 2)	10% x 2/6 x 13/16	3.33333%	.02708333
Abo Petroleum Corporation (Leases 1 and 2)	10% x 2/6 x 13/16	3.33333%	.02708333
Myco Industries, Inc. (Leases 1 and 2)	10% x 2/6 x 13/16	3.33333%	.02708333
Nearburg Exploration Company (Leases 3-7)	7/16 x 13/16 plus 1/16 x 3/4 plus 1/6 x 13/16	66.66667%	.53776042**
	Total:	100.00000%	.80859375

\*\* The interest of Nearbrug Exploration Company is  
 subject to Assignment of Overriding Royalty in

favor of Nearburg Producing Company dated January 27, 1995, recorded in Volume 211, page 699 (See Requirement No. 8 below).

#### OIL AND GAS LEASES

The same are tabulated on Exhibit "A" attached hereto.

#### PATENT

This SW/4 of Section 13 was acquired under Patent from the United States of America to Leoline Q. Taylor dated January 14, 1918, recorded in Book 4, page 457, Patent Records, without reservation.

#### ENCUMBRANCES

None affecting the mineral estate.

#### RIGHTS-OF-WAY

1. El Paso Electric Company and Texas New Mexico Power Company own a right-of-way for electric transmission line acquired as follows:
  - A. From Walter B. Holmquist under instrument dated December 3, 1982, recorded in Book 255, page 594, Deed Records.
  - B. From Charles E. Holmquist under instrument dated December 3, 1982, recorded in Book 255, page 618, Deed Records.
2. Phillips 66 Natural Gas Company owns a pipeline easement acquired as follows:
  - A. From Charles E. Holmquist under instrument dated February 11, 1991, recorded in Book 89, page 890, Deed Records.
  - B. From John Robert Love dated March 4, 1991, recorded in Book 89, page 897, Deed Records.
  - C. From Dorothy Boyd Sinclair dated February 7, 1991, recorded in Book 89, page 899, Deed Records.
  - D. From Mary D. Foster Boyd dated February 28, 1991, recorded in Book 89, page 901, Deed Records.
  - E. From Margaret Ellen Love dated March 1, 1991, recorded in Book 89, page 903, Deed Records.
  - F. From Walter B. Holmquist dated February 29, 1991, recorded in Book 89, page 905, Deed Records.

#### TAXES

No information submitted.

#### REQUIREMENTS

1.

The records of Eddy County reflect a Mineral Deed dated December 12, 1994, recorded in Volume 207, page 753, Deed Records from Ruth H. Boyd, Successor Trustee under Gideon M. Boyd and Ruth H. Boyd Trust Agreement to Ruth H. Boyd, Trustee of the Family Trust Share under Gideon M. Boyd and Ruth H. Boyd Trust Agreement. No evidence has been furnished that Gideon M. Boyd, III is deceased

or that Ruth H. Boyd is the sole successor trustee under the Trust Agreement dated April 18, 1975. In this connection, Lease No. 6 was acquired from Ruth H. Boyd, Trustee of the Family Trust Share under Gideon M. Boyd and Ruth H. Boyd Trust Agreement.

**DRILLING REQUIREMENT:** Furnish a copy of the Trust Agreement dated April 18, 1975 creating the Gideon M. Boyd and Ruth H. Boyd Trust and evidence that Gideon M. Boyd, III is deceased, or furnish other evidence that Ruth H. Boyd is the sole successor trustee under such agreement.

2.

The records reflect the following old oil and gas leases whose primary terms have expired but which have not been released of record:

- A. The following leases in favor of Tidewater Oil Company covering the SW/4 only for a primary term of ten (10) years:

<u>Lessee</u>	<u>Date</u>	<u>Book/Page</u>
Bertha Snyder Hunt	March 3, 1967	175/189
Robert Boyd, et al.	March 2, 1967	175/321

- B. From Kenneth Holmquist, et al. to Leonard T. May dated February 1977, recorded in Book 143, page 257, Miscellaneous Records covering the SW/4 of this Section 13 only for a primary term of five (5) years.

- C. From R. C. Boyd, et al. to Yates Petroleum Corporation, et al. dated March 15, 1977, recorded in Book 144, page 907, Miscellaneous Records covering the SW/4 only for a primary term of five (5) years.

- D. From Walter B. Holmquist, et al. to Yates Petroleum Corporation, et al. dated December 10, 1981, recorded in Book 208, page 960, Miscellaneous Records covering the SW/4 only for a primary term of five (5) years.

- E. From R. C. Boyd, et al. to Yates Petroleum Corporation, et al. dated February 17, 1982, recorded in Book 210, page 746, Miscellaneous Records covering the SW/4 only for a primary term of five (5) years from March 15, 1982.

- F. From Walter B. Holmquist, et al. to Yates Petroleum Corporation, et al. dated February 1, 1987, recorded in Book 274, page 872, OGL Records covering the SW/4 only for a primary term of five (5) years.

- G. The following leases in favor of Nearburg Petroleum covering the SW/4 only for primary term of three (3) years.

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
Warren Akin, III, et al.	May 19, 1988	23/209
Gideon M. Boyd, Trustee, et al.	May 18, 1988	23/211
James H. Love, et al.	May 18, 1988	25/333

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
Dorothy B. Sinclair	May 18, 1988	26/324

H. The following leases in favor of Nearburg Exploration Company covering the SW/4 only for a primary term of three (3) years:

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
Gideon M. Boyd, Trustee, et al.	November 13, 1991	110/947
Dorothy B. Sinclair	November 13, 1991	111/701
James H. Love	November 13, 1991	111/713
Warren Akin, III, et al.	November 13, 1991	111/715

**DRILLING REQUIREMENT:** Obtain a release of each of these leases from the record owner or furnish an affidavit or other evidence that each of these leases has expired on its own terms due to non-development and non-production.

3.

No New Mexico probate proceedings are reflected with respect to the following parties affecting the interests set forth opposite each such party's name below, whom I assume to be deceased:

<u>Party</u>	<u>Interest</u>
Kenneth Holmquist	1/6
Laura L. Holmquist	Unknown

**DRILLING REQUIREMENT:** Furnish the Last Will and all related New Mexico probate proceedings pertaining to each decedent, or in the absence thereof, obtain a determination of heirship with respect to each such decedent by a court of competent jurisdiction in the State of New Mexico.

4.

With respect to Requirement 3 above as it pertains to Laura L. Holmquist, the records reflect a Distribution Deed from Rodney J. Peebles, Personal Representative u/w/o Laura L. Holmquist (under proceedings in Muskegon, Michigan) to Nancy J. Peebles, recorded in Book 147, page 807, covering all interest in this SW/4 of Section 13. My examination does not reveal what interest, if any, was claimed by Laura L. Holmquist, or the source of her title.

**DRILLING REQUIREMENT:** Furnish evidence of the identity of Laura L. Holmquist and the source of title to any interest she claimed in this SW/4 of Section 13.

5.

You have obtained an extension of Lease 3 in part from Mary Boyd, the owner of a life estate in an undivided 1/8 interest. The remaindermen are Dorothy Boyd Sinclair, Margaret Ellen Love and John Robert Love. A ratification of such Extension Agreement has been obtained from Dorothy Boyd Sinclair, but no such ratification has been furnished from the other two remaindermen. It would

appear from the Last Will of Robert Boyd (from whence these interests devolved) that Mary Boyd was intended to have exclusive powers during her life estate, but her exclusive right to lease minerals for a period extending beyond her life is not patently clear.

**DRILLING REQUIREMENT:** Obtain a ratification from Margaret Ellen Love and John Robert Love of the Extension Agreement previously acquired from Mary Boyd on November 8, 1994.

6.

No ad valorem tax information has been submitted with respect to the SW/4 of Section 13.

**DRILLING REQUIREMENT:** Furnish evidence or satisfy yourselves that all ad valorem taxes have been paid for 1994 and all prior years.

7.

I note the rights-of-way reflected above.

**DRILLING REQUIREMENT:** Locate said rights-of-way on the ground and avoid same in conducting your operations.

8.

By Assignment of Overriding Royalty Interest dated January 27, 1995, recorded in Book 211, page 699, Charles E. Nearburg d/b/a Nearburg Exploration Company assigned to Nearburg Producing Company a 1% of 8/8 overriding royalty interest proportionately reduced to the interest covered by Leases 3 and 4 and an expired lease from Ruth H. Boyd, et al., recorded in Book 110, page 947, Deed Records. Said assignment was not executed by the spouse of Charles E. Nearburg, and no evidence is reflected that the interest of Nearburg Exploration Company is owned as his separate property. Also, I have assumed that said Assignment was intended to cover the new oil and gas lease acquired from Ruth H. Boyd (Lease No. 6) although said assignment does not contain "extension and renewal" language.

**PRODUCTION REQUIREMENT:** In the event of production, no distribution should be made to Nearburg Producing Company until: (a) you have furnished evidence of the separate property nature of the interest owned by Nearburg Exploration Company or have obtained ratification of said assignment of overriding royalty interest from the spouse of Charles E. Nearburg; and (b) you have furnished evidence as to whether said assignment of overriding royalty was intended to cover the new lease acquired from Ruth H. Boyd (Lease No. 6). In the alternative, no distribution should be made until Nearburg Exploration Company and Nearburg Producing Company have both executed your division order.

#### **COMMENTS**

1.

You should conduct your operations in accordance with the terms and provisions of the above tabulated leases and the rules and regulations of the New Mexico Oil Conservation Division. In this connection, you should note the numerous unusual provisions

contained in Lease No. 5 from Richard Coats, et al. covering this tract.

2.

This opinion is limited by the materials examined, and I cannot be responsible for mistakes in or omissions from the records of Caprock Title Company which I have been unable to detect.

3.

Thelma S. Boyd conveyed to H. L. Lusk an undivided 1/2 interest in the surface of the SW/4 of Section 13 by Warranty Deed dated April 30, 1965, recorded in Book 188, page 353, Deed Records. Lusk conveyed said interest to David Caswell without the joinder of a spouse on October 15, 1991 by Warranty Deed recorded in Book 108, page 431. I have no information as to whether H. L. Lusk was married at the time of acquisition of this interest on April 30, 1965 and therefore cannot opine as to the validity of the Deed to Caswell. Moreover, the heirs of Thelma Boyd continue to claim said 1/2 interest in the surface subsequent to 1965. This is for your information regarding payment of surface damages only.

4.

This opinion incorporates all unsatisfied requirements and comments contained in my prior Drilling Opinion dated January 26, 1995.

5.

I do not cover herein questions of boundary, area, excesses, conflicts with adjacent tracts or surveys, unrecorded production purchase contracts, unpaid bills for labor or materials which may ripen into mechanic's or materialman's liens, rights of persons, if any, in possession, nor any other matters not covered by the materials examined.

Very truly yours,



Rudolph A. Woerndle, P. C.



EXHIBIT "A"

No. 1:

Date: October 24, 1991.  
Recorded: Book 108, page 922.  
Lessor: Louise Holmquist, a widow.  
Lessee: Yates Petroleum Corporation, (70%), Yates Drilling Company (10%), Abo Petroleum Corporation (10%) and Myco Industries, Inc. (10%).  
  
Primary Term: Five (5) years from February 1, 1992.  
Land Covered: SW/4 only.  
Interest covered: Believed to cover an undivided 1/6 interest (See Requirement No. 3).  
  
Royalty: 3/16.  
Delay Rentals: None; this is a paid-up lease.  
Shut-In Gas Royalty: While there is a well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty on or before 90 days after the date on which such well is shut-in and thereafter at annual intervals the sum of \$1.00 per acre and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities.  
  
Pooling: Units pooled for oil shall not substantially exceed 40 acres each in area plus a tolerance of 10% and units pooled for gas hereunder shall not substantially exceed in area 640 acres plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations.  
  
Form: Producer's 88 Rev. (10-57) which is of the "commencement" type.

No. 2:

Date: October 24, 1991.  
Recorded: Book 109, page 1012, Public Records.  
Lessor: Charles Holmquist, a single man.  
Lessee: Yates Petroleum Corporation (70%), Yates Drilling Company (10%), Abo Petroleum Corporation (10%) and Myco Industries, Inc. (10%).

Land Covered:  
Interest Covered:  
Royalty:  
Delay Rentals:  
Shut-In Gas Royalty:  
Pooling:  
Form:

SW/4 only.  
An undivided 1/6 interest.  
3/16.  
None; this is a paid-up lease.  
Same as Lease 1.  
Same as Lease 1.  
Same as Lease 1.

**No. 3:**

Date:  
Recorded:  
Lessors:

November 13, 1991.  
Book 111, page 715.  
Warren Akin, III and wife, Jean G. Akin, R. C. Boyd, Mary Boyd, and William Morgan Akin, each dealing in his/her separate property.

Lessee:  
Primary Term:

Nearburg Exploration Company.  
Four (4) years, as amended.  
(See Extension below).

Land Covered:  
Interest Covered:  
Royalty:  
Delay Rentals:  
Shut-In Gas Royalty:

SW/4 of this Section 13 only.  
Undivided 5/16.  
3/16.  
None; this is a paid-up lease.  
At any time when this lease is not validated by other provisions hereof and there is a gas well and/or condensate well on said land or land pooled therewith but gas or condensate is not being so sold or used and such well is shut-in, either before or after production therefrom, then on or before 30 days after said well is shut-in and thereafter at annual intervals, Lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities.

Pooling:

Units pooled hereunder shall not exceed the standard proration units fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by other lawful authority for the pool or area in which said land is situated plus a tolerance of 10%.

Form:

Producer's 88-Producer's Revised 1981 New Mexico Form 342, Paid-up (Nearburg); which is of the "commencement" type.

Ratifications:

The following ratifications have been taken from the remaindermen to the life estate of Mary Boyd:

(1) From Margaret Ellen Love dated December 4, 1991, recorded in Book 12, page 36;  
(2) From John Robert Love dated November 29, 1991, recorded in Book 112, page 37; and  
(3) From Dorothy B. Sinclair dated December 3, 1991, record in Book 112, page 38.

**Extensions and  
Amendments:**

You have furnished the following amendments to this lease - extending the primary term to four (4) years:

1. Executed by Warren Akin, III, Jean G. Akin, R. C. Boyd, Mary Boyd, and William Morgan Akin dated November 8, 1994, recorded in Book 206, page 518.
2. Executed by James R. Boyd, dated December 3, 1994, record in Book 206, page 520.
3. Ratification executed by Dorothy B. Sinclair, as remainderman, dated November 18, 1994, recorded in Book 206, page 522.

**No. 4:**

Date:	November 13, 1991.
Recorded:	Book 111, page 701.
Lessor:	Dorothy B. Sinclair, dealing in her sole and separate property.
Lessee:	Nearburg Exploration Company.
Primary Term:	Four (4) years, as amended (See Extension below).
Land Covered:	SW/4 of this Section 13 only.
Interest Covered:	Undivided 1/16.
Royalty:	3/16.
Delay Rentals:	None; this is a paid-up lease.
Shut-In Gas Royalty:	Same as Lease 3.
Pooling:	Same as Lease 3.
Form:	Same as Lease 3.
Extension and Amendment:	The primary term of this lease was amended by Amendment and Extension Agreement executed by Dorothy B. Sinclair on November 18, 1994, recorded in Book 206, page 521.

**No. 5:**

Date:	November 4, 1994.
Recorded:	Book 206, page 509.
Lessors:	Richard H. Coats and wife, Sigrid M. Coats; and Charles A. Wiggins, a single man.
Lessee:	Nearburg Exploration Company.
Primary Term:	Two (2) years, with the option to extend the primary term for an additional one (1) year on or before November 4, 1996, by paying an additional \$50.00 per acre.
Land Covered:	SW/4 of this Section 13 only.
Interest Covered:	Undivided 1/16.

Royalty:	25% calculated and payable pursuant to terms of Paragraph 3 of the lease.
Delay Rentals:	\$400.00 per annum payable to Lessors or Lessors' credit at Texas Commerce Bank, Midland, Texas on or before November 4, 1995, in the absence of drilling operations.
Shut-In Gas Royalty:	At any time either before or after the expiration of the primary term where gas from a well located on said lands and completed as a commercial producer of gas only or gas and condensate or distillate only is not sold because of a lack of a gas pipeline connection therefor, Lessee may pay or tender as royalty by a valid check or draft of Lessee to the parties entitled to receive royalties under this lease or to their credit at the depository bank on or before 90 days after the date on which (i) the first gas well is shut-in, or (ii) this lease ceases to be otherwise maintained as provided herein whichever is the later date and annually thereafter, a shut-in gas well royalty payment in the amount hereinafter provided, and if such payment is properly and timely made it will be considered that gas is being produced from said lands in accordance with the terms of this lease; provided, however, this lease may not be continued in force by the making of shut-in gas well royalty payments as herein provided for a period longer than two consecutive years after the end of the primary term. The annual payment (shut-in royalty) shall be equal to the annual rental provided for herein. This provision as to the payment of shut-in gas royalty is a condition and not a covenant, and the failure to pay any shut-in gas royalty as herein provided shall effect an automatic termination of this lease.
Pooling:	Units pooled for oil hereunder shall not substantially exceed 40 acres each in area and units pooled for gas shall not substantially exceed in area 320 acres each, plus a tolerance of 10%, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified for the drilling of a well at a regular location or for obtaining maxi-

mum allowable for any well to be drilled, drilling or already drilled, units thereafter created and previously created units may be modified to conform substantially in size with those prescribed by governmental regulations.

Form:

This lease is on the Lessor's own typewritten form which is of the "commencement" type.

Special Provisions:

This lease contains numerous special provisions pertaining to calculation and payment of royalty, operational procedures, indemnities, plugging liability, and the following continuous development provision:

Continuous Development. If this lease is in full force and effect at the end of the primary term hereof, then within 120 days after the expiration of the primary term, Lessee shall commence actual drilling of a well on said lands and shall thereafter continuously develop said lands by drilling additional wells on the lands covered hereby with not more than 120 days elapsing between the completion of one well and the commencement of the next succeeding well. For the purposes of interpretation of this provision, a well shall be determined to be completed on the day Lessee releases the drilling rig used to drill such well or the day such rig is removed off the location whichever day occurs first, and a well shall be determined to be commenced when such well is spudded. Each well properly commenced hereunder shall be completed by Lessee within 90 days of the date of cessation of drilling operations of such well.

Upon cessation of such continuous drilling program by Lessee, or if such continuous drilling program is not commenced, this lease and all rights hereunder shall automatically terminate as to all lands covered hereby, save and except as to each well then capable of producing oil or gas in paying quantities together with the proration unit allocated thereto (the size of said proration unit being hereby defined as the number of acres prescribed by the New Mexico Oil Conservation Division or other proper governmental authority as the minimum number of acres required for the production of the maxi-

mum allowable from a well in the particular field and from the particular formation involved) as of the date of such termination, and shall further terminate as to all depths in each such proration unit below the base of the deepest producing formation in each such well capable of producing oil or gas in paying quantities. Within 30 days after a partial termination of this lease as provided above, Lessee shall execute and deliver to Lessor a recordable release of this lease as to all lands covered hereby, save and except the lands and depths to be allocated to each production proration unit in accordance with the terms set forth above.

Upon cessation of said continuous drilling program, any acreage so assigned to a producing proration unit shall be considered as covered by a separate lease containing the same terms and provisions hereof, so that thereafter each separate lease can be kept in force and effect only by actual production from or operations upon that particular tract without regard to production or drilling operations upon the other tracts retained by Lessee under the terms hereof.

**No. 6:**

Date:	January 13, 1995.
Recorded:	Book 212, page 625.
Lessors:	Ruth H. Boyd, Trustee of Family Trust Share under Gideon M. Boyd and Ruth H. Boyd Trust Agreement U/T/A April 18, 1975. Nearburg Exploration Company.
Lessee:	Ten Months.
Primary Term:	This SW/4 of Section 13 only.
Land Covered:	Undivided 1/16 interest.
Interest Covered:	3/16.
Royalty:	None, this is a paid up lease.
Delay Rentals:	Same as Lease 3.
Shut-In Gas Royalty:	Same as Lease 3.
Pooling:	Same as Lease 3.
Form:	Same as Lease 3.

**No. 7:**

Date:	February 7, 1995.
Recorded:	Book 212, page 1085.
Lessor:	Walter Bert Holmquist and wife, Fern Holmquist.
Lessee:	Nearburg Exploration Company.
Primary Term:	Three (3) years.
Land Covered:	This SW/4 of Section 13 only.
Interest Covered:	Undivided 1/6.
Royalty:	3/16.
Delay Rentals:	None; this is a paid-up lease.
Shut-In Gas Royalty:	Same as Lease 3.

Pooling:  
Form:

Same as Lease 3.  
Same as Lease 3.

009exh.nea

*Fairchild 13#1*  
*To File*  
*CC: KCC*

LAW OFFICES  
OF  
**WOERNDLER, PATTERSON, STRAIN & MILNER**  
ASSOCIATED ATTORNEYS  
1004 N. Big Spring, Suite 121  
Midland, Texas 79701

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11232/11233 Exhibit No. 8  
Submitted By:  
Nearburg Exploration Company  
Hearing Date: April 7, 1995

**Rudolph A. Woerndle, P. C.\***

\*Licensed in Texas, New Mexico and Colorado

\*Board Certified Oil, Gas & Mineral Law

Texas Board of Legal Specialization

\*New Mexico Board of Legal Specialization

Recognized Specialist - Oil & Gas Law

January 26, 1995

Ph: (915) 682-8321

Fax: (915) 682-3159

**DRILLING OPINION - covering the S/2 of Section 13, T-19-S, R-25-E,  
NMPM, EDDY COUNTY, NEW MEXICO.**

Nearburg Exploration Company  
3300 N. "A" Street  
Building 2, Suite 100  
Midland, Texas 79705

Att: Mr. Robert Shelton

Gentlemen:

I have examined the following:

**MATERIALS EXAMINED**

Personal examination of the records of Caprock Title Company  
purporting to cover title from inception to December 16, 1994 at  
7:00 a.m.

Based upon examination of the foregoing and subject to the  
below comments and requirements, I am of the opinion that title is  
vested as follows:

**FEE TITLE**

**I. SE/4 OF SECTION 13:**

**Surface:**

4.0 acres described in Warranty Deed from Joe L. Cox, et  
ux. dated December 7, 1990, recorded in Volume 82, page  
1076, Deed Records.

James T. Ross, whose wife  
is Ruth Ross ----- All

**Balance of SE/4:**

Joe L. Cox, whose wife  
is Janet Cox ----- All

**Minerals:**

**Lease  
No.**

25	Bonnie H. Morrison* -----	1/8
1	Marshall & Winston, Inc. -----	1/8
12	John W. Lackey** whose wife is Margaret Lackey -----	1/20
18	George W. Gushwa* -----	1/40
21	Charles R. Gushwa* -----	1/40



22	Betty Dale* -----	1/40
14	Ruth Fenton* -----	1/40
20	John J. Gushwa* -----	1/40
11	P. D. Helmig, whose wife is Marian L. Helmig -----	1/20
19	N. Naomi McMinn* -----	1/20
17	E. W. Bisett, a single man -----	1/20
24	Donald B. Anderson -----	1/20
10	H. E. Harrington and Sarah Louise Harrington, Trustees of the H. E. and Sarah L. Harrington Trust U/T/A September 16, 1992 -----	1/20
6	R. R. Hinkle Company, Inc. -----	1/32
7	McQuiddy Communications and Energy, Inc. -----	1/32
3	Lillian T. Hinkle* -----	1/32
2	James Lisle Hinkle* -----	1/128
4	John T. Hinkle* -----	1/128
5	Bettianne Hinkle Bowen* -----	1/128
U	Charles E. Hinkle* -----	1/256 $\frac{1}{5}$
U	Jenna Hinkle* -----	1/512 $\frac{1}{5}$
U	Kristen Hinkle* -----	1/512 $\frac{1}{5}$
15	Lucy Whitehurst Eastham -----	1/40
16	Carole Whitehurst Walker and Julian Walker, as joint tenants -----	1/40
8	Brian W. Copple, Trustee of the Betty Dae Copple Trust u/w/o C. A. Copple, deceased -----	1/20
13	Phelps Anderson -----	1/40
23	Robert B. Anderson -----	1/40
9	R. L. Higgins* -----	1/20

\* Denotes separate property.

U Denotes unleased mineral interest.

Oil and Gas Leasehold Estate:

	<u>Calculation</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
M. Craig Clark (Leases 2-5)	5.46875% x 13/16	5.46875%	.0444335
Nearburg Exploration Company (Leases 1, 6-25)	12.5% x 13/16 plus 12.5% x 3/4 plus 68.75% x 4/5	93.75000%	.7453125
<u>Unleased:</u>			
(Charles E. Hinkle, Jenna Hinkle and Kristen Hinkle		<u>0.78125%</u>	<u>.0078125</u>
TOTAL:		100.00000%	.7975585

II. SW/4 OF SECTION 13:

Surface:

David Caswell -----	1/2
Louise L. Holmquist* -----	1/6
Charles Holmquist* -----	1/6
Walter Bert Holmquist and wife, Fern Holmquist, as joint tenants -----	1/6

Minerals:

<u>Lease No.</u>		
28	James Richard Boyd* -----	1/16
U	Gideon M. Boyd, III and Ruth H. Boyd, Trustees U/T/A dated April 18, 1975 -----	1/16
28	Warren Akin, III* -----	1/32
28	Jean G. Akin* -----	1/32
28	William Morgan Akin* -----	1/16
29	Dorothy Boyd Sinclair* -----	1/16
30	Charles R. Wiggins, a singleman -----	1/32
30	Richard H. Coats, whose wife is Siarid M. Coats -----	1/32

3/16 1/32

- 28 Mary Boyd for life,  
remainder to Dorothy  
Boyd Sinclair (1/2),  
Margaret Ellen Love (1/4),  
and John Robert Love (1/4) ----- 1/8
- 26 Louise L. Holmquist\* ----- 1/6
- 27 Charles Holmquist\* ----- 1/6
- U Walter Bert Holmquist  
and wife, Fern Holmquist  
as joint tenants ----- 1/6

*2/16*

\* Denotes separate property.  
U Denotes unleased mineral interest.

Oil and Gas Leasehold Estate:

	<u>Calculation</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
Yates Petroleum Corporation (Leases 26,27)	70% x 2/6 x 13/16	23.33333%	.18958334
Yates Drilling Company (Leases 26,27)	10% x 2/6 x 13/16	3.33333%	.02708333
Abo Petroleum Corporation (Leases 26,27)	10% x 2/6 x 13/16	3.33333%	.02708333
Myco Industries, Inc. (Leases 26, 27)	10% x 2/6 x 13/16	3.33334%	.02708333
Nearburg Exploration Company (Leases 28,29,30)	3/8 x 13/16 plus 1/16 x 3/4	43.75000%	.35156250
<u>Unleased</u>	1/6 (Holmquist) plus 1/16 (Ruth Boyd)	<u>22.91667%</u>	<u>.22916667</u>
	TOTAL:	100.00000%	.85156250

OIL AND GAS LEASES

The same are tabulated on Exhibit "A" attached hereto.

PATENTS

I. SE/4 OF SECTION 13

The SE/4 of this Section 13 was acquired under Patent from the United States of America dated January 26, 1914 in favor of Edward L. Teddlie, recorded in Book 3, page 319, Patent Records. without reservation.

II. SW/4 OF SECTION 13:

The SW/4 of this Section 13 was acquired under Patent from the United States of America to Leoline Q. Taylor dated January 14, 1918, recorded in Book 4, page 457, Patent Records, without reservation.

ENCUMBRANCES

None affecting the mineral estate.

RIGHTS-OF-WAY

I. SE/4 OF SECTION 13:

1. El Paso Electric Company and Texas-New Mexico Power Company own a right-of-way for electric transmission line acquired from Donald Fanning on November 2, 1982, recorded in Book 255, page 544, Deed Records.
2. Phillips 66 Natural Gas Company owns pipeline easements acquired as follows:
  - A. From James T. Ross and wife, Ruth A. Ross dated January 11, 1991, recorded in Book 85, page 1193, Public Records, crossing 4 acres in the SE/4 of Section 13.
  - B. From Joe L. Cox and wife, Janet Cox dated January 19, 1991, recorded in Book 86, page 558, Public Records.

II. SW/4 OF SECTION 13:

1. El Paso Electric Company and Texas-New Mexico Power Company own a right-of-way for electric transmission line acquired as follows:
  - A. From Walter B. Holmquist under instrument dated December 3, 1982, recorded in Book 255, page 594, Deed Records.
  - B. From Charles E. Holmquist under instrument dated December 3, 1982, recorded in Book 255, page 618, Deed Records.
2. Phillips 66 Natural Gas Company owns a pipeline easement acquired as follows:
  - A. From Charles E. Holmquist under instrument dated February 11, 1991, recorded in Book 89, page 890, Deed Records.
  - B. From John Robert Love dated March 4, 1991, recorded in Book 89, page 897, Deed Records.
  - C. From Dorothy Boyd Sinclair dated February 7, 1991, recorded in Book 89, page 899, Deed Records.
  - D. From Mary D. Foster Boyd dated February 28, 1991, recorded in Book 89, page 901, Deed Records.
  - E. From Margaret Ellen Love dated March 1, 1991, recorded in Book 89, page 903, Deed Records.

- F. From Walter B. Holmquist dated February 29, 1991,  
recorded in Book 89, page 905, Deed Records.

TAXES

I. SE/4 OF SECTION 13:

Not applicable. The State of New Mexico does not separately assess severed minerals for ad valorem tax purposes.

II. SW/4 OF SECTION 13:

No information furnished.

REQUIREMENTS

I. SE/4 OF SECTION 13:

1.

I note a lease from Bonnie H. Morrison in favor of Nearburg Exploration Company dated November 4, 1994, for a primary term of two years covering this SE/4 of Section 13 only (Lease 25). I assume Bonnie H. Morrison is the same person as Bonnie Matlock, the widow of Bruce K. Matlock. No evidence in this regard is reflected.

In addition, the records do not reflect that leases have been acquired from Charles E. Hinkle, Jenna Hinkle or Kristen Hinkle. You previously advised that the interest vested of record in Cynthia Hinkle, Trustee is now actually vested in Jenna Hinkle and Kristen Hinkle, and I have credited these interests accordingly although no evidence of this succession is reflected of record.

DRILLING REQUIREMENTS:

A. Furnish evidence that Bonnie H. Morrison and Bonnie Matlock are the same person, if such is the case.

B. Prior to commencing operations, obtain leases covering the interests of Charles E. Hinkle, Jenna Hinkle and Kristen Hinkle.

C. Furnish evidence of the succession in title from Cynthia Hinkle, Trustee, to Jenna Hinkle and Kristen Hinkle.

2.

Joe W. Lackey acquired an undivided 1/2 interest in the SE/4 from Charles B. Read, et ux. under Mineral Deed dated November 5, 1951, recorded in Book 121, page 422, Deed Records. By Mineral Deed dated February 25, 1955, recorded in Book 196, page 464, Deed Records, Joe W. Lackey and wife, Naydeen Lackey conveyed 9/20 mineral interest to Robert O. Anderson, et al. Lease No. 13 was acquired from John W. Lackey and wife, Margaret Lackey. There is no evidence of the succession in title between Joe W. Lackey and wife, Naydeen Lackey and John W. Lackey and wife, Margaret Lackey.

DRILLING REQUIREMENT: Furnish evidence of the succession in title between said parties.

3.

E. W. Bisett acquired an undivided 1/20 mineral interest from Joe W. Lackey under the Deed dated February 25, 1955, discussed in Requirement No. 2 above. There is no evidence as to whether E. W. Bisett was married on said date. Lease No. 18 was acquired from E. W. Bisett, a single man.

DRILLING REQUIREMENT: Furnish evidence as to whether E. W. Bisett was married on February 25, 1955. If so, furnish evidence that E. W. Bisett acquired all interest of his spouse prior to execution of Lease No. 18.

4.

By Warranty Deed dated March \_\_, 1991, recorded in Book 90, page 984, Public Records, Robert O. Anderson and wife, Barbara Phelps Anderson conveyed all of their interest in the SE/4 to Phelps Anderson and Robert B. Anderson, equally. There is no evidence that Phelps Anderson and Robert B. Anderson acquired such interests as their separate property. Lease 14 (Phelps Anderson) and Lease 24 (Robert B. Anderson) were executed solely by said parties reciting separate property.

DRILLING REQUIREMENT: Furnish evidence that Phelps Anderson and Robert B. Anderson own their interests in the SE/4 as their separate property, or obtain ratification of Leases 14 and 24 from Phelps Anderson and Robert B. Anderson, respectively, together with their respective spouses.

5.

Lease No. 24 was acquired from Joseph C. Anderson, as attorney-in-fact for Donald B. Anderson. No evidence of this power-of-attorney is reflected in the materials examined.

DRILLING REQUIREMENT: Furnish evidence that Joseph C. Anderson had the authority to act for Donald B. Anderson on March 18, 1994 and that Donald B. Anderson was alive and competent on said date.

6.

Donald B. Anderson acquired his undivided 1/20 interest under Mineral Deed from Joe W. Lackey dated February 25, 1955, recorded in Book 196, page 464, Deed Records. There is no evidence that such interest was acquired as separate property, although Lease 24 recites separate property and has not been joined by the wife of Donald B. Anderson.

DRILLING REQUIREMENT: Furnish evidence that Donald B. Anderson acquired this interest as his separate property, or obtain a ratification of Lease 24 from Donald B. Anderson and his spouse.

7.

I have credited to M. Craig Clark an undivided 1/8 of the leasehold estate pursuant to Leases 2 through 5. I assume such interest is to be acquired by Nearburg Exploration Company.

DRILLING REQUIREMENT: Prior to commencing drilling operations, obtain an assignment of all interest of M. Craig Clark and file same for record in Eddy County, New

Mexico after proper execution and acknowledgment by M.  
Craig Clark and his wife.

8.

The records reflect numerous old oil and gas leases, whose primary terms have expired but which have not been released of record, being the following:

- A. From William B. Pistole, et al. to F. B. Van Horn dated July 16, 1929, recorded in Book 2, page 165, OGL Records, covering the SE/4 of Section 13 only for a primary term of five (5) years.
- B. From W. J. Gushwa, et al. to F. B. Van Horn dated July 16, 1929, recorded in Book 2, page 192, OGL Records, covering the SE/4 of Section 13 only for a primary term of five (5) years.
- C. From Della E. Gushwa, et vir. to Bruce K. Matlock dated March 16, 1944, recorded in Book 25, page 469, OGL Records, covering the SE/4 only for a primary term of ten (10) years.
- D. From W. J. Gushwa, et ux. to Don H. Ford dated July 1, 1964, recorded in Book 169, page 224, OGL Records covering the SE/4 of Section 13, and the S/2 NE/4, S/2 NW/4 North of Seven Rivers and the NW/4 SW/4 North of Seven Rivers in Section 19, T-19-S, R-26-E, for a primary term of ten (10) years.
- E. From Bonnie H. Morrison to Yates Petroleum Corporation dated November 9, 1970, recorded in Book 75, page 769, OGL Records covering the SE/4 of Section 13 and N/2 NE/4 of Section 7, same township and range for a primary term of five (5) years.
- F. From Opal Taylor Hinkle, et al. to Roger C. Hanks dated November 20, 1970, recorded in Book 78, page 539, OGL Records, covering the SE/4 only for a primary term of five (5) years.
- G. From Clarence E. Hinkle, et ux. to Roger C. Hanks dated November 20, 1970, recorded in Book 78, page 542, OGL Records covering the SE/4 only for a primary term of five (5) years.
- H. From John J. Gushwa, et al. to Yates Petroleum Corporation dated September 14, 1978, recorded in Book 164, page 76, OGL Records covering the SE/4 only for a primary term of five (5) years from October 25, 1978.
- I. The following oil and gas leases in favor of Champlin Petroleum Company, each dated December 27, 1978, and covering 210 acres being the SE/4 and Fairchild Farm Tracts 504, 505, 518, 519, 521, 523, 528, 539, 540 and 543 for a primary term of five (5) years:

<u>Lessor</u>	<u>Book/page</u>
Donald B. Anderson	174/239
Robert O. Anderson	174/243
E. W. Bisett	174/247

<u>Lessor</u>	<u>Book/page</u>
C. A. Copple	174/251
H. E. Herrington, et ux.	174/255
R. L. Higgins, et ux.	174/259
John W. Lackey, et ux.	174/263
J. R. McMinn, et ux.	174/267
Phil D. Helmig, et ux.	175/617
Joe F. Whitehurst, et ux.	175/625

J. The following leases in favor of Nearburg Petroleum Partnership:

1. Covering SE/4 Only:

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>	<u>Primary Term</u>
Ruth Fenton	March 19, 1988	18/210	3
George W. Gushwa	March 19, 1988	18/212	3
Charles R. Gushwa	March 19, 1988	18/217	3
Bonnie H. Morrison	March 14, 1988	18/231	3
John J. Gushwa	March 19, 1988	18/233	3
Della Fay Rowland	March 19, 1988	19/1108	3
R. R. Hinkle, Co.	May 24, 1988	23/207	1
McQuiddy Communications and Energy, Inc.	May 24, 1988	24/40	1

2. Covering 210 acres, being the SE/4 and Fairchild Farm Tracts 504, 505, 518, 519, 521, 523, 528, 539, 540 and 543 for a primary term of three years:

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
C. A. Copple, et ux.	March 21, 1988	19/162
H. E. Herrington, et ux.	March 21, 1988	19/1110
E. W. Bisett	March 21, 1998	20/762
J. R. McMinn, et ux.	March 21, 1988	20/764
R. L. Higgins, et ux.	March 21, 1988	20/769
Joe F. Whitehurst, et ux.	March 21, 1988	20/771
Phil D. Helmig, et ux.	March 21, 1988	20/773
Robert O. Anderson, et ux.	March 21, 1988	21/131



<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
John W. Lackey, et ux.	March 21, 1988	21/134
Donald B. Anderson	March 21, 1988	21/774

3. Covering 305 acres, being the SE/4 of this Section 13 and the following Fairchild Farm Tracts in Section 12, T-19-S, R-25-E for a primary term of three years: Nos. 437, 445, 446, 448, 449, 459, 460, 462, 463, 464, 465, 466, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 483, 484, and 489:

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
Bettianne Hinkle Bowen	March 23, 1988	21/423
John T. Hinkle	March 23, 1988	21/425
Charles E. Hinkle	March 23, 1988	20/775
Lillian T. Hinkle	March 23, 1988	21/427
James Lisle Hinkle	March 23, 1988	21/429
Cynthia Hinkle, Trustee	March 23, 1988	22/231

- K. From Marshall and Winston, Inc. to Nearburg Petroleum Partnership dated May 24, 1988, recorded in Book 24, page 35, Public Records, covering the identical lands described in (J.3.) above and in addition thereto the NW/4 of Section 12, T-19-S, R-25-E, for a primary term of one year.

- L. The following leases in favor of Nearburg Exploration Company for a primary term of three (3) years:

1. Covering 210 acres, being the SE/4 of this Section 13 and Fairchild Farm Tracts 504, 505, 518, 519, 521, 523, 528, 539, 540 and 543:

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
R. L. Higgins	March 6, 1991	93/281
Phil D. Helmig, et ux.	March 6, 1991	93/286
H. E. Herrington, et ux.	March 6, 1991	93/288
Donald B. Anderson	March 6, 1991	93/290
Phelps Anderson	March 11, 1991	93/292
Lucy Whitehurst Eastham, et vir.	March 11, 1991	93/294
J. R. McMinn, et ux.	March 6, 1991	93/296
Brian W. Copple, Trustee	March 6, 1991	93/298
E. W. Bisett	March 6, 1991	95/1185
Carole Whitehurst Walker	March 11, 1991	95/1191

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
John W. Lackey, et ux.	March 6, 1991	104/1085
Robert B. Anderson	March 11, 1991	95/1193

2. Covering the SE/4 of this Section 13 and the SE/4, S/2 NE/4, and all of the S/2 NW/4 and NW/4 SW/4 lying North of North Seven Rivers in Section 19, T-19-S, R-26-E, for a primary term of three (3) years effective March 21, 1991:

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
John J. Gushwa	March 18, 1991	95/1187

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
George W. Gushwa	March 18, 1991	95/1189
Charles R. Gushwa	March 18, 1991	95/1199
Ruth Fenton	March 18, 1991	96/5
Betty Dale	March 18, 1991	106/727

- M. From Bonnie H. Morrison to Nearburg Exploration Company dated November 3, 1992, recorded in Book 141, page 1056, Public Records covering the SE/4 of this Section 13 only for a primary term of two (2) years.

DRILLING REQUIREMENT: Obtain a release of each of the above described leases from the record owners thereof, or furnish an affidavit or other evidence that each of said leases has expired by its own terms due to non-development and non-production.

9.

No New Mexico probate proceedings are reflected with respect to the following parties, affecting the respective interests in the SE/4 reflected opposite his/her name below:

<u>Party</u>	<u>Interest</u>
William B. Pistole	1/2
Rolla R. Hinkle	1/16
Clarence E. Hinkle	1/16
C. A. Copple	1/20
John R. McMinn	1/20
Della Fay Rowland	1/40

DRILLING REQUIREMENT: Furnish the Last Will and all related New Mexico probate proceedings pertaining to each decedent, or in the absence thereof, obtain a determination of heirship with respect to each such decedent from a court of competent jurisdiction in the State of New

II. SW/4 OF SECTION 13:

10.

My examination reveals that the following interests remain  
unleased:

Walter Bert Holmquist and  
wife, Fern Holmquist 1/6

Gideon M. Boyd, III and  
Ruth H. Boyd, Trustees  
U/T/A April 18, 1975 1/16

You advise that Gideon M. Boyd, III may be deceased. The  
Trust Agreement dated April 18, 1975 is not of record and has not  
been furnished for my examination.

DRILLING REQUIREMENTS:

A. Prior to commencing operations, obtain a lease on the  
interest of each unleased owner, obtain their execution  
of a joint operating agreement or obtain compulsory  
pooling of such parties' interests pursuant to the rules  
and regulations of the New Mexico Oil Conservation Com-  
mission.

B. If Gideon M. Boyd, III is deceased, furnish a copy of  
the Trust Agreement dated April 18, 1975 prior to  
acquiring a lease of said interest.

11.

The records reflect the following old oil and gas leases whose  
primary terms have expired but which have not been released of  
record:

- A. The following leases in favor of Tidewater Oil Company  
covering the SW/4 only for a primary term of ten (10)  
years:

<u>Lessee</u>	<u>Date</u>	<u>Book/Page</u>
Bertha Snyder Hunt	March 3, 1967	175/189
Robert Boyd, et al.	March 2, 1967	175/321

- B. From Kenneth Holmquist, et al. to Leonard T. May dated  
February 1977, recorded in Book 143, page 257, Miscella-  
neous Records covering the SW/4 of this Section 13 only  
for a primary term of five (5) years.
- C. From R. C. Boyd, et al. to Yates Petroleum Corporation,  
et al. dated March 15, 1977, recorded in Book 144, page  
907, Miscellaneous Records covering the SW/4 only for a  
primary term of five (5) years.
- D. From Walter B. Holmquist, et al. to Yates Petroleum  
Corporation, et al. dated December 10, 1981, recorded in  
Book 208, page 960, Miscellaneous Records covering the  
SW/4 only for a primary term of five (5) years.
- E. From R. C. Boyd, et al. to Yates Petroleum Corporation,  
et al. dated February 17, 1982, recorded in Book 210,  
page 746, Miscellaneous Records covering the SW/4 only  
for a primary term of five (5) years from March 15, 1982.

- F. From Walter B. Holmquist, et al. to Yates Petroleum Corporation, et al. dated February 1, 1987, recorded in Book 274, page 872, OGL Records covering the SW/4 only for a primary term of five (5) years.
- G. The following leases in favor of Nearburg Petroleum Partnership covering the SW/4 only for a primary term of three (3) years:

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
Warren Akin, III, et al.	May 19, 1988	23/209
Gideon M. Boyd, Trustee, et al.	May 18, 1988	23/211
James H. Love, et al.	May 18, 1988	25/333
Dorothy B. Sinclair	May 18, 1988	26/324

- H. The following leases in favor of Nearburg Exploration Company covering the SW/4 only for a primary term of three (3) years:

<u>Lessor</u>	<u>Date</u>	<u>Book/Page</u>
Gideon M. Boyd, Trustee, et al.	November 13, 1991	110/947
Dorothy B. Sinclair	November 13, 1991	111/701
James H. Love	November 13, 1991	111/713
Warren Akin, III, et al.	November 13, 1991	111/715

**DRILLING REQUIREMENT:** Obtain a release of each of these leases from the record owner or furnish an affidavit or other evidence that each of these leases has expired on its own terms due to non-development and non-production.

12.

No New Mexico probate proceedings are reflected with respect to the following parties affecting the interests set forth opposite each such party's name below, whom I assume to be deceased:

<u>Party</u>	<u>Interest</u>
Kenneth Holmquist	1/16
Laura L. Holmquist	Unknown

**DRILLING REQUIREMENT:** Furnish the Last Will and all related New Mexico probate proceedings pertaining to each decedent, or in the absence thereof, obtain a determination of heirship with respect to each such decedent by a court of competent jurisdiction in the State of New Mexico.

13.

With respect to Requirement 12 above, as it pertains to Laura Holmquist, the records reflect a Distribution Deed from Rodney J. Peebles, Personal Representative u/w/o Laura L. Holmquist (under proceedings in Muskegon, Michigan) to Nancy J. Peebles, recorded in Book 147, page 807, covering all interest in this SW/4 of Section

13. My examination does not reveal what interest, if any, was claimed by Laura L. Holmquist, or the source of her title.

DRILLING REQUIREMENT: Furnish evidence of the identity of Laura L. Holmquist and the source of title to any interest she claimed in this SW/4 of Section 13.

14.

You have obtained an extension of Lease 28 in part from Mary Boyd, the owner of a life estate in an undivided 1/8 interest. The remaindermen are Dorothy Boyd Sinclair, Margaret Ellen Love and John Robert Love. A ratification of such extension agreement has been obtained from Dorothy Boyd Sinclair, but no such ratification has been furnished from the other two remaindermen. It would appear from the Last Will of Robert Boyd (from whence these interests devolved) that Mary Boyd was intended to have exclusive powers during her life estate, but her exclusive right to lease minerals for a period extending beyond her life is not patently clear.

DRILLING REQUIREMENT: Obtain a ratification from Margaret Ellen Love and John Robert love of the Extension Agreement previously acquired from Mary Boyd on November 8, 1994.

15.

No ad valorem tax information has been submitted with respect to the SW/4 of Section 13.

DRILLING REQUIREMENT: Furnish evidence or satisfy yourselves that all ad valorem taxes have been paid for 1994 and all prior years.

### III. GENERAL REQUIREMENT:

16.

I note the rights-of-way reflected above.

DRILLING REQUIREMENT: Locate said rights-of-way on the ground and avoid same in conducting your operations.

### COMMENTS

1.

You should conduct your operations in accordance with the terms and provisions of the above tabulated leases and the rules and regulations of the New Mexico Oil Conservation Division. In this connection, you should note the numerous unusual provisions contained in Lease No. 30 from Richard Coats, et al. covering the SW/4 of this Section 13.

2.

This opinion is limited by the materials examined and I cannot be responsible for mistakes in or omissions from the records of Caprock Title Company which I have been unable to detect.

3.

Thelma S. Boyd conveyed to H. L. Lusk an undivided 1/2 interest in the surface of the SW/4 of Section 13 by Warranty Deed

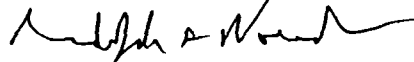
Nearburg Exploration Company  
January 26, 1995  
Page 15

dated April 30, 1965, recorded in Book 188, page 353, Deed Records. Lusk conveyed said interest to David Caswell without the joinder of a spouse on October 15, 1991 by Warranty Deed recorded in Book 108, page 431. I have no information as to whether H. L. Lusk was married at the time of acquisition of this interest on April 30, 1965 and therefore cannot opine as to the validity of the Deed to Caswell. Moreover, the heirs of Thelma Boyd continued to claim said 1/2 interest in the surface subsequent to 1965. This is for your information regarding payment of surface damages.

4.

I do not cover herein questions of boundary, area, excesses, conflicts with adjacent tracts or surveys, unrecorded production purchase contracts, unpaid bills for labor or materials which may ripen into mechanic's or materialman's liens, rights of persons, if any, in possession, nor any other matters not covered by the materials examined.

Very truly yours,



Rudolph A. Woerndle, P. C.

RAW/ejj  
440op.nea

EXHIBIT "A"

OIL AND GAS LEASES

**I.    SE/4 OF SECTION 13:**

**No. 1:**

Date:	October 14, 1993.
Recorded:	Book 172, page 40.
Lessor:	Marshall & Winston, Inc.
Lessee:	Nearburg Exploration Company.
Land Covered:	<u>T-19-S, R-25-E, Section 12:</u> Fairchild Farm Tracts 437, 445, 446, 448, 449, 459, 460, 462 through 466, 468 through 481, 483, 484 and 489; Section 13: SE/4 Section 23: N/2 NW/4 and N/2 NE/4 Section 24: W/2 NW/4 and S/2, less and except NE/4 NE/4 SE/4.
Interest Covered:	Undivided 1/8 interest in the captioned land and an unknown interest in the remainder of said lands.
Primary Term:	Two (2) years.
Royalty:	1/4.
Delay Rentals:	None; this is a paid-up lease.
Shut-In Gas Royalty:	While there is a gas well on this lease (classified as such by appropriate governmental authority) gas is not being sold or used, and this lease is not then otherwise being held in force, Lessee may pay or tender as royalty to the owner of such royalty on or before 60 days after the date on which such well is shut-in and annu- ally thereafter the sum of \$855.00 per well for each shut- in gas well and if such payment is made it will be considered that gas is being produced within the meaning of paragraph 2 hereof provided that this lease may not be extended by payment of such annual shut-in gas well payment in excess of two annual periods.
Pooling:	Units consolidated for oil hereunder shall not exceed 40 acres plus a tolerance of 40% thereof and units consolidated for gas hereunder shall not exceed 640 acres plus a toler- ance of 10% thereof provided that if any federal or state law, executive order, rule or regulation shall prescribe a spacing pattern for the devel- opment of the field or allocate a producing allowable in whole or in part on acreage per well, then any such units may embrace as much additional acreage as may be so prescribed or as may be used in such allocation or allowable.

Form:

Producer's 88 Revised CCA, which is of the "commencement" type.

Special Provisions:

Paragraph 13. At the end of the primary term, if Lessee is engaged in drilling operations or if Lessee has completed a well on the leased premises either as a dry hole or a commercial producer within 180 days prior to the expiration of the primary term, this lease shall remain in effect so long as operations are commenced and prosecuted with a cessation of no more than 180 days between the completion of one well on said land as a well capable of producing oil and/or gas in paying quantities or a dry hole and commencement of drilling of the next well on said land. Completion shall be considered the date the well reaches total depth. Commencement shall be considered the date a rig capable of reaching total depth is placed on location.

As used herein, the term "proration" unit means a tract as nearly in the form of a square as possible allocated by the appropriate governmental regulatory body to a well which tract is of such size as to entitle the well to a full allowable. Anything herein to the contrary notwithstanding this lease will terminate at the end of the primary term or at the end of any continuous development program as herein provided as to the following: (a) each proration unit on which a dry hole has been drilled and each undrilled proration unit; and (b) all horizons below 100 feet below the deepest depth drilled on each proration unit.

Leases 2 through 25 have the following provisions in common:

Recorded:

Each lease is recorded at the book and page of the Public Records of Eddy County, New Mexico shown in each tabulation below.

Covers:

Each lease purports to cover a full interest in the captioned land and the other lands, if any, reflected in each tabulation below; each lease actually covers the undivided interest in this tract shown in each tabulation below and an unknown interest in the remainder of any of said lands.

Delay Rentals:

None; each is a paid-up lease.



**Shut-In Gas Royalty:**

At any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land or land pooled therewith but gas or condensate is not being so sold or used and such well is shut-in, either before or after production therefrom, then on or before 30 days after said well is shut-in and thereafter at annual intervals, Lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities.

**Pooling:**

Units pooled hereunder shall not exceed the standard proration units fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated plus a tolerance of 10%.

**Form:**

Producer's 88-Producer's Revised 1981 New Mexico Form 342, Paid-up (Nearburg); which is of the "commencement" type.

**No. 2:**

**Date:**

May 18, 1993.

**Recorded:**

Book 164, page 257.

**Lessor:**

James Lisle Hinkle, dealing in his sole and separate property.

**Lessee:**

M. Craig Clark.

**Primary Term:**

Three (3) years.

**Land Covered:**

T-19-S, R-25-E, Section 12:  
Fairchild Farm Tracts Nos. 437, 445, 446, 448, 449, 459, 460, 462, 463, 464, 465, 466, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 483, 484, and 489.

Section 13: SE/4

**Interest Covered:**

Undivided 1/128.

**Royalty:**

3/16.

**Special Provisions:**

None.

**No. 3:**

**Date:**

May 18, 1993.

**Recorded:**

Book 164, page 259.

**Lessor:**

Lillian T. Hinkle, a widow.

**Lessee:**

M. Craig Clark.

**Primary Term:**

Three (3) years.

**Land Covered:**

Same as Lease 2.

**Interest Covered:**

Undivided 1/32.

**Royalty:**

3/16.

Special Provisions:	None.
 <u>No. 4:</u>	
Date:	May 27, 1993.
Recorded:	Book 164, page 261.
Lessor:	John T. Hinkle, dealing in his sole and separate property.
Lessee:	M. Craig Clark.
Primary Term:	Three (3) years.
Land Covered:	Same as Lease 2.
Interest Covered:	Undivided 1/128.
Royalty:	3/16.
Special Provisions:	None.
 <u>No. 5:</u>	
Date:	May 27, 1993.
Recorded:	Book 164, page 263.
Lessor:	Bettianne Hinkle Bowen, dealing in her sole and separate property.
Lessee:	M. Craig Clark.
Primary Term:	Three (3) years.
Land Covered:	Same as Lease 2.
Interest Covered:	Undivided 1/128.
Royalty:	3/16.
Special Provisions:	None.
 <u>No. 6:</u>	
Date:	August 20, 1993.
Recorded:	Book 168, page 789.
Lessor:	R. R. Hinkle Company, Inc.
Lessee:	Nearburg Exploration Company.
Primary Term:	Three (3) years.
Land Covered:	SE/4 of Section 13 only.
Interest Covered:	Undivided 1/32.
Royalty:	1/5.
Special Provisions:	None.
 <u>No. 7:</u>	
Date:	August 20, 1993.
Recorded:	Book 168, page 793.
Lessor:	McQuiddy Communications and Energy, Inc.
Lessee:	Nearburg Exploration Company.
Primary Term:	Three (3) years.
Land Covered:	SE/4 of Section 13 only.
Interest Covered:	Undivided 1/32.
Royalty:	1/5.
Special Provisions:	None.
 <u>No. 8:</u>	
Date:	March 18, 1994, but effective March 23, 1994.
Recorded:	Book 185, page 638.
Lessor:	Brian W. Copple, Trustee of the Becky Dae Copple Trust u/w/o C. A. Copple, deceased.
Lessee:	Nearburg Exploration Company.
Primary Term:	Three (3) years from effective date.
Land Covered:	SE/4 of Section 13 and Fairchild Farm Tracts 504, 505, 518, 519, 521, 523, 528, 539, 540 and 543.
Interest Covered:	Undivided 1/20.

Royalty:  
Special Provisions:

1/5.  
Paragraph 12. In connection with shut-in gas well payments provided for under this lease, it is agreed that this lease shall not be maintained in force and effect solely by reason of shut-in gas well royalty payments for more than three consecutive years past the end of the primary term of the lease, unless Lessee is then engaged in an attempt to negotiate with a gas purchaser for the sale of such gas.

No. 9:

Date: March 18, 1994, but effective March 23, 1994.  
Recorded: Book 185, page 640.  
Lessor: R. L. Higgins, a single man.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years from effective date.  
Land Covered: Same as Lease No. 8.  
Interest Covered: Undivided 1/20.  
Royalty: 1/5.  
Special Provisions: None.

No. 10:

Date: March 18, 1994, but effective March 23, 1994.  
Recorded: Book 185, page 642.  
Lessor: H. E. Harrington and Sarah L. Harrington, Trustees of the H. E. Harrington and Sarah L. Harrington Trust U/T/A September 16, 1992.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years from effective date.  
Land Covered: Same as Lease No. 8.  
Interest Covered: Undivided 1/20.  
Royalty: 1/5.  
Special Provisions: None.

No. 11:

Date: March 18, 1994, but effective March 23, 1994.  
Recorded: Book 185, page 644.  
Lessor: Phil D. Helmig and wife, Marian L. Helmig.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years from effective date.  
Land Covered: Same as Lease No. 8.  
Interest Covered: Undivided 1/20.  
Royalty: 1/5.  
Special Provisions: None.

No. 12:

Date: March 18, 1994, but effective March 23, 1994.  
Recorded: Book 185, page 648.  
Lessor: John W. Lackey and wife, Margaret W. Lackey.

Lessee:	Nearburg Exploration Company.
Primary Term:	Three (3) years from effective date.
Land Covered:	Same as Lease No. 8.
Interest Covered:	Undivided 1/20.
Royalty:	1/5.
Special Provisions:	Paragraph 12. Notwithstanding the provisions above relative to a shut-in gas well, it is understood and agreed that Lessee will not be entitled to hold this lease under a shut-in gas clause provision herein set out for a period longer than two years beyond the termination of the primary term.

No. 13:

Date:	March 18, 1994, but effective March 23, 1994.
Recorded:	Book 185, page 652.
Lessor:	Phelps Anderson, dealing in his sole and separate property.
Lessee:	Nearburg Exploration Company.
Primary Term:	Three (3) years from effective date.
Land Covered:	Same as Lease No. 8.
Interest Covered:	Undivided 1/40.
Royalty:	1/5.
Special Provisions:	None.

No. 14:

Date:	March 24, 1994.
Recorded:	Book 185, page 654.
Lessor:	Ruth Fenton, dealing in her sole and separate property.
Lessee:	Nearburg Exploration Company.
Primary Term:	Three (3) years.
Land Covered:	SE/4 of Section 13 and the following lands in T-19-S, R-26-E: Section 19: SE/4, S/2 NE/4 and all that part of the S/2 NW/4 and NW/4 SW/4 lying North of North Seven Rivers.
Interest Covered:	Undivided 1/40.
Royalty:	3/16.
Special Provisions:	None.

No. 15:

Date:	March 18, 1994, but effective March 23, 1994.
Recorded:	Book 185, page 656.
Lessor:	Lucy Whitehurst Eastham a/k/a Lucy Jo Eastham and husband, Carmel J. Eastham.
Lessee:	Nearburg Exploration Company.
Primary Term:	Three (3) years from effective date.
Land Covered:	Same as Lease No. 8.
Interest Covered:	Undivided 1/40.
Royalty:	1/5.
Special Provisions:	None.

**No. 16:**

Date: March 18, 1994, but effective March 23, 1994.  
Recorded: Book 186, page 803.  
Lessor: Carole Whitehurst Walker a/k/a Carole June Walker and husband, Julian Walker.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years from effective date.  
Land Covered: Same as Lease No. 8.  
Interest Covered: Undivided 1/40.  
Royalty: 1/5.  
Special Provisions: None.

**No. 17:**

Date: March 18, 1994, but effective March 23, 1994.  
Recorded: Book 186, page 805.  
Lessor: E. W. Bisett, a single man.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years from effective date.  
Land Covered: Same as Lease No. 8.  
Interest Covered: Undivided 1/20.  
Royalty: 1/5.  
Special Provisions: None.

**No. 18:**

Date: March 24, 1994.  
Recorded: Book 186, page 807.  
Lessor: George W. Gushwa, dealing in his sole and separate property.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years.  
Land Covered: Same as Lease No. 14.  
Interest Covered: Undivided 1/40.  
Royalty: 3/16.  
Special Provisions: None.

**No. 19:**

Date: March 18, 1994, effective March 23, 1994.  
Recorded: Book 186, page 809.  
Lessor: N. Naomi McMinn, Individually and Personal Representative of the Estate of John R. McMinn, deceased.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years from effective date.  
Land Covered: Same as Lease No. 8.  
Interest Covered: Undivided 1/20.  
Royalty: 1/5.  
Special Provisions: None.

**No. 20:**

Date: March 24, 1994.  
Recorded: Book 186, page 813.  
Lessor: John J. Gushwa, dealing in his sole and separate property.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years.  
Land Covered: Same as Lease No. 14.  
Interest Covered: Undivided 1/40.

Royalty: 3/16.  
Special Provisions: None.

No. 21:

Date: March 24, 1994.  
Recorded: Book 186, page 815.  
Lessor: Charles R. Gushwa, dealing in his sole and separate property.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years.  
Land Covered: Same as Lease No. 14.  
Interest Covered: Undivided 1/40.  
Royalty: 3/16.  
Special Provisions: None.

No. 22:

Date: April 11, 1994.  
Recorded: Book 188, page 51.  
Lessor: Betty Dale, dealing in her sole and separate property.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years.  
Land Covered: Same as Lease No. 14.  
Interest Covered: Undivided 1/40.  
Royalty: 3/16.  
Special Provisions: None.

No. 23:

Date: March 18, 1994, but effective March 23, 1994.  
Recorded: Book 189, page 257.  
Lessor: Robert B. Anderson, dealing in his sole and separate property.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years from effective date.  
Land Covered: Same as Lease No. 8.  
Interest Covered: Undivided 1/40.  
Royalty: 1/5.  
Special Provisions: None.

No. 24:

Date: March 18, 1994, but effective March 23, 1994.  
Recorded: Book 189, page 259.  
Lessor: Donald B. Anderson, dealing in his sole and separate property.  
Lessee: Nearburg Exploration Company.  
Primary Term: Three (3) years from effective date.  
Land Covered: Same as Lease No. 8.  
Interest Covered: Undivided 1/20.  
Royalty: 1/5.  
Special Provisions: None.

No. 25:

Date: November 7, 1994.  
Recorded: Book 207, page 554.  
Lessor: Bonnie H. Morrison, dealing in her sole and separate property.  
Lessee: Nearburg Exploration Company.  
Primary Term: Two (2) years.  
Land Covered: SE/4 of this Section 13 only.  
Interest Covered: Undivided 1/8.  
Royalty: 1/5.

Special Provisions:

This lease is executed without warranty of title, either express or implied.

II. SW/4 OF SECTION 13:

No. 26:

Date:  
Recorded:  
Lessor:  
Lessee:  
  
Primary Term:  
  
Land Covered:  
Interest Covered:  
  
Royalty:  
Delay Rentals:  
Shut-In Gas Royalty:

October 24, 1991.  
Book 108, page 922.  
Louise Holmquist, a widow.  
Yates Petroleum Corporation (70%), Yates Drilling Company (10%), Abo Petroleum Corporation (10%) and Myco Industries, Inc. (10%).  
Five (5) years from February 1, 1992.  
SW/4 only.  
Believed to cover an undivided 1/6 interest.  
3/16.  
None; this is a paid-up lease. While there is a well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty on or before 90 days after the date on which such well is shut-in and thereafter at annual intervals the sum of \$1.00 per acre and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities.

Pooling:

Units pooled for oil shall not substantially exceed 40 acres each in area plus a tolerance of 10% and units pooled for gas hereunder shall not substantially in area 640 acres plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations.

Form:

Producer's 88 Rev. (10-57) which is of the "commencement" type.

No. 27:

Date:  
Recorded:  
  
Lessor:  
  
Lessee:

October 24, 1991.  
Book 109, page 1012, Public Records.  
Charles Holmquist, a single man.  
Yates Petroleum Corporation (70%), Yates Drilling Company (10%), Abo Petroleum Corporation (10%) and Myco Industries, Inc. (10%).

Primary Term:	Five (5) years from February 1, 1992.
Land Covered:	SW/4 only.
Interest Covered:	An undivided 1/6 interest.
Royalty:	3/16.
Delay Rentals:	None; this is a paid-up lease.
Shut-In Gas Royalty:	Same as Lease 26.
Pooling:	Same as Lease 26.
Form:	Same as Lease 26.

**No. 28:**

Date:	November 13, 1991.
Recorded:	Book 111, page 715.
Lessors:	Warren Akin, III and wife, Jean G. Akin, R. C. Boyd, Mary Boyd, and William Morgan Akin, each dealing in his/her separate property.
Lessee:	Nearburg Exploration Company.
Primary Term:	Four (4) years, as amended. (See Extension below).
Land Covered:	SW/4 of this Section 13 only.
Interest Covered:	Undivided 5/16.
Royalty:	3/16.
Delay Rentals:	None; this is a paid-up lease.
Shut-In Gas Royalty:	Same as Leases 2 through 25.
Pooling:	Same as Leases 2 through 25.
Form:	Same as Leases 2 through 25.
Ratifications:	The following ratifications have been taken from the remaindermen to the life estate of Mary Boyd: 1. From Margaret Ellen Love dated December 4, 1991, recorded in Book 112, page 36; 2. From John Robert Love dated November 29, 1991, recorded in Book 112, page 37; and 3. From Dorothy B. Sinclair dated December 3, 1991, recorded in Book 112, page 38.

**Extensions and  
Amendments:**

You have furnished the following amendments to this lease extending the primary term to four (4) years:

1. Executed by Warren Akin, III, Jean G. Akin, R. C. Boyd, Mary Boyd, and William Morgan Akin dated November 8, 1994, recorded in Book 206, page 518.
2. Executed by James R. Boyd, dated December 3, 1994, recorded in Book 206, page 520.
3. Ratification executed by Dorothy B. Sinclair, as remainderman, dated November 18, 1994, recorded in Book 206, page 522.

**No. 29:**

Date:	November 13, 1991.
Recorded:	Book 111, page 701.
Lessor:	Dorothy B. Sinclair, dealing in her sole and separate property.
Lessee:	Nearburg Exploration Company.



Primary Term:	Four (4) years, as amended (See Extension below).
Land Covered:	SW/4 of this Section 13 only.
Interest Covered:	Undivided 1/16.
Royalty:	3/16.
Delay Rentals:	None; this is a paid-up lease.
Shut-In Gas Royalty:	Same as Leases 2 through 25.
Pooling:	Same as Leases 2 through 25.
Form:	Same as Leases 2 through 25.
Extension and Amendment:	The primary term of this lease was amended by Amendment and Extension Agreement executed by Dorothy B. Sinclair on November 18, 1994, recorded in Book 206, page 521.

**No. 30:**

Date:	November 4, 1994.
Recorded:	Book 206, page 509.
Lessors:	Richard H. Coats and wife, Sigrid M. Coats; and Charles R. Wiggins, a single man.
Lessee:	Nearburg Exploration Company.
Primary Term:	Two (2) years, with the option to extend the primary term for an additional one (1) year on or before November 4, 1996, by paying an additional \$50.00 per acre.
Land Covered:	SW/4 of this Section 13 only.
Interest Covered:	Undivided 1/16.
Royalty:	25% calculated and payable pursuant to terms of Paragraph 3 of the lease.
Delay Rentals:	\$400.00 per annum payable to Lessors or Lessors' credit at Texas Commerce Bank, Midland, Texas on or before November 4, 1995, in the absence of drilling operations.
Shut-In Gas Royalty:	At any time either before or after the expiration of the primary term where gas from a well located on said lands and completed as a commercial producer of gas only or gas and condensate or distillate only is not sold because of a lack of a gas pipeline connection therefor, Lessee may pay or tender as royalty by a valid check or draft of Lessee to the parties entitled to receive royalties under this lease or to their credit at the depository bank on or before 90 days after the date on which (i) the first gas well is shut-in, or (ii) this lease ceases to be otherwise maintained as provided herein whichever is the latter date and annually thereafter, a shut-in gas well royalty payment in the amount hereinafter provided, and if such payment is properly and timely made it will be considered that gas is being produced from said

lands in accordance with the terms of this lease; provided, however, this lease may not be continued in force by the making of shut-in gas well royalty payments as herein provided for a period longer than two consecutive years after the end of the primary term. The annual payment (shut-in royalty) shall be equal to the annual rental provided for herein. This provision as to the payment of shut-in gas royalty is a condition and not a covenant, and the failure to pay any shut-in gas royalty as herein provided shall effect an automatic termination of this lease.

**Pooling:**

Units pooled for oil hereunder shall not substantially exceed 40 acres each in area and units pooled for gas shall not substantially exceed in area 320 acres each, plus a tolerance of 10%, provided that should governmental authority having jurisdiction prescribe the creation of units larger than those specified for the drilling of a well at a regular location or for obtaining maximum allowable for any well to be drilled, drilling or already drilled, units thereafter created and previously created units may be modified to conform substantially in size with those prescribed by governmental regulations.

**Form:**

This lease is on the Lessor's own typewritten form which is of the "commencement" type.

**Special Provisions:**

This lease contains numerous special provisions pertaining to calculation and payment of royalty, operational procedures, indemnities, plugging liability, and the following continuous development provision:

**Continuous Development:** If this lease is in full force and effect at the end of the primary term hereof, then within 120 days after the expiration of the primary term, Lessee shall commence actual drilling of a well on said lands and shall thereafter continuously develop said lands by drilling additional wells on the lands covered hereby with not more than 120 days elapsing between the completion of one well and the commencement of the next succeeding well. For the purposes of interpretation of this provision, a well shall be determined to be completed on the

day Lessee releases the drilling rig used to drill such well or the day such rig is removed off the location whichever day occurs first, and a well shall be determined to be commenced when such well is spudded. Each well properly commenced hereunder shall be completed by Lessee within 90 days of the date of cessation of drilling operations of such well.

Upon cessation of such continuous drilling program by Lessee, or if such continuous drilling program is not commenced, this lease and all rights hereunder shall automatically terminate as to all lands covered hereby, save and except as to each well then capable of producing oil or gas in paying quantities together with the proration unit allocated thereto (the size of said proration unit being hereby defined as the number of acres prescribed by the New Mexico Oil Conservation Division or other proper governmental authority as the minimum number of acres required for the production of the maximum allowable from a well in the particular field and from the particular formation involved) as of the date of such termination, and shall further terminate as to all depths in each such proration unit below the base of the deepest producing formation in each such well capable of producing oil or gas in paying quantities. Within 30 days after a partial termination of this lease as provided above, Lessee shall execute and deliver to Lessor a recordable release of this lease as to all lands covered hereby, save and except the lands and depths to be allocated to each production proration unit in accordance with the terms set forth above.

Upon cessation of said continuous drilling program, any acreage so assigned to a producing proration unit shall be considered as covered by a separate lease containing the same terms and provisions hereof, so that thereafter each separate lease can be kept in force and effect only by actual production from or operations upon that particular tract without regard to production or drilling operations upon the other tracts retained by Lessee under the terms hereof.







## AUTHORITY FOR EXPENDITURE COMPARISON

LEASE: Fairchild 13

WELL NUMBER: 2 PROPOSED TOTAL DEPTH: 8,200'

LOCATION: 1,980 FWL, 660 FSL, Section 13, T19S, R25E, Eddy County, New Mexico

DESCRIPTION OF WORK: Drill and complete as a pumping Cisco/Canyon oil producer.

INTANGIBLE COSTS:	NPC BCP	YATES BCP	NPC ACP	YATES ACP	NPC TOTAL	YATES TOTAL	DIFF
Drilling Footage 8,200 Ft @ 14.50 \$/Ft	118,900	149,000			118,900	149,000	(30,100)
Drilling Daywork D/C/Sda 3 2 4400	13,200	22,500	8,800		22,000	22,500	(500)
Drilling Turnkey					0	0	0
Rig Mobilization and Demobilization					0	0	0
Road & Location Expense	15,000	17,600	1,000	3,300	16,000	20,900	(4,900)
Damages	2,500				2,500	0	2,500
Directional Drilling - Tools and Service					0	0	0
Drilling Fluids	12,000	15,000			12,000	15,000	(3,000)
Fuel, Power, and Water	10,000	20,000	1,500	2,200	11,500	22,200	(10,700)
Supplies - Bits		400	750		750	400	350
Supplies - Casing Equipment	2,000		3,500	2,300	5,500	2,300	3,200
Supplies - Liner Equipment					0	0	0
Supplies - Miscellaneous	500		500		1,000	0	1,000
Cement and Cmt. Services - Surface Csg	17,000	20,000			17,000	20,000	(3,000)
Cement and Cmt. Services - Int. Csg					0	0	0
Cement and Cmt. Services - Prod. Csg			30,000	38,000	30,000	38,000	(8,000)
Cement and Cmt. Services - Other					0	0	0
Rental - Drilling Tools and Equipment	3,000	16,000	1,000	11,500	4,000	27,500	(23,500)
Rental - Miscellaneous	500		1,000		1,500	0	1,500
Testing - Drill Stem / Production	6,000	15,000			6,000	15,000	(9,000)
Open Hole Logging	9,000	15,000			9,000	15,000	(6,000)
Mudlogging Services	6,500	7,000			6,500	7,000	(500)
Special Services					0	0	0
Plug and Abandon	10,000		(10,000)		0	0	0
Pulling and/or Swabbing Unit			12,000	15,000	12,000	15,000	(3,000)
Reverse Equipment			1,200		1,200	0	1,200
Wireline Services			5,000	5,100	5,000	5,100	(100)
Stimulation			20,000	14,000	20,000	14,000	6,000
Pump / Vacuum Truck Services	500		500		1,000	0	1,000
Transportation	1,000		1,500		2,500	0	2,500
Tubular Goods - Inspection & Testing	500		6,000		6,500	0	6,500
Unclassified					0	0	0
Telephone and Radio Expense	500		500		1,000	0	1,000
Engineer / Geologist	2,500		1,350		3,850	0	3,850
Company Labor - Field Supervision	7,500	9,700	4,500	4,800	12,000	14,500	(2,500)
Contract Labor / Roustabout	1,000		2,500		3,500	0	3,500
Legal and Professional Services	2,000		500		2,500	0	2,500
Insurance	5,000				5,000	0	5,000
Overhead	4,600		2,000		6,600	0	6,600
<b>SUBTOTAL</b>	<b>251,200</b>	<b>307,200</b>	<b>95,800</b>	<b>96,200</b>	<b>346,800</b>	<b>403,400</b>	<b>(56,600)</b>
Contingencies	5,000	0	1,500	4,500	6,500	4,500	2,000
<b>ESTIMATED TOTAL INTANGIBLES</b>	<b>256,200</b>	<b>307,200</b>	<b>97,100</b>	<b>100,700</b>	<b>353,300</b>	<b>407,900</b>	<b>(54,600)</b>

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11232/11233 Exhibit No. 13  
Submitted By:  
Nearburg Exploration Company  
Hearing Date: April 7, 1995

**AUTHORITY FOR EXPENDITURE COMPARISON**

LEASE: Fairchild 13

WELL NUMBER: 2 PROPOSED TOTAL DEPTH: 8,200'

LOCATION: 1,980 FWL, 660 FSL, Section 13, T19S, R25E, Eddy County, New Mexico

DESCRIPTION OF WORK: Drill and complete as a pumping Cisco/Canyon oil producer.

		NPC	YATES		NPC	YATES		NPC	YATES		
		BCP	BCP		ACP	ACP		TOTAL	TOTAL		DIFF
<b>TANGIBLE COSTS:</b>											
Conductor Casing								0	0		0
Surface Csg	1,300 Ft @ 14.60 \$/Ft	18,980	18,800					18,980	18,800		2,180
Intermediate Csg	Ft @ \$/Ft	0						0	0		0
Protection Csg		0							0		0
Production Csg	8,200 Ft @ 10.00 \$/Ft				82,000	83,000		82,000	83,000		(1,000)
Protection Liner									0		0
Production Liner									0		0
Tubing	7,800 Ft @ 3.00 \$/Ft				23,400	22,000		23,400	22,000		1,400
Rods	Ft @ \$/Ft				0			0	0		0
Artificial Lift Equipment					80,000	110,000		80,000	110,000		(30,000)
Tank Battery					15,000	20,000		15,000	20,000		(5,000)
Separators/Heater Treater/Gas Units/FWKO					10,000	60,000		10,000	60,000		(50,000)
Well Head Equipment & Christmas Tree		1,500	2,200		10,500	11,800		12,000	14,000		(2,000)
Subsurface Well Equipment						1,500		0	1,500		(1,500)
Flow Lines					5,000			5,000	0		5,000
Saltwater Disposal Pump								0	0		0
Gas Meter					3,000			3,000	0		3,000
Lact Unit								0	0		0
Vapor Recovery Unit								0	0		0
Other Well Equipment									0		0
ROW and Damages									0		0
Surface Equipment Installation Costs					10,000	6,000		10,000	6,000		4,000
Elect. Installation					15,000			15,000	0		15,000
											0
<b>ESTIMATED TOTAL TANGIBLES</b>		20,480	19,000		253,900	314,300		274,380	333,300		(58,920)
											0
<b>ESTIMATED TOTAL WELL COSTS</b>		276,680	326,200		351,000	415,000		627,680	741,200		(113,520)

LARGE FORMAT  
EXHIBIT HAS  
BEEN REMOVED  
AND IS LOCATED  
IN THE NEXT FILE