

<p><b>Nearburg Producing Company</b>          Exploration and Production          Dallas, Texas</p>	<p><b>LOCATOR MAP</b></p>	<p><b>NMOCD HEARING</b></p>	<p><b>CASE #11265</b></p>	<p><b>April 20, 1995</b></p>	<p><b>DATE</b></p>	<p><b>DRAWN BY</b></p>	<p><b>FILE NO</b></p>
<p><b>GEOLONG, BY</b></p>							

**NIMCD HEARING  
CASE #11265  
April 20, 1995**

Hearing Date: 3/1/2011

DATE	DRAWN BY	FILE NO
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**Working Interest Calculations - Per title Opinion dated 11-09-94  
by David R. Vandiver  
NE1/4 Section 21, T-19-S, R-25-E, NMIPM, Eddy County, NM**

Revised by record search to March 29, 1995

**Nearburg Leases NE Section 21-19S-25E**

Bonnie H. Morrison - SWNE  
ARCO - SWNE  
Kerr-McGee - NENE  
Kerr-McGee - SWNW  
Whitney/Cribbs - SENE  
Wm. E. Farha Trust - NENE  
Ralph Nix Jr./Sara C. Garretson - NENE

**Total Net Acres - Nearburg Exploration Company  
Nearburg Exploration Company - Unit Working Interest**

**Conoco, Inc. Leases NE Section 21-19S-25E**

Myrtle Heard - SWNE  
Jewel Hickman - SWNE  
Bonnie Powell - SWNE  
Alton Ross - SWNE  
Carl E. Ross - SWNE  
Joe E. Ross - SWNE

**Total Net Acres - Conoco, Inc.  
Conoco, Inc. - Unit Working Interest**

**Yates Group - Combined Interests**

**Yates Petroleum Corp. Leases NE Section 21-19S-25E**

U.S.A. NM 0557142 - NWNE  
Parhandle Royalty Company - SWNE, NENE - 70%  
Lena Hilt - Nearburg Exploration - SWNE  
Bonnie H. Morrison - SWNE  
R.B. Rodke - NENE - 40%

**Alco Petroleum, Yates Drilling & Mico Industries Leases NE  
Section 21-19S-25E**

Parhandle Royalty Company - SWNE, NENE - 30%  
R.B. Rodke - NENE - 60%

**S.P. Yates Leases NE Section 21-19S-25E**

C.R. Nixon et al - SWNE - 50%

**Sharbro Oil Ltd. Co.**

C.R. Nixon et al - SWNE - 25%

**Estate of Lillie M. Yates**

C.R. Nixon et al - SWNE - 25%

**Total Net Acres - Yates Group Combined Interests  
Yates Group Combined Interests - Unit Working Interest**

Net Acres	Status	Subject to Nearburg/Yates Stipulation
3.75000000	HBP	
5.00000000	Exp. 5-05-97	
5.00000000	Exp. 9-14-95	
2.50000000	Exp. 9-14-95	
40.00000000	Exp. 5-12-96	
2.50000000	Exp. 3-31-97	
15.00000000	Exp. 1-04-97	
73.75000000		
0.46093750	78.131356% NRI	
0.83333333	HBP	
0.83333333	HBP	
0.83333333	HBP	
0.83333333	HBP	
5.83333333	HBP	
0.83333333	HBP	

**Total Net Acres - Conoco, Inc.  
0.06250000 79.529834% NRI**

40.00000000 HBP  
21.00000000 HBP  
1.86868687 HBP  
1.25000000 HBP  
1.00000000 Exp. 3-07-98 unless NW1/4 22-19S-25E is HBP

9.00000000 HBP  
1.50000000 Exp. 3-07-98 unless NW1/4 22-19S-25E is HBP

0.41666667 HBP

0.20833333 HBP

0.20833333 HBP

76.25000000  
0.47662500 81.147541% NRI

For Assignment 213048 dated 3-10-95 from Martin Yates, B  
Estate

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11265 Exhibit No. 2  
Submitted By:  
Nearburg Exploration Company  
Hearing Date: July 27, 1995

**OWNERSHIP MAP**

NORTHEAST QUARTER (NE/4) OF SECTION 21  
TOWNSHIP-19-SOUTH, RANGE-25-EAST,  
EDDY COUNTY, NEW MEXICO.

ALTO 21 #2 WELL 660' FNL & 660' FEL OF  
SECTION 21, T-19-S, R-25-E, EDDY COUNTY, NEW MEXICO

ALTO 21 #2 WELL 

**SPACING UNIT OWNERSHIP**

NEARBURG EXPLORATION COMPANY	46.09375%
YATES PETROLEUM CORPORATION, ET AL.	47.65625%
CONOCO, INC.	<u>6.25</u>
TOTAL	100.00

NEW MEXICO OIL CONSERVATION COMMISSION  
HEARING DOCKET FOR JUNE 1, 1995  
CASE #11265

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11265 Exhibit No. **3**  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: July 27, 1995

**ALTO 21 #2**  
**Chronology of Events**  
**NE/4 of Section 21, T-19-S, R-25-E, Eddy County, New Mexico**

1. August 17, 1994: NEC proposes the Arroyo 21 #1 well; 1980' FNL and 1980' FEL of Section 21.
2. August 23, 1994: Yates Petroleum Corporation proposes the Alto "AOL" Com #1 well; 1980' FNL and 660' FEL of Section 21.
3. September 19, 1994: Yates files application for compulsory pooling; NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico; Alto Com #1 1980' FNL and 660' FEL of Section 21.
4. September 27, 1994: NEC notifies Yates it elects to participate in the Alto "AOL" Com #1 well 1980' FNL and 660' FEL of Section 21. O/A requires well to be drilled by February 1, 1995.
5. Approx. February 7, 1995: Yates advises NEC it ~~will~~ *may/would consider* farm out its interest in NE/4 Section 21 rather than participate, and if we desire, we should make an offer. Verbal telephone conversation.
6. February 27, 1995: Yates proposes Ross "EG" Federal Com #14 well; 660' FNL and 1980' FEL of Section 21.
7. March 3, 1995: Yates sent NEC revised pages to O/A setting forth a 5/1/95 drilling date for the Ross "EG" Federal Com #14 well.
8. March 6, 1995: Yates proposes Rodke Com #1 well; 660' FNL and 660' FEL of Section 21; proposed as a well under O/A.
9. March 13-16, 1995: NEC proposes Alto 21 #2 well to 660' FNL and 660' FEL to all WI owners.
10. March 24, 1995: NEC files compulsory pooling application NE/4 of Section 21; Alto 21 #2 well; 660' FNL and 660' FEL of Section 21.
11. March 29, 1995: NEC responds to Yates' 2 well proposals - Ross "EG" Federal Com #14 and Rodke "AOY" Com #1 well. Advised no O/A because Alto "AOL" Com #1 well was to have commenced on February 1, 1995 and was never drilled.
12. March 30, 1995: Yates files compulsory pooling application NE/4 Section 21, 660' FNL and 1980' FEL of Section 21.

**BEFORE THE**  
**OIL CONSERVATION DIVISION**  
Case No. 11265 Exhibit No. **4**  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: July 27, 1995



*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

August 17, 1994

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

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

Re: Arroyo 21 #1 Well; 1980' FN&EL of Section 21, T-19-S, R-25-E,  
Eddy County, New Mexico, or other geographic location as necessary  
to drill a twin to the Yates Petroleum Corporation Osage well  
located approximately at the footage location above described.  
Arroyo Prospect

Gentlemen:

Nearburg Exploration Company ("NEC") proposes the drilling of the Arroyo 21 #1 well, an 8100' Cisco-Canyon test to be drilled at the location described above. Each of the addressees ("Yates") owns an undivided working interest in the 160-acre spacing unit, the NE/4 of said section.

NEC anticipates commencement of this well within the next ninety (90) days and requests that Yates either participate in the well, make its interest available to NEC on a farmout basis, reserving the difference between current lease burdens and 75% with any overriding royalty interest convertible at payout to a 25% back-in, or elect to sell the interest to NEC at a mutually acceptable price.

Enclosed herewith is an Operating Agreement and AFE prepared for your review and approval should Yates elect to participate in the drilling of the well. We invite Yates to participate in this well and look forward to your response.

Thank you for your cooperation.

Yours very truly,



Bob Shelton  
Consulting Landman

**BEFORE THE**  
**OIL CONSERVATION DIVISION**  
Case No. 11265 Exhibit No. 5  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: July 27, 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

August 17, 1994

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Kerr-McGee Corporation  
123 Robert S. Kerr Avenue  
Oklahoma City, Oklahoma 73102

Re: Arroyo 21 #1 Well; 1980' FN&EL of Section 21, T-19-S, R-25-E,  
Eddy County, New Mexico, or other geographic location as  
necessary to drill a twin to the Yates Petroleum Corporation Osage  
well located approximately at the footage location above described;  
Eddy County, New Mexico  
Arroyo Prospect

Gentlemen:

Nearburg Exploration Company ("NEC") proposes the drilling of the Arroyo 21 #1 well, an 8100' Cisco-Canyon test to be drilled at the location described above. Kerr-McGee Corporation ("Kerr-McGee") owns an undivided mineral interest in the 160-acre spacing unit, the NE/4 of said section.

NEC anticipates commencement of this well within the next ninety (90) days and requests that Kerr-McGee either participate in the well, make its interest available to NEC on a lease basis reserving a 25% royalty interest, or elect to sell the interest to NEC at a mutually acceptable price.

Enclosed herewith is an Operating Agreement and AFE prepared for your review and approval should Kerr-McGee elect to participate in the drilling of the well. We invite Kerr-McGee to participate in this well and look forward to your response.

Thank you for your cooperation.

Yours very truly,



Bob Shelton  
Consulting Landman

BS:kg

KERR-MCGEE CORPORATION  
123 ROBERT S KERR AVENUE  
OKLAHOMA CITY OK 73102

4a. Article Number 989362865

4b. Service Type  
☐ Registered  
☐ Insured  
☐ COD  
☒ Certified  
☐ Express Mail  
☐ Return Receipt for Merchandise

or using Return Receipt Set

PS Form 3811, December 1991 \* U.S.G.P.O. : 1992-307-530 DOMESTIC RETURN RECEIPT

3. Article Addressed to:  
YATES PETROLEUM CORP ET AL  
105 SOUTH FOURTH STREET  
ROSWELL NM 88210

5. Signature (Addressee)  
6. Signature Agent

7. Date of Delivery  
AUG 18 1994

8. Addressee's Address (Only if requested and fee is paid)

1. ☐ Addressee's Address following section (for an extra fee)  
2. ☐ Restricted Delivery  
3. ☐ Addressee's Address following section (for an extra fee)  
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Thank you for using Return Receipt Service.

PS Form 3800, June 1991

Sent to  
Kerr-McGee  
Street and No.  
Attygo 21 #1  
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

PS Form 3800, June 1991

Receipt for Certified Mail

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

PS Form 3800, June 1991

Sent to  
Yates et al  
Street and No.  
Attygo 21 #1  
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

PS Form 3800, June 1991

Receipt for Certified Mail

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



**Nearburg Producing Company**

Page 1 of 2

**Exploration and Production**

Dallas, Texas

**AUTHORITY FOR EXPENDITURE**

LEASE: Arroyo 21

WELL NUMBER: 1

PROPOSED TOTAL DEPTH: 8,100'

LOCATION: 1,980 FNL, 1,980 FEL, Section 21, 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: 8/15/94

EST. SPUD DATE: 10/15/94

EST. COMPLETION DATE: 11/15/94

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 8,100 Ft @ 16.00 \$/Ft	1514.101	129,600	NA		129,600
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	17,000	1515.123	1,000	18,000
Damages	1514.125	5,000	1515.125		5,000
Directional Drilling - Tools and Service	1514.130		1515.130		0
Drilling Fluids	1514.135	15,000	NA		15,000
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	1514.160	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	20,000	NA		20,000
Mudlogging Services	1514.210	7,500	NA		7,500
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	3,150	1515.250	1,350	4,500
Company Labor - Field Supervision	1514.255	12,600	1515.255	4,500	17,100
Contract Labor / Roustabout	1514.265	1,000	1515.265	2,500	3,500
Legal and Professional Services	1514.270	2,500	1515.270	500	3,000
Insurance	1514.275	10,300	1515.275		10,300
Overhead	1514.280	4,600	1515.280	2,000	6,600
SUBTOTAL		292,950		95,600	388,550
Contingencies (10%)		29,295		9,560	38,855
ESTIMATED TOTAL INTANGIBLES		322,245		105,160	427,405

**Nearburg Producing Company**

Exploration and Production

Dallas, Texas

Page 2 of 2

**AUTHORITY FOR EXPENDITURE**

LEASE: Arroyo 21                      WELL NUMBER: 1                      PROPOSED TOTAL DEPTH: 8,100'  
LOCATION: 1,980 FNL, 1,980 FEL, Section 21, 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: 8/15/94                      EST. SPUD DATE: 10/15/94                      EST. COMPLETION DATE: 11/15/94  
ACCOUNTING WELL NUMBER:  
COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing	1520.305		NA		0
Surface Csg      1,300 Ft @ 15.50 \$/Ft	1520.310	20,150	NA		20,150
Intermediate Csg      Ft @      \$/Ft	1520.315	0	NA		0
Protection Csg	1520.320	0	NA		
Production Csg      8,100 Ft @ 12.50 \$/Ft	NA		1522.325	101,250	101,250
Protection Liner	1520.330		NA		
Production Liner	NA		1522.335		
Tubing      7,800 Ft @ 3.10 \$/Ft	NA		1522.340	24,180	24,180
Rods      Ft @      \$/Ft	NA		1522.345	0	0
Artificial Lift Equipment	NA		1522.350	80,000	80,000
Tank Battery	NA		1522.355	15,000	15,000
Separators/Heater Treater/Gas Units/FWKO	NA		1522.360	10,000	10,000
Well Head Equipment & Christmas Tree	1520.365	1,500	1522.365	10,500	12,000
Subsurface Well Equipment	NA		1522.370		0
Flow Lines	NA		1522.375	5,000	5,000
Saltwater Disposal Pump	NA		1522.381		0
Gas Meter	NA		1522.385	3,000	3,000
Lact Unit	NA		1522.387		0
Vapor Recovery Unit	NA		1522.389		0
Other Well Equipment	NA		1522.390		
ROW and Damages	NA		1522.393		
Surface Equipment Installation Costs	NA		1522.395	10,000	10,000
Elect. Installation	NA		1522.397	15,000	15,000
ESTIMATED TOTAL TANGIBLES		21,650		273,930	295,580
ESTIMATED TOTAL WELL COSTS		343,895		379,090	722,985

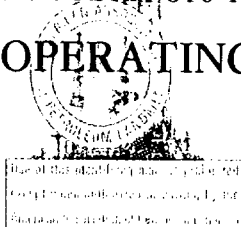
APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF THE OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE, OR LESS, UNLESS THE NON-OPERATOR GIVES NOTIFICATION ON THIS FORM OF HIS INTENT TO FURNISH HIS PROPORTIONATE SHARE IN KIND. THIS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

NPC APPROVAL	DATE
PREPARED BY:    TRM	8/15/94
REVIEWED BY:	
APPROVED BY:	

WI APPROVAL:    COMPANY \_\_\_\_\_  
BY \_\_\_\_\_  
TITLE \_\_\_\_\_  
DATE \_\_\_\_\_

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

**MODEL FORM OPERATING AGREEMENT**



ARROYO PROSPECT

OPERATING AGREEMENT

DATED

August 12, 19 94,

OPERATOR NEARBURG PRODUCING COMPANY

CONTRACT AREA The Northeast Quarter (NE/4) of Section 21,

Township 19 South, Range 25 East,

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.
- ☒ F. Exhibit "F", ~~Non Discrimination and Certification of Non-Segregated Facilities~~ Notice of Joint Operating Agreement Lien, Security Interests and Financial Statement
- ☐ ~~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 unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.  
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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



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

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

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

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

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

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

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

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

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

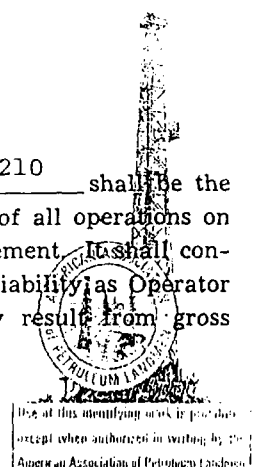
(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

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

## ARTICLE V. OPERATOR

### A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

YATES PETROLEUM CORPORATION, 105 South 4th St., Artesia, N.M. 88210 shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.



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

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

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

**C. Employees:**

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

**D. Drilling Contracts:**

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

**ARTICLE VI.  
DRILLING AND DEVELOPMENT**

**A. Initial Well:**

On or before the 1st day of February, 1995, Operator shall commence the drilling of a well for oil and gas at the following location:

1980 FNL & 660 FEL  
Section 21, T-19S-R25E  
Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to test the Canyon formation at approximately 8300'.

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

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

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

**B. Subsequent Operations:**

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

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

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

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

(a) 200 % of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100 % of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 500% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and



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

1 500% of that portion of the cost of newly acquired equipment in the well (to and including the well-  
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-  
3 pated therein.  
4

5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's  
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-  
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from  
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-  
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not  
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-  
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-  
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.  
13

14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share  
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of  
16 all production, crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty  
17 and other burdens applicable to Non-Consenting Party's share of production.  
18

19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall  
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of  
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,  
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the  
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of  
24 salvage.  
25

26 Within sixty (60) days after the completion of any operation under this Article, the party con-  
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-  
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,  
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,  
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed  
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being  
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-  
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the  
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the  
35 amount of proceeds realized from the sale of the well's working interest production during the preceding  
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties  
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any  
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any  
39 such operation which would have been owned by a Non-Consenting Party had it participated therein  
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,  
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;  
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.  
43

44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest  
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-  
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same  
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-  
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,  
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be  
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in  
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.  
52

53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent  
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well  
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing  
56 well spacing pattern for such source of supply.  
57

58 The provisions of this Article shall have no application whatsoever to the drilling of the initial  
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)  
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall  
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article  
62 VI.A.  
63

64 **C. Right to Take Production in Kind:**

65 Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract Area  
66 shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators  
67 shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under  
68 the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information.  
69 Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties  
70 as Operator and shall otherwise be kept confidential.

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced  
from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and

1 treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate  
2 disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of  
3 production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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

21  
22 In the event any party hereto is not at any time taking or marketing its share of gas production and Operator  
23 is either (i) unwilling to purchase or sell or (ii) unable to obtain the prior written consent to purchase or sell such  
24 party's share of gas production, or in the event any party has contracted to sell its share of gas produced from  
25 the contract Area to a purchaser which does not at any time while this agreement is in effect take the full share  
26 of gas attributable to the interest of such party, then in any such event the terms and conditions of the Gas  
27 Balancing Agreement attached hereto as Exhibit "E" and incorporated herein shall automatically become  
28 effective.

#### 29 D. Access to Contract Area and Information:

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

#### 40 E. Abandonment of Wells:

41  
42  
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

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

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

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

## ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

### B. Liens and Payment Defaults:

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

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

### C. Payments and Accounting:

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

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

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D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of TWENTY FIVE THOUSAND----- Dollars (\$ 25,000.00 ) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of FIFTEEN THOUSAND----- Dollars (\$ 15,000.00 ).

E. Royalties, Overriding Royalties and Other Payments:

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

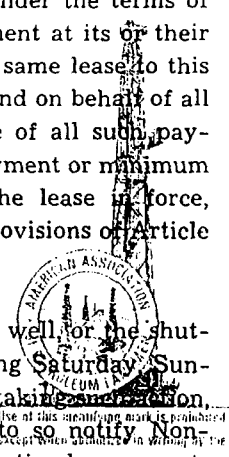
No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall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

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

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

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

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



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

**G. Taxes:**

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

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

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

**H. Insurance:**

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

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

**ARTICLE VIII.  
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

**A. Surrender of Leases:**

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

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

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

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

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

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

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

without warranty

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases. The provisions of this Article VIII-B shall only apply to leases, or portions of leases, located within the Unit Area.

**C. Acreage or Cash Contributions:**

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

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C. This paragraph shall not be applicable to the contribution of acreage by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

**D. Subsequently Created Interest:**

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

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



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

**E. Maintenance of Uniform Interest:**

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

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

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

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

**F. Waiver of Right to Partition:**

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

~~**G. Preferential Right to Purchase:**~~

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

**ARTICLE IX.  
INTERNAL REVENUE CODE ELECTION**

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

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

#### ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed FIFTEEN THOUSAND----- Dollars (\$ 15,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### ARTICLE XI. FORCE MAJEURE

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

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

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

#### ARTICLE XII. NOTICES

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

#### ARTICLE XIII. TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 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 or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 120 days from the date of abandonment of said well.

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

#### ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

##### A. Laws, Regulations and Orders:

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

##### B. Governing Law:

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

#### ARTICLE XV. OTHER PROVISIONS

A. Not included.

B. Not included.

C. Not included.

D. 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 force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or, (4) 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. Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk, and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest.

E. No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to any party's subsidiaries, affiliates, or associates, without each party's prior written consent. All production sold from the lease acreage, or lands pooled therewith, will be an arm's length trade with a third party purchaser. It is expressly agreed if prior written consent is given to a party selling to themselves, its subsidiaries, affiliates, or associates, the other parties to this agreement will have the option to also sell to said purchaser, at the same or better price. In the event any party hereto, makes an arm's length trade with a third party purchaser, the remaining parties will have the option to also sell at the same or higher price.

F. Prior to commencement of any well drilled under this agreement, each non-operator must tender to the operator its share of dry hole cost, as set out on Authority for Expenditure proposing such well.

ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 23rd day of August, 1994.

OPERATOR

YATES PETROLEUM CORPORATION

By: [Signature]  
Title: Attorney-in-Fact

NON-OPERATORS

NEARBURG EXPLORATION COMPANY

KERR-MCGEE CORPORATION

BY: [Signature]  
TITLE: A-I-F

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_

YATES DRILLING COMPANY

ABO PETROLEUM CORPORATION

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_

MYCO INDUSTRIES, INC.

BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_



ACKNOWLEDGMENTS

STATE OF NEW MEXICO )  
                                  :SS  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 23rd day of August, 1994, by S.P. Yates, Attorney-in-Fact for Yates Petroleum Corporation a New Mexico corporation, on behalf of said corporation.

My commission expires:

10-7-96

*[Signature]*  
Notary Public

STATE OF NEW MEXICO )  
                                  :SS  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1994, by \_\_\_\_\_, \_\_\_\_\_ for Myco Industries, Inc.; \_\_\_\_\_, \_\_\_\_\_ for Abo Petroleum Corporation; \_\_\_\_\_, \_\_\_\_\_ for Yates Drilling Company all New Mexico corporations, on behalf of said corporations.

My commission expires:

\_\_\_\_\_  
Notary Public

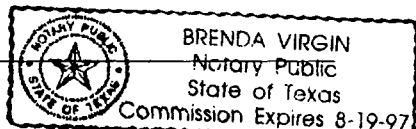
CORPORATION ACKNOWLEDGMENT

STATE OF TEXAS )  
                                  :SS  
COUNTY OF MIDLAND )

The foregoing instrument was acknowledged before me this 19th day of October, 1994, by Robert G. Shelton, Attorney-in-Fact for Nearburg Exploration Company a sole proprietorship ~~corporation~~ on behalf of said ~~corporation~~ sole proprietorship.

My commission expires:

*Brenda Virgin*  
Notary Public



INDIVIDUAL ACKNOWLEDGMENT

STATE OF )  
                                  :SS  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1994, by \_\_\_\_\_.

My commission expires:

\_\_\_\_\_  
Notary Public

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

EXHIBIT "A"

I. Lands Subject to Agreement:

Township 19 South, Range 25 East  
Section 21: NE/4

II. Restrictions as to depth of formations:

None

III. Percentage Interests of Parties Under the Agreement:

	ACRES	% OF UNIT	INITIAL TEST WELL BEFORE PAYOUT	INITIAL TEST WELL AFTER PAYOUT & SUBSEQUENT WELLS
Yates Petroleum Corporation	71.916663	44.947914 %	44.947914 %	44.947914 %
Yates Drilling Company	4.499999	2.812499	2.812499	2.812499
Abo Petroleum Corporation	4.499999	2.812499	2.812499	2.812499
Myco Industries, Inc.	4.499999	2.812499	2.812499	2.812499
S. P .Yates	0.416670	0.260419	0.260419	0.260419
Estate of Martin Yates, III	0.208335	0.130210	0.130210	0.130210
Estate of Lillie M. Yates	0.208335	0.130210	0.130210	0.130210
Nearburg Exploration Company	66.250000	41.406250	46.093750	44.687500
Kerr-McGee Corporation	7.500000	4.687500	F/O	1.406250
	160.000000	100.000000 %	100.000000 %	100.000000 %

IV. Oil & Gas Leases subject to Agreement:

1. Lessee:

U.S.A.
- Original Lessee:

Virginia Spickard
- Present Lessee:

Yates Petroleum Corp.

100.000000 %
- Expiration Date:

HBP
- Serial No.

NM-0557142
- Description:

NW/4NE/4
- Net Acres:

40.00000
2. Lessee:

C. R. Nixon, Jr., et al
- Original Lessee:

S. P. Yates

50.000000 %

Martin Yates, III

50.000000
- Present Lessee:

S. P. Yates

50.000000 %

Estate of Martin Yates, III

25.000000

Estate of Lillie M. Yates

25.000000
- Expiration Date:

HBP
- Serial No.

Fee
- Description:

SW/4NE/4
- Net Acres:

0.83334



ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

3. Lessee: Lena W. Hildt, et al

Original Lessee: Yates Petroleum Corp. 100.000000 %

Present Lessee: Yates Petroleum Corp. 100.000000 %

Expiration Date: HBP

Serial No. Fee

Description: SW/4NE/4

Net Acres: 1.66667

4. Lessee: Panhandle Royalty Company

Original Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Present Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Expiration Date: HBP

Serial No. Fee

Description: NE/4NE/4, SW/4NE/4

Net Acres: 30.00000

5. Lessee: Carl E. Ross

Original Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Present Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Expiration Date: HBP

Serial No. Fee

Description: SW/4NE/4

Net Acres: 5.83334

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

6. Lessee: Joe E. Ross

Original Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Present Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Expiration Date: HBP

Serial No. Fee

Description: SW/4NE/4

Net Acres: 0.83333

7. Lessee: Bert Alton Ross

Original Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Present Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Expiration Date: HBP

Serial No. Fee

Description: SW/4NE/4

Net Acres: 0.83333

8. Lessee: Myrtle Heard

Original Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Present Lessee: Yates Petroleum Corp. 70.000000 %  
Yates Drilling Company 10.000000  
Abo Petroleum Corp. 10.000000  
Myco Industries, Inc. 10.000000

Expiration Date: HBP

Serial No. Fee

Description: SW/4NE/4

Net Acres: 0.83333

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

9. Lessee: Jewel T. Hickam

Original Lessee:	Yates Petroleum Corp.	70.000000 %
	Yates Drilling Company	10.000000
	Abo Petroleum Corp.	10.000000
	Myco Industries, Inc.	10.000000
Present Lessee:	Yates Petroleum Corp.	70.000000 %
	Yates Drilling Company	10.000000
	Abo Petroleum Corp.	10.000000
	Myco Industries, Inc.	10.000000
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4	
Net Acres:	0.83333	

10. Lessee: Bonnie Powell

Original Lessee:	Yates Petroleum Corp.	70.000000 %
	Yates Drilling Company	10.000000
	Abo Petroleum Corp.	10.000000
	Myco Industries, Inc.	10.000000
Present Lessee:	Yates Petroleum Corp.	70.000000 %
	Yates Drilling Company	10.000000
	Abo Petroleum Corp.	10.000000
	Myco Industries, Inc.	10.000000
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4	
Net Acres:	0.83333	

11. Lessee: Bonnie H. Morrison

Original Lessee:	Reading & Bates, Inc.	
Present Lessee:	Yates Petroleum Corp.	100.000000 %
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4 Below 7,704'	
Net Acres:	1.25000	

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

12. Lessee: Bonnie H. Morrison

Original Lessee: Nearburg Petroleum Partnership

Present Lessee: Nearburg Exploration Co. 100.000000 %

Expiration Date: HBP

Serial No. Fee

Description: SW/4NE/4  
Below 7,704'

Net Acres: 3.75000

13. Lessee: Atlantic Richfield Co.

Original Lessee: Nearburg Exploration Co.

Present Lessee: Nearburg Exploration Co. 100.000000 %

Expiration Date: January 31, 1995

Serial No. Fee

Description: SW/4NE/4

Net Acres: 5.00000

14. Lessee: Leslie P. Whitney, et ux

Original Lessee: Nearburg Exploration Co.

Present Lessee: Nearburg Exploration Co. 100.000000 %

Expiration Date: June 7, 1996

Serial No. Fee

Description: SE/4NE/4

Net Acres: 20.00000

15. Lessee: Mary Elaine Cribbs

Original Lessee: Nearburg Exploration Co.

Present Lessee: Nearburg Exploration Co. 100.000000 %

Expiration Date: June 7, 1996

Serial No. Fee

Description: SE/4NE/4

Net Acres: 20.00000

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

16. Lessee:	Ralph Nix, Jr.	
Original Lessee:	Nearburg Exploration Co.	
Present Lessee:	Nearburg Exploration Co.	100.000000 %
Expiration Date:	January 3, 1997	
Serial No.	Fee	
Description:	NE/4NE/4	
Net Acres:	7.50000	
17. Lessee:	Sara Garretson	
Original Lessee:	Nearburg Exploration Co.	
Present Lessee:	Nearburg Exploration Co.	100.000000 %
Expiration Date:	January 3, 1997	
Serial No.	Fee	
Description:	NE/4NE/4	
Net Acres:	7.50000	
18. Lessee:	William E. Farha Trust	
Original Lessee:	Nearburg Exploration Co.	
Present Lessee:	Nearburg Exploration Co.	100.000000 %
Expiration Date:	March 30, 1997	
Serial No.	Fee	
Description:	NE/4NE/4	
Net Acres:	2.50000	
19. Lessee:	R. B. Rodke	
Original Lessee:	Yates Petroleum Corp.	40.000000 %
	Yates Drilling Company	20.000000
	Abo Petroleum Corp.	20.000000
	Myco Industries, Inc.	20.000000
Present Lessee:	Yates Petroleum Corp.	40.000000 %
	Yates Drilling Company	20.000000
	Abo Petroleum Corp.	20.000000
	Myco Industries, Inc.	20.000000
Expiration Date:	March 6, 1998	
Serial No.	Fee	
Description:	NE/4NE/4	
Net Acres:	2.50000	

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

20. Unleased Minerals:      Kerr-McGee Corporation

Description:                SW/4NE/4, NE/4NE/4

Net Acres:                 7.50000

**V.        Addresses of Parties to which notices should be sent:**

Yates Petroleum Corporation	Nearburg Exploration Company
Abo Petroleum Corporation	3300 North A Street
Yates Drilling Company	Suite 8100
Myco Industries, Inc.	Midland, TX 79705
S. P. Yates	
Estate of Martin Yates, III	
Estate of Lillie M. Yates	
105 South Fourth Street	
Artesia, NM 88210	
Kerr-McGee Corporation	
123 Robert S. Kerr Avenue	
Oklahoma City, OK 73102	



## OIL AND GAS LEASE

THIS AGREEMENT made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, between \_\_\_\_\_

Lessor (whether one or more), whose address is: \_\_\_\_\_

and \_\_\_\_\_ Lessee, WITNESSETH: \_\_\_\_\_

1. Lessor in consideration of \_\_\_\_\_ Dollars

(\$.\_\_\_\_\_) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in \_\_\_\_\_

County, \_\_\_\_\_, to-wit: \_\_\_\_\_

Attached to and made a part of Operating Agreement dated August 25, 1994 between Yates Petroleum Corporation, "Operator" and Nearburg Exploration Company, et al, "Non-Operator".

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to be paid by Lessee are: (a) on oil, one-eighth of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of one-eighth

of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the County in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

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

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

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

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

Lessor

Lessee

## EXHIBIT " C "

Attached to and made a part of Operating Agreement dated August 23,  
1994, between Yates Petroleum Corporation, "Operator" and  
Nearburg Exploration Company, et al, "Non-Operator".

## ACCOUNTING PROCEDURE JOINT OPERATIONS

### I. GENERAL PROVISIONS

#### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

#### 2. Statement and Billings

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

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

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

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

#### 4. Adjustments

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

#### 5. Audits

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

#### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

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

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

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

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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

**10. Taxes**

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

**11. Insurance**

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

**12. Other Expenditures**

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

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

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

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

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

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

**A. Overhead - Fixed Rate Basis**

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

Drilling Well Rate \$ 5,400.00  
Producing Well Rate \$ 540.00

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

**(a) Drilling Well Rate**

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

**(b) Producing Well Rates**

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

## B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

## 2. Overhead - Major Construction

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

- A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00 ; plus
- B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

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

## 3. Amendment of Rates

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

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

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

### 1. Purchases

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

### 2. Transfers and Dispositions

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

#### A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
  - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
  - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

#### B. Good Used Material (Condition B)

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

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

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

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

**C. Other Used Material (Condition C and D)**

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

**4. Warranty of Material Furnished by Operator**

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

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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



## EXHIBIT "D"

### ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT

#### ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

(A) Workman's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.

(B) Public Liability Insurance:  
Bodily Injury and Property Damage - \$500,000.00 single limit each occurrence.

(C) Automobile Public Liability Insurance:  
Bodily Injury \$250,000.00 each person.  
\$500,000.00 each occurrence.

Property Damage - \$100,000.00 each accident.

(or)

Bodily Injury and Property Damage - \$500,000.00 combined single limit.

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

## EXHIBIT "E"

### GAS BALANCING AGREEMENT

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to a purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

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

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in

place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

5. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable in length, normally not to exceed 72 hours.

6. If a proration unit ceases to produce gas and/or liquid hydrocarbons in paying quantities before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

7. Notwithstanding the provisions of ¶6, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party 90 days' written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such written demands) within 90 days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in ¶6. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year.

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

9. This agreement shall constitute a separate agreement as to each proration unit approved by the applicable regulatory authority for a pool within the Contract Area, but such proration unit shall not include any producing horizon which is not within the vertical limits of said pool. This agreement shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

## EXHIBIT "F"

### EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

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

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

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

#### CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U. S. C. - 1001 .

**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. 11265 Exhibit No. 7  
Submitted By:  
Nearburg Exploration Company  
Hearing Date: July 27, 1995

September 27, 1994

Ms. Mecca Mauritsen  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Re: Alto "AOL" Com #1 Well, 1980' FNL and 660'  
FEL; Patriot "AIZ" #5 Well, 660' FSL and 1980'  
FEL; both in Section 21, T-19-S, R-25-E,  
Eddy County, New Mexico  
Arroyo Prospect

Dear Mecca:

Enclosed herewith please find two (2) executed originals of AFE's for the captioned wells. Nearburg Exploration Company hereby elects to participate in the drilling of these wells. As you will note on both AFE's, I have changed the Nearburg percentage for participation which conforms to our acquisition of the interests of both S&E Company and Kerr-McGee Corporation.

There seems to be some disagreement on the interest Nearburg owns pursuant to the Bonnie Morrison oil and gas lease as reflected by new Exhibits "A" furnished to Nearburg with your letter of September 14, 1994. In an attempt to clear up this problem, I have enclosed herewith a Stipulation of Interest, recorded in Book 190 at Page 257 of the Public Records of Eddy County, New Mexico, which was executed by Yates Petroleum Corporation, Nearburg Exploration Company, and Cross Timbers Oil Company, L. P., which after your review, should verify that Nearburg's interest now shown on the AFE is correct.

I would appreciate it if you would review this material furnished and provide us with a new exhibit to the Operating Agreement. At that time we will be glad to execute same and return to your attention.

If you have any questions, please feel free to contact the undersigned. Thank you for your cooperation.

Yours very truly,



Bob Shelton  
Consulting Landman

BS:kg

Enclosures



AUTHORITY FOR EXPENDITURE  
NEW DRILLING & RECOMPLETION

AFE NO.  
AFE DATE

94-229-0  
8/23/94

105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion

Well Objective:

<input type="checkbox"/>	Oil
<input checked="" type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

<input checked="" type="checkbox"/>	Development
<input type="checkbox"/>	Exploratory

AFE STATUS:

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	Final

LEASE NAME  
COUNTY  
LEGAL DESC.  
FIELD

ALTO 'AOL' COM #1
EDDY
1980' FNL & 660' FEL

PROJ'D DEPTH  
STATE  
LOCATION  
HORIZON

8300'
NM
Section 21-19S-25E
Canyon

DIVISION CODE  
DISTRICT CODE  
BRANCH CODE

100

DIVISION NAME  
DISTRICT NAME  
BRANCH NAME

Oil & Gas Division

PROGNOSIS:

INTANGIBLE DRILLING COSTS:

		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	2,000	2,000
920-110	Location, Right-of-Way	15,600	15,600
920-120	Drilling, Footage 8300' @ \$17.50/ft	145,300	145,300
920-130	Drilling, Daywork 5 days @ \$4500/day	22,500	22,500
920-140	Drilling Water, Fasline Rental	20,000	20,000
920-150	Drilling Mud & Additives	12,000	12,000
920-160	Mud Logging Unit, Sample Bags	6,400	6,400
920-170	Cementing - Surface Casing	20,000	20,000
920-180	Drill Stem Testing, OHT 1 DST	5,000	5,000
920-190	Electric Logs & Tape Copies	15,000	15,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	16,000	16,000
920-210	Supervision & Overhead	9,700	9,700
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	400	400
920-350	Cementing - Production Casing		32,000
920-410	Completion Unit - Swabbing		15,000
920-420	Water for Completion		2,200
920-430	Mud & Additives for Completion		
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		5,100
920-460	Tools & Equip. Rental, Etc. - Completion		11,500
920-470	Stimulation for Completion		14,000
920-480	Supervision & O/H - Completion		4,800
920-490	Additional LOC Charges - Completion		3,300
920-510	Bits, Tools & Supplies - Completion		2,300
920-500	Contingency for Completion		4,500
TOTAL INTANGIBLE DRILLING COSTS		289,900	384,600

TANGIBLE EQUIPMENT COSTS:

930-010	Christmas Tree & Wellhead	2,200	14,000
930-020	Casing 9-5/8" @ 1150'	16,800	16,800
	7" @ 8300'		81,000
930-030	Tubing 2-7/8" @ 7950'		21,500
930-040	Packer & Special Equipment		1,500
940-010	Pumping Equipment		110,000
940-020	Storage Facilities		14,000
940-030	Separation Equip., Flowlines, Misc.		60,000
940-040	Trucking & Construction Costs		6,000
TOTAL TANGIBLE EQUIPMENT COSTS		19,000	324,800

TOTAL COSTS

308,900 709,400

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

Prepared By	<i>Al Sprunger</i>	Operations Approval	
-------------	--------------------	---------------------	--

OWNER

SHARE

YATES PETROLEUM CORPORATION	
BY <i>[Signature]</i>	DATE

38.2200%

YATES DRILLING COMPANY	
BY <i>[Signature]</i>	DATE

5.4600%

ABO PETROLEUM CORPORATION	
BY <i>[Signature]</i>	DATE

5.4600%

MYCO INDUSTRIES, INC.	
BY <i>[Signature]</i>	DATE

5.4600%

ALTO "AOL" COM #1  
Sec. 21, T19S-R25E  
Edwy County, New Mexico

AFE # 94-229-0  
Date: 8-23-94  
Page 2

NEARBURG EXPLORATION COMPANY

By: 

DATE: 9/27/94

KERR-MCGEE CORPORATION

By: \_\_\_\_\_

DATE: \_\_\_\_\_

SHARE

45.4%  
~~48.7125888 %~~

4.58750000 %

100.0000000 %



MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 11265 Exhibit No. 8  
Submitted By:  
Nearburg Exploration Company  
Hearing Date: July 27, 1995

February 23, 1995

To: Working Interest Owners  
Address List Attached

Re: Ross EG Com. #14  
Township 19 South, Range 25 East  
Section 21: NE/4  
Eddy County, New Mexico

Gentlemen:

Pursuant to Nearburg's request and our concerns about the Alto AOL Com. #1 location being between two SWD wells, Yates Petroleum Corporation is proposing the Ross EG Com. #14 at a location of 660' FNL and 1980' FEL of Section 21-T19S-R25E to test the Canyon formation. Enclosed are two (2) copies of an Authority for Expenditure for your review.

We will be furnishing you in the near future with a revised page 4 and Exhibit A to the August 23, 1994 Operating Agreement to reflect the new proposal.

If the AFE is acceptable and you would like to participate in the drilling of this well, please sign and return one (1) executed copy of the AFE to our office.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

*Mecca Mauritsen*

Mecca Mauritsen  
Landman

MM:dke  
enclosure(s)



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

# AUTHORITY FOR EXPENDITURE

NEW DRILLING & RECOMPLETION

AFE NO.  
AFE DATE

95-065-0  
2/23/95

AFE Type:

<input checked="" type="checkbox"/>	New Drilling
<input type="checkbox"/>	Recompletion

Well Objective:

<input checked="" type="checkbox"/>	Oil
<input type="checkbox"/>	Gas
<input type="checkbox"/>	Injector

Well Type:

<input checked="" type="checkbox"/>	Development
<input type="checkbox"/>	Exploratory

AFE STATUS:

<input type="checkbox"/>	Original
<input checked="" type="checkbox"/>	Revised
<input type="checkbox"/>	Final

LEASE NAME	Ross 'EG' Federal Com #14	PROJ'D DEPTH	8300'
COUNTY	Eddy	STATE	New Mexico
LEGAL DESC.	660' FNL & 1980' FEL	LOCATION	Section 21-19S-25E
FIELD	N. Dagger Draw	HORIZON	Canyon

DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: \_\_\_\_\_

## INTANGIBLE DRILLING COSTS:

		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	500	500
920-110	Location, Right-of-Way	10,800	10,800
920-120	Drilling, Footage 8300' @ \$15.15/day	125,745	125,745
920-130	Drilling, Daywork 3 days @ \$4500/day	13,500	13,500
920-140	Drilling Water, Fasline Rental	18,000	18,000
920-150	Drilling Mud & Additives	10,000	10,000
920-160	Mud Logging Unit, Sample Bags	3,600	3,600
920-170	Cementing - Surface Casing	12,500	12,500
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	11,000	11,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	6,300	6,300
920-210	Supervision & Overhead	7,500	7,500
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	300	300
920-350	Cementing - Production Casing		8,000
920-410	Completion Unit - Swabbing		7,800
920-420	Water for Completion		1,100
920-430	Mud & Additives for Completion		600
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		4,000
920-460	Tools & Equip. Rental, Etc. - Completion		8,000
920-470	Stimulation for Completion		10,000
920-480	Supervision & O/H - Completion		5,400
920-490	Additional LOC Charges - Completion		3,300
920-510	Bits, Tools & Supplies - Completion		2,300
920-500	Contingency for Completion		4,500
TOTAL INTANGIBLE DRILLING COSTS		219,745	274,745

## TANGIBLE EQUIPMENT COSTS:

930-010	Christmas Tree & Wellhead	2,200	15,700
930-020	Casing 9-5/8" @ 1200'	16,800	16,800
	7" @ 8300'		80,000
930-030	Tubing 2-7/8" @ 7900'		21,500
930-040	Packer & Special Equipment		15,000
940-010	Pumping Equipment		75,000
940-020	Storage Facilities		
940-030	Separation Equip., Flowlines, Misc.		10,000
940-040	Trucking & Construction Costs		
TOTAL TANGIBLE EQUIPMENT COSTS		19,000	234,000

TOTAL COSTS	238,745	508,745
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APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

Prepared By	<i>[Signature]</i>	Operations Approval	Surface to 7704	Below 7704
-------------	--------------------	---------------------	-----------------	------------

YATES DRILLING COMPANY	2.187500%	2.187500%
YATES PETROLEUM CORPORATION	40.572911%	40.572911%

BY	DATE
----	------

ABO PETROLEUM CORPORATION	2.187500%	2.187500%
---------------------------	-----------	-----------

BY	DATE
----	------

MYCO INDUSTRIES, INC.	2.187500%	2.187500%
-----------------------	-----------	-----------

BY	DATE
----	------

S.P. YATES	.260419%	.260419%
------------	----------	----------

BY	DATE
----	------

ROSS EG FED. COM #14  
Sec. 21-T19S-R25E  
Eddy County, New Mexico

AFE #95-065-0  
Date: 2-23-95  
Page 2

	Surface to 7704	Below 7704
Estate of Lillie M. Yates	0.130210	0.130210
By: _____ DATE _____		
Sharbro Oil Ltd. Co.	0.130210	0.130210
By: _____ DATE _____		
By: _____ DATE _____		
Nearburg Exploration Company	43.750000	46.093750
By: _____ DATE _____		
Conoco Inc.	6.250000	6.250000
By: _____ DATE _____		
Anadarko Petroleum Corporation	2.343750	-0-
By: _____ DATE _____		
Total:	100.000000	100.000000

MARTIN YATES, III  
1912 - 1983  
FRANK W. YATES  
1930 - 1988



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

## Fax Cover Sheet

To: Joe Fitzgerald  
Company: Nearburg  
Phone: \_\_\_\_\_  
Fax: 915-686-7806

From: Mecca Mauritsen  
Company: Yates Petroleum Corporation  
Phone: 505-748-1471  
Fax: 505-748-4572

Date: 3-3-95  
Pages: 3

(including cover page)

Comments: Copy of four pages of Fisk & Vander Drilling  
Revised #586 dated 3-29-93 showing Bonnie Morrison lease.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Yates Petroleum Corporation

No. 586

Date: April 25, 1975

Recorded: Book 127, Page 546, Miscellaneous Records

Lessors: Lena W. Hildt, a widow, and Julia Elizabeth Hildt, a single woman

Lessee: Yates Petroleum Corporation

Lands and Mineral Interest Covered: Captioned lands (1/24 mineral interest) and other lands totaling 680 acres, more or less

Primary Term: 5 years

Delay Rentals: None, this is a paid-up lease

Royalty: 3/16

Lease No. 9

Form: Hall-Poorbaugh Press Form 342

Date: November 4, 1970

Recorded: Book 75, Page 439, Miscellaneous Records

Lessor: Bonnie H. Morrison, dealing in her sole and separate property

Original Lessee: Reading and Bates, Inc.

Present Lessees:

SW/4 NE/4, only from the surface down to 7,704 feet beneath the surface:

Anadarko Petroleum Corporation ..... 3/4

Yates Petroleum Corporation ..... 1/4

SW/4 NE/4, below 7,704 feet beneath the surface:

Yates Petroleum Corporation ..... 1/4

\*RAMCO-NYL 1987 Limited Partnership ..... 99% of 3/4

\*RB Operating Company ..... 1% of 3/4

E/2 NW/4:

AMAX Oil & Gas, Inc. .... 1/4

\*RAMCO-NYL 1987 Limited Partnership ..... 99% of 3/4

\*RB Operating Company ..... 1% of 3/4

E/2 SW/4, NW/4 SW/4, N/2 SE/4, SW/4 SE/4:

AMAX Oil & Gas, Inc. .... 9/36

Cross Timbers Oil Company, L.P. .... 13/36

\*RAMCO-NYL 1987 Limited Partnership ..... 99% of 14/36

\*RB Operating Company ..... 1% of 14/36

\*RAMCO-NYL 1987 Limited Partnership and RB Operating Company executed releases of this lease. See Requirement 4 in IV below

## Yates Petroleum Corporation

No. 586

**Lands and Mineral Interest Covered:** E/2 W/2, NW/4 SW/4 (1/16 mineral interest), SW/4 NE/4, N/2 SE/4, SW/4 SE/4 (1/8 mineral interest) and other lands totaling 920 acres, more or less (see Lease 10 and Requirement 4 in IV below)

**Primary Term:** 5 years

**Delay Rentals:** \$920, but subject to lesser interest clause, payable to lessor or to the credit of lessor in the Security National Bank, Roswell, New Mexico

**Royalty:** 1/8

**Overriding Royalty:** 1/16, subject to proportionate reduction, in favor of RAMCO-NYL 1987 Limited Partnership (99%) and RB Operating Company (1%), only as to SW/4 NE/4 from the surface down to 7,704 feet beneath the surface, with the option to convert the overriding royalty to a proportionate 50% working interest at payout of the Osage No. 1 Well under the terms of Operating Agreement dated June 1, 1982

**Lease No. 10**

**Form:** Hall-Poorbaugh Press Form 342P

**Date:** July 14, 1988

**Recorded:** Book 29, Page 16, Eddy County Records

**Lessor:** Bonnie H. Morrison, a widow

**Lessee:** Nearburg Petroleum Partnership, a Texas general partnership

**Lands and Mineral Interest Covered:** E/2 W/2, NW/4 SW/4 (1/16 mineral interest), SW/4 NE/4, N/2 SE/4, SW/4 SE/4 (1/8 mineral interest) (see Lease 9 and Requirement 4 in IV below)

**Primary Term:** 5 years

**Delay Rentals:** None, this is a paid-up lease

**Royalty:** 3/16

**Special Provisions:** The last sentence of Paragraph 3 dealing with the compression, treatment, purification or dehydration of gas has been deleted from the lease

**Lease No. 11**

**Form:** Hall-Poorbaugh Press Form 342

**Date:** March 1, 1977

**Recorded:** Book 145, Page 57, Miscellaneous Records

**Original Lessors:** C. R. Nixon, Jr. and Marie K. Nixon, his wife, and William H. Nixon and Polly Ann Nixon, his wife

**Present Lessors:** C. R. Nixon, Jr. and Marie K. Nixon, his wife, Polly Ann W. Nixon, a widow, and the heirs and devisees of William H. Nixon, a/k/a W. H. Nixon, deceased

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986

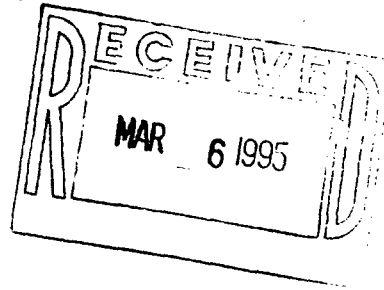


105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

S. P. YATES  
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JOHN A. YATES  
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RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11265 Exhibit No. **9**  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: July 27, 1995

March 3, 1995



Nearburg Exploration Company  
3300 North A Street  
Building 2, Suite 120  
Midland, TX 79705

Attn: Bob Shelton

RE: Ross EG Federal Com #14  
Township 19 South, Range 25 East  
Section 21: NE/4  
Eddy County, New Mexico

Gentlemen:

Enclosed is a copy of revised Page 4 and Exhibit "A" to the Operating Agreement for the captioned well. Please substitute these pages accordingly.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Mecca Mauritsen  
Landman

MM:tmr  
Enclosures

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

## ARTICLE VI. DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1995, Operator shall commence the drilling of a well for oil and gas at the following location:

660' FNL and 1980' FEL  
Section 21, T-19S-R25E  
Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to test the Canyon formation at approximately 8300'.

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

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

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



ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

EXHIBIT "A"

I. Lands Subject to Agreement:

Township 19 South, Range 25 East  
Section 21: NE/4

II. Restrictions as to depth of formations:

Shallow Unit - From the surface to a depth of 7,704'  
Deep Unit - Below 7,704'

III. Percentage Interests of Parties Under the Agreement:

Shallow Unit

	ACRES	% OF UNIT	INITIAL TEST WELL BEFORE PAYOUT	INITIAL TEST WELL AFTER PAYOUT & SUBSEQUENT WELLS
Yates Petroleum Corporation	64.916660	40.572911 %	40.572911 %	40.572911 %
Yates Drilling Company	3.500000	2.187500	2.187500	2.187500
Abo Petroleum Corporation	3.500000	2.187500	2.187500	2.187500
Myco Industries, Inc.	3.500000	2.187500	2.187500	2.187500
S. P .Yates	0.416670	0.260419	0.260419	0.260419
Estate of Martin Yates, III	0.208335	0.130210	0.130210	0.130210
Estate of Lillie M. Yates	0.208335	0.130210	0.130210	0.130210
Anadarko Petroleum Corporation	3.750000	2.343750	2.343750	2.343750
Conoco Inc.	10.000000	6.250000	6.250000	6.250000
Nearburg Exploration Company	62.500000	39.062500	43.750000	42.343750
Kerr-McGee Corporation	7.500000	4.687500	F/O	1.406250
	160.000000	100.000000 %	100.000000 %	100.000000 %

Deep Unit

	ACRES	% OF UNIT	INITIAL TEST WELL BEFORE PAYOUT	INITIAL TEST WELL AFTER PAYOUT & SUBSEQUENT WELLS
Yates Petroleum Corporation	64.916660	40.572911 %	40.572911 %	40.572911 %
Yates Drilling Company	3.500000	2.187500	2.187500	2.187500
Abo Petroleum Corporation	3.500000	2.187500	2.187500	2.187500
Myco Industries, Inc.	3.500000	2.187500	2.187500	2.187500
S. P .Yates	0.416670	0.260419	0.260419	0.260419
Estate of Martin Yates, III	0.208335	0.130210	0.130210	0.130210
Estate of Lillie M. Yates	0.208335	0.130210	0.130210	0.130210
Anadarko Petroleum Corporation	- 0 -	- 0 -	- 0 -	- 0 -
Conoco Inc.	10.000000	6.250000	6.250000	6.250000
Nearburg Exploration Company	66.250000	41.406250	46.093750	44.687500
Kerr-McGee Corporation	7.500000	4.687500	F/O	1.406250
	160.000000	100.000000 %	100.000000 %	100.000000 %

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

IV. Oil & Gas Leases subject to Agreement:

1. Lessor:	U.S.A.	
Original Lessee:	Virginia Spickard	
Present Lessee:	Yates Petroleum Corp.	100.000000 %
Expiration Date:	HBP	
Serial No.	NM-0557142	
Description:	NW/4NE/4	
Net Acres:	40.00000	
2. Lessor:	C. R. Nixon, Jr., et al	
Original Lessee:	S. P. Yates	50.000000 %
	Martin Yates, III	50.000000
Present Lessee:	S. P. Yates	50.000000 %
	Estate of Martin Yates, III	25.000000
	Estate of Lillie M. Yates	25.000000
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4	
Net Acres:	0.83334	
3. Lessor:	Lena W. Hildt, et al	
Original Lessee:	Yates Petroleum Corp.	100.000000 %
Present Lessee:	Yates Petroleum Corp.	100.000000 %
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4	
Net Acres:	1.66666	

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

4.	Lessor:	Panhandle Royalty Company	
	Original Lessee:	Yates Petroleum Corp.	70.000000 %
		Yates Drilling Company	10.000000
		Abo Petroleum Corp.	10.000000
		Myco Industries, Inc.	10.000000
	Present Lessee:	Yates Petroleum Corp.	70.000000 %
		Yates Drilling Company	10.000000
		Abo Petroleum Corp.	10.000000
		Myco Industries, Inc.	10.000000
	Expiration Date:	HBP	
	Serial No.	Fee	
	Description:	NE/4NE/4, SW/4NE/4	
	Net Acres:	30.00000	
5.	Lessor:	Carl E. Ross	
	Original Lessee:	Roger C. Hanks	100.000000 %
	Present Lessee:	Conoco Inc.	100.000000 %
	Expiration Date:	HBP	
	Serial No.	Fee	
	Description:	SW/4NE/4	
	Net Acres:	5.83334	
6.	Lessor:	Joe E. Ross	
	Original Lessee:	Roger C. Hanks	100.000000 %
	Present Lessee:	Conoco Inc.	100.000000 %
	Expiration Date:	HBP	
	Serial No.	Fee	
	Description:	SW/4NE/4	
	Net Acres:	0.83334	
7.	Lessor:	Alton Ross	
	Original Lessee:	Roger C. Hanks	100.000000 %
	Present Lessee:	Conoco Inc.	100.000000 %
	Expiration Date:	HBP	
	Serial No.	Fee	
	Description:	SW/4NE/4	
	Net Acres:	0.83333	

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

8. Lessor:	Myrtle Heard	
Original Lessee:	Roger C. Hanks	100.000000 %
Present Lessee:	Conoco Inc.	100.000000 %
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4	
Net Acres:	0.83333	

9. Lessor:	Jewel Hickam	
Original Lessee:	Roger C. Hanks	100.000000 %
Present Lessee:	Conoco Inc.	100.000000 %
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4	
Net Acres:	0.83333	

10. Lessor:	Bonnie Powell	
Original Lessee:	Roger C. Hanks	100.000000 %
Present Lessee:	Conoco Inc.	100.000000 %
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4	
Net Acres:	0.83333	

11. Lessor:	Bonnie H. Morrison	
Original Lessee:	Reading & Bates, Inc.	
Present Lessee:	Surface to 7,704'	
	Anadarko Petroleum Corp.	75.000000 %
	Yates Petroleum Corp.	25.000000
	Below 7,704'	
	Yates Petroleum Corp.	100.000000 %
Expiration Date:	HBP	
Serial No.	Fee	
Description:	SW/4NE/4	
Net Acres:	1.25000	

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

12. Lessor:

Bonnie H. Morrison

Original Lessee:

Nearburg Petroleum Partnership

Present Lessee:

Surface to 7,704'

Anadarko Petroleum Corp.

75.000000 %

Yates Petroleum Corp.

25.000000

Below 7,704'

Nearburg Exploration Co.

100.000000 %

Expiration Date:

HBP

Serial No.

Fee

Description:

SW/4NE/4

Net Acres:

3.75000

13. Lessor:

Atlantic Richfield Co.

Original Lessee:

Nearburg Exploration Co.

Present Lessee:

Nearburg Exploration Co. 100.000000 %

Expiration Date:

January 31, 1995

Serial No.

Fee

Description:

SW/4NE/4

Net Acres:

5.00000

14. Lessor:

Leslie P. Whitney, et ux

Original Lessee:

Nearburg Exploration Co.

Present Lessee:

Nearburg Exploration Co. 100.000000 %

Expiration Date:

June 7, 1996

Serial No.

Fee

Description:

SE/4NE/4

Net Acres:

20.00000

15. Lessor:

Mary Elaine Cribbs

Original Lessee:

Nearburg Exploration Co.

Present Lessee:

Nearburg Exploration Co. 100.000000 %

Expiration Date:

June 7, 1996

Serial No.

Fee

Description:

SE/4NE/4

Net Acres:

20.00000

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

16. Lessor: Ralph Nix, Jr.

Original Lessee: Nearburg Exploration Co.

Present Lessee: Nearburg Exploration Co. 100.000000 %

Expiration Date: January 3, 1997

Serial No. Fee

Description: NE/4NE/4

Net Acres: 7.50000

17. Lessor: Sara Garretson

Original Lessee: Nearburg Exploration Co.

Present Lessee: Nearburg Exploration Co. 100.000000 %

Expiration Date: January 3, 1997

Serial No. Fee

Description: NE/4NE/4

Net Acres: 7.50000

18. Lessor: William E. Farha Trust

Original Lessee: Nearburg Exploration Co.

Present Lessee: Nearburg Exploration Co. 100.000000 %

Expiration Date: March 30, 1997

Serial No. Fee

Description: NE/4NE/4

Net Acres: 2.50000

19. Lessor: R. B. Rodke

Original Lessee: Yates Petroleum Corp. 40.000000 %  
Yates Drilling Company 20.000000  
Abo Petroleum Corp. 20.000000  
Myco Industries, Inc. 20.000000

Present Lessee: Yates Petroleum Corp. 40.000000 %  
Yates Drilling Company 20.000000  
Abo Petroleum Corp. 20.000000  
Myco Industries, Inc. 20.000000

Expiration Date: March 6, 1998

Serial No. Fee

Description: NE/4NE/4

Net Acres: 2.50000

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED AUGUST 23, 1994, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND NEARBURG EXPLORATION COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

20. Lessor: Kerr-McGee Corporation

Original Lessee: Nearburg Producing Company

Present Lessee: Nearburg Producing Co. 100.000000 %

Expiration Date: September 13, 1995

Serial No. Fee

Description: SW/4NE/4, NE/4NE/4

Net Acres: 7.50000

V. Addresses of Parties to which notices should be sent:

Yates Petroleum Corporation	Nearburg Exploration Company
Abo Petroleum Corporation	3300 North A Street
Yates Drilling Company	Suite 8100
Myco Industries, Inc.	Midland, TX 79705
S. P. Yates	
Estate of Martin Yates, III	
Estate of Lillie M. Yates	Conoco Inc.
105 South Fourth Street	10 Desta Drive, Suite 100W
Artesia, NM 88210	Midland, TX 79705-4500
Kerr-McGee Corporation	Anadarko Petroleum Corp.
123 Robert S. Kerr Avenue	P. O. Box 1330
Oklahoma City, OK 73102	Houston, TX 77251-1330

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986

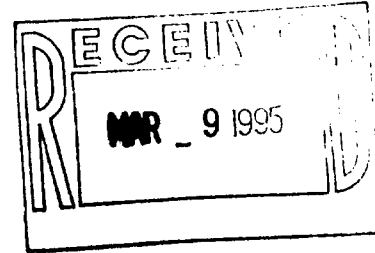


105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11265 Exhibit No. *10*  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: July 27, 1995

March 6, 1995



To: Working Interest Owners  
Addressee List Attached

Re: Rodke AOY Com. #1  
Township 19 South, Range 25 East  
Section 21: NE/4  
Eddy County, New Mexico

*SS*

Gentlemen:


Pursuant to the Operating Agreement covering the captioned acreage, Yates Petroleum Corporation proposes the drilling of the captioned well. The proposed footage location is 660' FNL and 660' FEL of Section 21-T19S-R25E to test the Canyon formation. Authority for Expenditure costs for the 8300' test are \$253,700 dry hole and \$685,700.00 completed. Enclosed for your review are two (2) copies of the detailed AFE.

Please indicate your election to join by signing and returning one copy of the AFE to our office.

Thank you.

Very truly yours,

**YATES PETROLEUM CORPORATION**

  
Randy G. Patterson  
Land Manager

RGP:de  
enclosure(s)





105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

AUTHORITY FOR EXPENDITURE  
NEW DRILLING & RECOMPLETION

AFE NO. 95-075-0  
AFE DATE 3/6/95

AFE Type:	Well Objective:	Well Type:	AFE STATUS:
<input checked="" type="checkbox"/> New Drilling	<input checked="" type="checkbox"/> Oil	<input checked="" type="checkbox"/> Development	<input checked="" type="checkbox"/> Original
<input type="checkbox"/> Recompletion	<input type="checkbox"/> Gas	<input type="checkbox"/> Exploratory	<input type="checkbox"/> Revised
	<input type="checkbox"/> Injector		<input type="checkbox"/> Final

LEASE NAME	Rodke AOY Com. #1	PROJ'D DEPTH	8300'
COUNTY	Eddy	STATE	New Mexico
LEGAL DESC.	Unit A,	LOCATION	Section 21-19S-25E
FIELD	N. Dagger Draw	HORIZON	Canyon

DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS:

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	500	500
920-110	Location, Right-of-Way	10,800	10,800
920-120	Drilling, Footage 8300' @ \$16/ft	140,700	140,700
920-130	Drilling, Daywork 3 days @ \$4500/day	13,500	13,500
920-140	Drilling Water, Fasline Rental	18,000	18,000
920-150	Drilling Mud & Additives	10,000	10,000
920-160	Mud Logging Unit, Sample Bags	3,600	3,600
920-170	Cementing - Surface Casing	12,500	12,500
920-180	Drill Stem Testing, OHT No dst's		
920-190	Electric Logs & Tape Copies	11,000	11,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	6,300	6,300
920-210	Supervision & Overhead	7,500	7,500
920-220	Contingency		
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase	300	300
920-350	Cementing - Production Casing		30,000
920-410	Completion Unit - Swabbing		7,800
920-420	Water for Completion		1,100
920-430	Mud & Additives for Completion		600
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion		4,000
920-460	Tools & Equip. Rental, Etc. - Completion		8,000
920-470	Stimulation for Completion		30,000
920-480	Supervision & O/H - Completion		5,400
920-490	Additional LOC Charges - Completion		3,300
920-510	Bits, Tools & Supplies - Completion		2,300
920-500	Contingency for Completion		4,500
TOTAL INTANGIBLE DRILLING COSTS		234,700	331,700

TANGIBLE EQUIPMENT COSTS:		DRY HOLE	COMP'D WELL
930-010	Christmas Tree & Wellhead	2,200	15,700
930-020	Casing 9-5/8" @ 1200'	16,800	16,800
	7" @ 8300'		80,000
930-030	Tubing 2-7/8" @ 7900'		21,500
930-040	Packer & Special Equipment		15,000
940-010	Pumping Equipment		75,000
940-020	Storage Facilities		90,000
940-030	Separation Equip., Flowlines, Misc.		30,000
940-040	Trucking & Construction Costs		10,000
TOTAL TANGIBLE EQUIPMENT COSTS		19,000	354,000

TOTAL COSTS	253,700	685,700
-------------	---------	---------

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM THE OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

Prepared By	<i>Al Springer</i>	Operations Approval	Surface to 7704'	Before 7704'
	YATES PETROLEUM CORPORATION		40.572911%	40.572911%
	YATES DRILLING COMPANY		2.187500%	2.187500%
BY	DATE			
	ABO PETROLEUM CORPORATION		2.187500%	2.187500%
BY	DATE			
	MYCO INDUSTRIES, INC.		2.187500%	2.187500%
BY	DATE			
	S.P. YATES		.260419%	.260419%

RODKE AOY COM. #1  
Sec. 21-T19S-R25E  
Eddy County, New Mexico

AFE #95-075-0  
Date: 3-6-95  
Page 2

	SURFACE TO 7704'	BELOW 7704'
SHARBRO OIL LTD CO.	0.130210	0.130210
By: _____	DATE _____	
By: _____	DATE _____	
ESTATE OF LILLIE M. YATES	0.130210	0.130210
By: _____	DATE _____	
CONOCO, INC.	6.250000	6.250000
By: _____	DATE _____	
NEARBURG EXPLORATION COMPANY	42.343750	44.687500
By: _____	DATE _____	
KERR-MCGEE CORPORATION	1.406250	1.406250
By: _____	DATE _____	
ANADARKO PETROLEUM CORPORATION	2.343750	-0-
By: _____	DATE _____	
TOTAL:	100.000000	100.000000

**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 16, 1995

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11265 Exhibit No. 11  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: July 27, 1995

Mr. Randy Patterson  
Yates Petroleum Corporation  
Yates Drilling Company  
Myco Industries, Inc.  
Abo Petroleum Corporation  
S. P. Yates  
Estate of Lillie M. Yates  
Sharbro Oil Ltd. Co.  
105 South Fourth Street  
Artesia, New Mexico 80201

Re: Alto 21 #2 Well; 660' FNL and 660'  
FEL of Section 21, T-19-S, R-25-E,  
Eddy County, New Mexico  
Arroyo Prospect

Dear Randy:

Nearburg proposes the drilling of the Alto 21 #2 well, a proposed 8100' Cisco-Canyon test, to be located 660' FNL and 660' FEL of Section 21, T-19-S, R-25-E, Eddy County, New Mexico. Enclosed is Nearburg's Operating Agreement, which we propose be used in connection with the drilling of the well, and our AFE estimating the cost of the proposed operation. Nearburg anticipates costs to drill the well to casing point to be \$343,895 and total completed well costs of \$722,985.

We believe Nearburg should be the Operator of this well because of its large working interest in the well and because Nearburg has other wells and disposal facilities located on adjoining acreage.

Nearburg is proposing this well as the result of Yates' proposal of the Rodke "AOY" Com #1 well which is proposed at the same location. In proposing this well, Nearburg does not waive its right to pursue any claims against Yates for disposal of salt water into a productive formation on the spacing unit where this well is to be located.

We invite Yates to participate with Nearburg in the drilling of this new well.

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

Yours very truly,



Bob Shelton  
Consulting Landman

BS-2\ALTO-1AT.AFE

Z 111 008 079



# Receipt for Certified Mail

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

PS Form 3800, March 1993

Sender	
Yates et al	
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	
Alto 21 #2 3/16/95	

Is your RETURN ADDRESS completed on the reverse side?

## SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- 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.

I also wish to receive the following services (for an extra fee):

- ☐ Addressee's Address
- ☐ Restricted Delivery

Consult postmaster for fee.

### 3. Article Addressed to:

MR RANDY G PATTERSON  
YATES PETROLEUM CORPORATION  
105 SOUTH FOURTH STREET  
ARTESIA NM 88210

### 4a. Article Number

Z 111 008 079

### 4b. Service Type

- |   |   |
|---|---|
| <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 |

### 7. Date of Delivery

MAR 17 1995

Alto 21 #2

### 5. Signature (Addressee)

R. Rayos

### 6. Signature (Agent)

### 8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

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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**Nearburg Producing Company**

Exploration and Production

Dallas, Texas

Page 1 of 2

**AUTHORITY FOR EXPENDITURE**

LEASE: A1to 21

WELL NUMBER: 2

PROPOSED TOTAL DEPTH: 8,100'

LOCATION: 660'FNL, 660 FEL, Section 21, 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: 3/2/95

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

<b><u>INTANGIBLE COSTS:</u></b>	<b>CODE</b>	<b>TO CSG PT</b>	<b>CODE</b>	<b>COMPLETION</b>	<b>TOTAL WELL</b>
Drilling Footage 8,100 Ft @ 16.00 \$/Ft	1514.101	129,600	NA		129,600
Drilling Daywork D/C\$/day 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	17,000	1515.123	1,000	18,000
Damages	1514.125	5,000	1515.125		5,000
Directional Drilling – Tools and Service	1514.130		1515.130		0
Drilling Fluids	1514.135	15,000	NA		15,000
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	20,000	NA		20,000
Mudlogging Services	1514.210	7,500	NA		7,500
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	3,150	1515.250	1,350	4,500
Company Labor – Field Supervision	1514.255	12,600	1515.255	4,500	17,100
Contract Labor / Roustabout	1514.265	1,000	1515.265	2,500	3,500
Legal and Professional Services	1514.270	2,500	1515.270	500	3,000
Insurance	1514.275	10,300	1515.275		10,300
Overhead	1514.280	4,600	1515.280	2,000	6,600
<b>SUBTOTAL</b>		292,950		95,600	388,550
Contingencies (10%)		29,295		9,560	38,855
<b>ESTIMATED TOTAL INTANGIBLES</b>		322,245		105,160	427,405

***Dallas, Texas***

**AUTHORITY FOR EXPENDITURE**

LEASE: A1b 21 WELL NUMBER: 2 PROPOSED TOTAL DEPTH: 8,100'  
LOCATION: 660'FNL, 660 FEL, Section 21, 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: 3/2/95

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

<b><u>TANGIBLE COSTS:</u></b>	<b>CODE</b>	<b>TO CSG PT</b>	<b>CODE</b>	<b>COMPLETION</b>	<b>TOTAL WELL</b>
Conductor Casing	1520.305		NA		0
Surface Csg 1,300 Ft @ 15.50 \$/Ft	1520.310	20,150	NA		20,150
Intermediate Csg Ft @ \$/Ft	1520.315	0	NA		0
Protection Csg	1520.320	0	NA		
Production Csg 8,100 Ft @ 12.50 \$/Ft	NA		1522.325	101,250	101,250
Protection Liner	1520.330		NA		
Production Liner	NA		1522.335		
Tubing 7,800 Ft @ 3.10 \$/Ft	NA		1522.340	24,180	24,180
Rods Ft @ \$/Ft	NA		1522.345	0	0
Artificial Lift Equipment	NA		1522.350	80,000	80,000
Tank Battery	NA		1522.355	15,000	15,000
Separators/Heater Treater/Gas Units/FWKO	NA		1522.360	10,000	10,000
Well Head Equipment & Christmas Tree	1520.365	1,500	1522.365	10,500	12,000
Subsurface Well Equipment	NA		1522.370		0
Flow Lines	NA		1522.375	5,000	5,000
Saltwater Disposal Pump	NA		1522.381		0
Gas Meter	NA		1522.385	3,000	3,000
Lact Unit	NA		1522.387		0
Vapor Recovery Unit	NA		1522.389		0
Other Well Equipment	NA		1522.390		
ROW and Damages	NA		1522.393		
Surface Equipment Installation Costs	NA		1522.395	10,000	10,000
Elect. Installation	NA		1522.397	15,000	15,000
<b>ESTIMATED TOTAL TANGIBLES</b>		21,650		273,930	295,580
<b>ESTIMATED TOTAL WELL COSTS</b>		343,895		379,090	722,985

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>
PREPARED BY: TRM	3/2/95
REVIEWED BY:	
APPROVED BY:	

WI APPROVAL: COMPANY

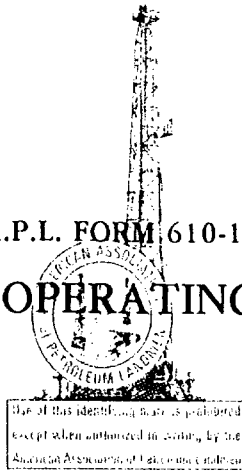
BY

**TITLE**

DATE \_\_\_\_\_

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

**MODEL FORM OPERATING AGREEMENT**



Alto 21 #2 Well  
ARROYO PROSPECT

**OPERATING AGREEMENT**

**DATED**

March 13 , 19 95 ,

**OPERATOR** NEARBURG PRODUCING COMPANY

**CONTRACT AREA** Northeast Quarter (NE/4) of Section 21,

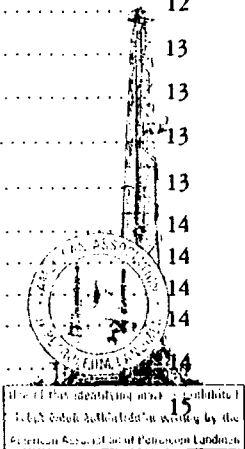
Township 19 South, Range 25 East

**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.
- ☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities, Interests and Financial Statement
- ☐ ~~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, supplemental, 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.~~

except when authorized in writing by the  
American Association of Petroleum Landmen

## 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.

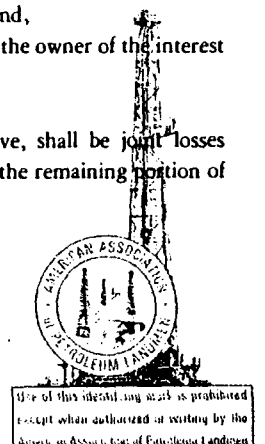
2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the 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.



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 31st day of October, 19 95, Operator shall be authorized to commence the drilling of a well for oil and gas at the following location:

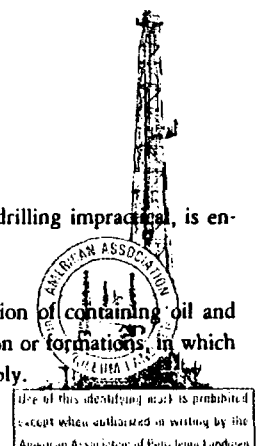
660' FEL and 660' FNL of Section 21, T-19-S, R-25-E,  
Eddy County, New Mexico

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

a depth of 8100' 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 impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

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



## 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, ~~excise taxes~~ <sup>crude oil taxes</sup>, 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) ~~300%~~ 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, ~~excise~~ <sup>crude oil</sup> 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.



This document is a standard form of contract and is not to be used for any purpose other than that for which it was intended. It is subject to change without notice and its use is limited to the purposes for which it was intended.

## 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:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil 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

Approved and authorized according to the  
By: \_\_\_\_\_  
Secretary/Registrar of Petroleum Land Use

ARTICLE VI

continued

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

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

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

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

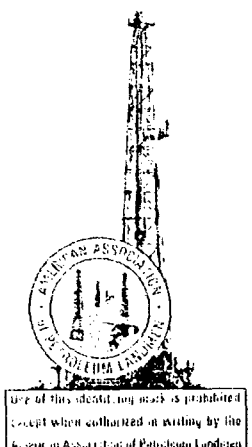
D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been 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 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, 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 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced 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.

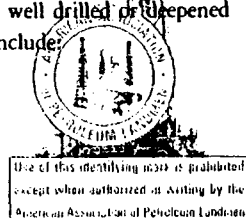
## C. Payments and Accounting:

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:



## 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.

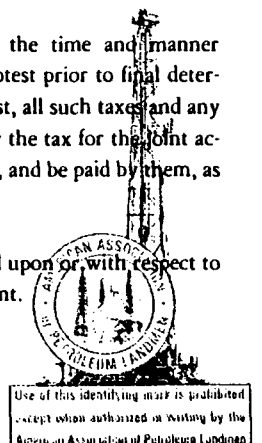
Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking 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

Use of this operating agreement is prohibited except when authorized in writing by the American Association of Petroleum Landmen

## ARTICLE VIII

## continued

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

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C. This paragraph shall not be applicable to the contribution of acreage by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

## D. Maintenance of Uniform Interest:

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

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

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

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

## E. Waiver of Rights to Partition:

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

~~F. Preferential Right to Purchase:~~

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

## ARTICLE IX.

## INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.



Use of this identifying mark is prohibited except when authorized in writing by the American Association of Petroleum Landmen

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.

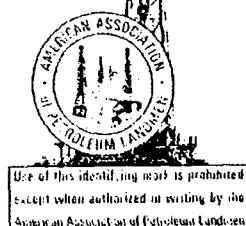
ARTICLE XIII.  
TERM OF AGREEMENT

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

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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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 10th day of March, 1995.

OPERATOR

ATTEST OR WITNESS

NEARBURG PRODUCING COMPANY

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

NON-OPERATORS

ATTEST OR WITNESS

NEARBURG EXPLORATION COMPANY

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

ATTEST OR WITNESS

YATES PETROLEUM CORPORATION

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

ATTEST OR WITNESS

YATES DRILLING COMPANY

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

ATTEST OR WITNESS

ABO PETROLEUM CORPORATION

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

ATTEST OR WITNESS

MYCO INDUSTRIES, INC.

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

ATTEST OR WITNESS

S. P. YATES

S. P. Yates  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_



ATTEST OR WITNESS

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ESTATE OF LILLIE M. YATES

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

SHARBRO OIL LTD. CO.

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

CONOCO INC.

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

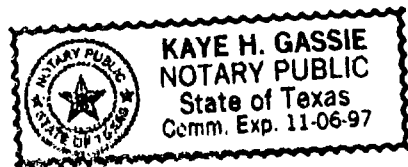
ANADARKO PETROLEUM COMPANY

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

ACKNOWLEDGEMENTS

THE STATE OF TEXAS       §  
                                     §  
COUNTY OF MIDLAND       §

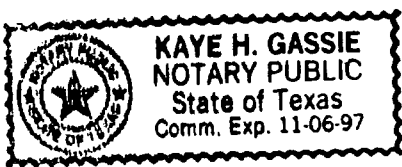
The foregoing instrument was acknowledged before me on this the 10th day of March, 1995, by Joe E. Fitzgerald, Senior Landman of Nearburg Producing Company, a Texas corporation, on behalf of said corporation.



*Kaye H. Gassie*  
\_\_\_\_\_  
Notary Public, State of Texas

THE STATE OF TEXAS       §  
                                     §  
COUNTY OF MIDLAND       §

The foregoing instrument was acknowledged before me on this the 10th day of March, 1995, by Robert G. Shelton, Attorney-in-Fact of Nearburg Exploration Company, a sole proprietorship, on behalf of said sole proprietorship.



*Kaye H. Gassie*  
\_\_\_\_\_  
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

STATE OF NEW MEXICO       §  
                                  §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_,  
1995, by S. P. Yates.

\_\_\_\_\_  
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 ESTATE OF LILLIE M. YATES,  
on behalf of said Estate.

\_\_\_\_\_  
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 SHARBRO OIL LTD. CO., a \_\_\_\_\_ limited company, on behalf of said limited company.

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

STATE OF TEXAS       §  
                                  §  
COUNTY OF MIDLAND       §

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

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

STATE OF TEXAS       §  
                                  §  
COUNTY OF HARRIS       §

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

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

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated the 10th 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:

Northeast Quarter (NE/4) of Section 21, 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:

	<u>Below 7740'</u>	<u>Surface to 7740'</u>
Nearburg Exploration Company	46.093750%	43.750000%
Yates Petroleum Corporation	40.572911%	40.572911%
Yates Drilling Company	2.187500%	2.187500%
Abo Petroleum Corporation	2.187500%	2.187500%
Myco Industries, Inc.	2.187500%	2.187500%
S. P. Yates	.260419%	.260419%
Estate of Lillie M. Yates	.130210%	.130210%
Sharbro Oil Ltd. Co.	.130210%	.130210%
Conoco, Inc.	6.250000%	6.250000%
Anadarko Petroleum Company	-0-	2.343750%
	<u>100.000000%</u>	<u>100.000000%</u>

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.  
S. P. Yates  
Estate of Lillie M. Yates  
Sharbro Oil Ltd. Co.  
105 South Fourth Street  
Artesia, New Mexico 80210

Conoco, Inc.  
10 Desta Drive, Suite 100W  
Midland, Texas 79705

Anadarko Petroleum Company  
17001 Northchase Drive  
Houston, Texas 77060

EXHIBIT "A-1"

ATTACHED TO AND MADE A PART OF EXHIBIT "A" TO THAT CERTAIN OPERATING AGREEMENT DATED THE 10TH DAY OF MARCH, 1995, BY AND BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, ET AL, AS NON-OPERATORS

1. Lessor: U.S.A.  
Lessee: Yates Petroleum Corporation  
Description: NW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
2. Lessor: C. R. Nixon, Jr., et al  
Lessee: S. P. Yates, et al  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
3. Lessor: Lena W. Hildt, et al  
Lessee: Yates Petroleum Corporation  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
4. Lessor: Panhandle Royalty Company  
Lessee: Yates Petroleum Corporation, et al  
Description: NE/4 NE/4 and SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
5. Lessor: Carl E. Ross  
Lessee: Yates Petroleum Corporation  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
6. Lessor: Joe E. Ross  
Lessee: Yates Petroleum Corporation  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
7. Lessor: Bert Alton Ross  
Lessee: Yates Petroleum Corporation  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
8. Lessor: Myrtle Heard  
Lessee: Yates Petroleum Corporation  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
9. Lessor: Jewel T. Hickam  
Lessee: Yates Petroleum Corporation  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
10. Lessor: Bonnie Powell  
Lessee: Yates Petroleum Corporation  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
11. Lessor: Bonnie H. Morrison  
Lessee: Yates Petroleum Corporation  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico, below 7704'
12. Lessor: Bonnie H. Morrison  
Lessee: Nearburg Exploration Company  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico, below 7704'
13. Lessor: Atlantic Richfield Co.  
Lessee: Nearburg Exploration Company  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
14. Lessor: Leslie P. Whitney, et ux  
Lessee: Nearburg Exploration Company  
Description: SW/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico
15. Lessor: Mary Elaine Cribbs  
Lessee: Nearburg Exploration Company  
Description: SE/4 NE/4 Section 21, T-19-S, R-25-E, Eddy County, New Mexico

16.   Lessor:               Ralph Nix, Jr.  
      Lessee:             Nearburg Exploration Company  
      Description:       NE/4 NE/4 Section 21, T-19-S, R-25-E,  
                          Eddy County, New Mexico
  
17.   Lessor:               Sara Garretson  
      Lessee:             Nearburg Exploration Company  
      Description:       NE/4 NE/4 Section 21, T-19-S, R-25-E,  
                          Eddy County, New Mexico
  
18.   Lessor:               William E. Farha Trust  
      Lessee:             Nearburg Exploration Company  
      Description:       NE/4 NE/4 Section 21, T-19-S, R-25-E,  
                          Eddy County, New Mexico
  
19.   Lessor:               R. B. Rodke  
      Lessee:             Nearburg Exploration Company  
      Description:       NE/4 NE/4 Section 21, T-19-S, R-25-E,  
                          Eddy County, New Mexico
  
20.   Lessor:               Kerr-McGee Corporation  
      Lessee:             Nearburg Exploration Company  
      Description:       NE/4 NE/4 and SW/4 NE/4 Section 21,  
                          T-19-S, R-25-E, Eddy County, New Mexico

Attached to and made a part of that certain Operating Agreement dated March 13, 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, <sup>3/16th</sup> of all oil and other liquid hydrocarbons produced and saved from the leased premises, or Lessee, at its option, may buy or sell such ~~oil~~ <sup>oil</sup> 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. 3/16
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, <sup>3/16th</sup> 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 <sup>3/16th</sup> 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. 3/16
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, <sup>3/16th</sup> 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 \_\_\_\_\_

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 in 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 each 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 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 13, 1995, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company et al, as Non-Operators

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

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 ~~1%~~ <sup>2%</sup> or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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



## 5. Audits

- A. 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 customary 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 6.~~

## 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%).

## (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 10TH 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 10TH 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 10TH 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 10, 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 Northeast Quarter of Section 21, 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 the date set out under each party's name, to be effective, however, the 10th day of March, 1995.

OPERATOR

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

NEARBURG PRODUCING COMPANY

By: [Signature]  
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: [Signature]  
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#: \_\_\_\_\_

S. P. YATES

105 South Fourth Street  
Artesia, New Mexico 80210

S. P. Yates  
Date: \_\_\_\_\_  
Tax ID#: \_\_\_\_\_

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 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

STATE OF NEW MEXICO       §  
                                  §  
COUNTY OF CHAVES       §

The foregoing instrument was acknowledged before me on the \_\_\_\_ day of \_\_\_\_\_,  
1995, by S. P. Yates.

\_\_\_\_\_  
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 ESTATE OF LILLIE M. YATES,  
on behalf of said Estate.

\_\_\_\_\_  
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 SHARBRO OIL LTD. CO., a  
\_\_\_\_\_ limited company, on behalf of said limited company.

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

STATE OF TEXAS       §  
                                  §  
COUNTY OF MIDLAND       §

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

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

STATE OF TEXAS       §  
                                  §  
COUNTY OF HARRIS       §

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

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

105 South Fourth Street  
Artesia, New Mexico 80210

ESTATE OF LILLIE M. YATES

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

105 South Fourth Street  
Artesia, New Mexico 80210

SHARBRO OIL LTD. CO.

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

10 Desta Drive, Suite 100W  
Midland, Texas 79705

CONOCO INC.

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

17001 Northchase Drive  
Houston, Texas 77060

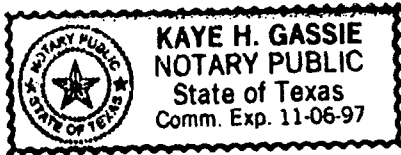
ANADARKO PETROLEUM COMPANY

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

ACKNOWLEDGEMENTS

THE STATE OF TEXAS       §  
                                     §  
COUNTY OF MIDLAND       §

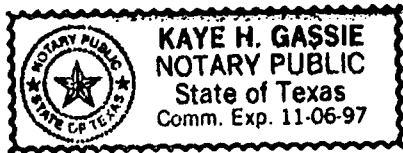
The foregoing instrument was acknowledged before me on this the 10th day of March, 1995, by Joe E. Fitzgerald, Senior Landman of Nearburg Producing Company, a Texas corporation, on behalf of said corporation.



*Kaye H. Gassie*  
\_\_\_\_\_  
Notary Public, State of Texas

THE STATE OF TEXAS       §  
                                     §  
COUNTY OF MIDLAND       §

The foregoing instrument was acknowledged before me on this the 10th day of March, 1995, by Robert G. Shelton, Attorney-in-Fact of Nearburg Exploration Company, a sole proprietorship, on behalf of said sole proprietorship.



*Kaye H. Gassie*  
\_\_\_\_\_  
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.

**Nearburg Producing Company**

Exploration and Production  
P.O. Box 823085  
5447 Glen Lakes Drive  
Dallas, Texas 75382-3085  
214-739-1778  
FAX 214-739-4819

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11265 Exhibit No. 12  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: July 27, 1995

March 29, 1995

**VIA TELECOPY 505-748-4572 and  
CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Mr. Randy Patterson  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, NM 88210

Re: Ross "EG" Com #14 Well and  
Rodke "AOY" Com #1 Well;  
NE/4 Section 21, T-19-S, R-25-E  
Eddy County, New Mexico

Dear Mr. Patterson:

On August 23, 1994, Yates Petroleum Corporation ("Yates"), as operator and other parties including Nearburg Exploration Company ("Nearburg") as non-operators, entered into an Operating Agreement (herein so called) with regard to the Contract Area (herein so called) described as the NE/4 of Section 21, Township 19 South, Range 25 East, Eddy County, New Mexico. The Operating Agreement contemplated the drilling of an initial well (herein so called), the Alto "AOL" Com #1, at the location described in Article VI of the Operating Agreement. The initial well was not commenced on or before February 1, 1995, as required by the Operating Agreement. Yates proposed two additional wells (the "subsequent wells") in different locations within the Contract Area by letters dated February 23, 1995 and received February 27, 1995 (as to the Ross EG Com #14 well), and March 9, 1995 (as to the Rodke "AOY" Com #1 well).

As the initial well contemplated by the Operating Agreement was not commenced in a timely fashion and the subsequent wells are proposed to be drilled at other locations, Nearburg maintains the Operating Agreement has terminated and is no longer in full force and effect. Should Yates not concur in this position, it may be necessary for a judicial declaration as to the status of the Operating Agreement.

Solely for the purpose of protecting its interest in and to the Contract Area from the assertion of nonconsent penalties, pending any such declaration and without waiver or acquiescence that (i) the Operating Agreement has terminated, (ii) the proposals for the subsequent wells pursuant to the Operating Agreement are ineffective as the Operating Agreement has terminated, and (iii) that Nearburg should be the operator of any well proposed in the Contract Area due to its large working interest and operations on adjoining acreage; Nearburg consents to the subsequent wells. Nearburg shall not be deemed by this letter to have consented to the subsequent wells in any circumstance other than if the Operating Agreement is determined to be presently in full force and effect as to the Contract Area. Specifically, Nearburg shall not be deemed to have consented to the subsequent wells

Mr. Randy Patterson  
March 29, 1995  
Page 2

for the purposes of any proceedings before the New Mexico Oil Conservation Division or other federal or state agency.

Without regard to the consent to the subsequent wells in the preceding paragraph, Nearburg intends to continue to assert that no operations can be commenced under the Operating Agreement as it has terminated. In addition, Nearburg calls your attention to the Alto 21 #2 well proposed to you by our correspondence dated March 16, 1995.

Nothing contained in the letter shall be deemed to waive or relinquish any claims Nearburg may assert against Yates for disposal of salt water into a productive formation within the Contract Area.

We would appreciate your prompt response.

Your truly,



Duane A. Davis  
Manager of Finance and Accounting

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

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



Exploration and Production  
Dallas, Texas

AUTHORITY FOR EXPENDITURE COMPARISON

PROPOSED WELLS: Alto 21 #2 / Rodke AOY Com #1  
LOCATION: 660 FNL, 660 FEL, Section 21, T19S, R25E, Eddy County, New Mexico  
DESCRIPTION OF WORK: Drill and complete as a pumping Cisco/Canyon oil producer.  
DATE PREPARED: 6/28/95

	NPC		NPC		NPC		DIFF
	BCP	YATES BCP	ACP	YATES ACP	TOTAL	YATES TOTAL	
INTANGIBLE COSTS:							
Drilling Footage	129,600	140,700			129,600	140,700	(11,100)
Drilling Daywork	13,200	13,500	8,800		22,000	13,500	8,500
Drilling Turnkey					0	0	0
Rig Mobilization and Demobilization					0	0	0
Road & Location Expense	17,000	11,300	1,000	3,300	18,000	14,600	3,400
Damages	5,000				5,000	0	5,000
Directional Drilling - Tools and Service					0	0	0
Drilling Fluids	15,000	10,000		600	15,000	10,600	4,400
Fuel, Power, and Water	10,000	18,000	1,500	1,100	11,500	19,100	(7,600)
Supplies - Bits		300	750	2,300	750	2,600	(1,850)
Supplies - Casing Equipment	2,000		3,500		5,500	0	5,500
Supplies - Liner Equipment					0	0	0
Supplies - Miscellaneous	500		500		1,000	0	1,000
Cement and Cmt. Services - Surface Csg	17,000	12,500			17,000	12,500	4,500
Cement and Cmt. Services - Int. Csg					0	0	0
Cement and Cmt. Services - Prod. Csg			30,000	30,000	30,000	30,000	0
Cement and Cmt. Services - Other					0	0	0
Rental - Drilling Tools and Equipment	3,000	6,300	1,000	8,000	4,000	14,300	(10,300)
Rental - Miscellaneous	500		1,000		1,500	0	1,500
Testing - Drill Stem / Production	6,000	0			6,000	0	6,000
Open Hole Logging	20,000	11,000			20,000	11,000	9,000
Mudlogging Services	7,500	3,600			7,500	3,600	3,900
Special Services					0	0	0
Plug and Abandon	10,000		(10,000)		0	0	0
Pulling and/or Swabbing Unit			12,000	7,800	12,000	7,800	4,200
Reverse Equipment			1,200		1,200	0	1,200
Wireline Services			5,000	4,000	5,000	4,000	1,000
Stimulation			20,000	30,000	20,000	30,000	(10,000)
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	3,150		1,350		4,500	0	4,500
Company Labor - Field Supervision	12,600	7,500	4,500	5,400	17,100	12,900	4,200
Contract Labor / Roustabout	1,000		2,500		3,500	0	3,500
Legal and Professional Services	2,500		500		3,000	0	3,000
Insurance	10,300				10,300	0	10,300
Overhead	4,600		2,000		6,600	0	6,600
SUBTOTAL	292,950	234,700	95,600	92,500	388,550	327,200	61,350
Contingencies	29,295	0	9,560	4,500	38,855	4,500	34,355
ESTIMATED TOTAL INTANGIBLES	322,245	234,700	105,160	97,000	427,405	331,700	95,705

**Nearburg Producing Company**

Exploration and Production

Dallas, Texas

Page 2 of 2

**AUTHORITY FOR EXPENDITURE COMPARISON**

PROPOSED WELLS: Alto 21 #2 / Rodke AOY Com #1

LOCATION: 660 FNL, 660 FEL, Section 21, T19S, R25E, Eddy County, New Mexico

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

DATE PREPARED: 6/28/95

	NPC	YATES	NPC	YATES	NPC	YATES	
	BCP	BCP	ACP	ACP	TOTAL	TOTAL	DIFF
<b><u>TANGIBLE COSTS:</u></b>							
Conductor Casing					0	0	0
Surface Csg	20,150	16,800			20,150	16,800	3,350
Intermediate Csg					0	0	0
Protection Csg						0	0
Production Csg			101,250	80,000	101,250	80,000	21,250
Protection Liner						0	0
Production Liner						0	0
Tubing			24,180	21,500	24,180	21,500	2,680
Rods					0	0	0
Artificial Lift Equipment			80,000	75,000	80,000	75,000	5,000
Tank Battery			15,000	90,000	15,000	90,000	(75,000)
Separators/Heater Treater/Gas Units/FWKO			10,000	30,000	10,000	30,000	(20,000)
Well Head Equipment & Christmas Tree	1,500	2,200	10,500	13,500	12,000	15,700	(3,700)
Subsurface Well Equipment				15,000	0	15,000	(15,000)
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	10,000	10,000	10,000	0
Elect. Installation			15,000		15,000	0	15,000
							0
<b>ESTIMATED TOTAL TANGIBLES</b>	21,650	19,000	273,930	335,000	295,580	354,000	(58,420)
							0
<b>ESTIMATED TOTAL WELL COSTS</b>	343,895	253,700	379,090	432,000	722,985	685,700	37,285

Total NPC Contingencies: \$38,855

Total YPC Contingencies: \$4,500

Difference \$34,355

DIFFERENCE IN AFES EXCLUDING CONTINGENCY ENTRIES \$2,930

Exploration and Production  
Dallas, Texas

AUTHORITY FOR EXPENDITURE COMPARISON  
YATES AFE FORMAT

WELL: Yates Rodke AOY Com #1 / Yates Ross EG Com #14      PROPOSED TOTAL DEPTH: 8,300  
LOCATION: Section 21, T19S, R25E, Eddy County, New Mexico  
DESCRIPTION OF WORK: Drill and complete as a pumping Cisco/Canyon oil producer.  
DATE PREPARED: 6/28/95

	Rodke BCP	Ross 14 BCP	Rodke ACP	Ross 14 ACP	<i>Yates</i> Rodke TOTAL	<i>Yates</i> Ross 14 TOTAL	DIFF
<b>INTANGIBLE COSTS:</b>							
Staking, Permit & Legal Fees	500	500			500	500	0
Location, Right-of-Way	10,800	10,800			10,800	10,800	0
Drilling Footage	140,700	125,745			140,700	125,745	14,955
Drilling Daywork	13,500	13,500			13,500	13,500	0
Drilling Water, Fasline Rental	18,000	18,000			18,000	18,000	0
Drilling Mud & Additives	10,000	10,000			10,000	10,000	0
Mud Logging Unit, Sample Bags	3,600	3,600			3,600	3,600	0
Cementing - Surface Casing	12,500	12,500			12,500	12,500	0
Drill Stem Testing, OHT					0	0	0
Electric Logs & Tape Copies	11,000	11,000			11,000	11,000	0
Tools & Equip. Rntl., Trkg. & Welding	6,300	6,300			6,300	6,300	0
Supervision & Overhead	7,500	7,500			7,500	7,500	0
Contingency					0	0	0
Coring, Tools & Service					0	0	0
Bits, Tool & Supplies Purchase	300	300			300	300	0
Cementing - Production Casing			30,000	8,000	30,000	8,000	22,000
Completion Unit - Swabbing			7,800	7,800	7,800	7,800	0
Water for Completion			1,100	1,100	1,100	1,100	0
Mud & Additives for Completion			600	600	600	600	0
Cementing - Completion					0	0	0
Elec. Logs, Testing, Etc. - Completion			4,000	4,000	4,000	4,000	0
Tools & Equip. Rntl., Etc. - Completion			8,000	8,000	8,000	8,000	0
Stimulation for Completion			30,000	10,000	30,000	10,000	20,000
Supervision & O/H - Completion			5,400	5,400	5,400	5,400	0
Additional LOC Charges - Completion			3,300	3,300	3,300	3,300	0
Bits, Tools & Supplies - Completion			2,300	2,300	2,300	2,300	0
Contengency for Completion			4,500	4,500	4,500	4,500	0
<b>ESTIMATED TOTAL INTANGIBLES</b>	234,700	219,745	97,000	55,000	331,700	274,745	56,955

	Rodke BCP	Ross 14 BCP	Rodke ACP	Ross 14 ACP	Rodke TOTAL	Ross 14 TOTAL	DIFF
<b>TANGIBLE COSTS:</b>							
Christmas Tree & Wellhead	2,200	2,200	13,500	13,500	15,700	15,700	0
Casing      9-5/8"	16,800	16,800			16,800	16,800	0
7"			80,000	80,000	80,000	80,000	0
Tubing      2-7/8"			21,500	21,500	21,500	21,500	0
Packer & Special Equipment			15,000	15,000	15,000	15,000	0
Pumping Equipment			75,000	75,000	75,000	75,000	0
Storage Facilities			90,000		90,000	0	90,000
Separation Equip., Flowlines, Misc.			30,000	10,000	30,000	10,000	20,000
Trucking & Construction Costs			10,000		10,000	0	10,000
<b>ESTIMATED TOTAL TANGIBLES</b>	19,000	19,000	335,000	215,000	354,000	234,000	120,000
<b>ESTIMATED TOTAL WELL COSTS</b>	253,700	238,745	432,000	270,000	685,700	508,745	176,955

**Nearburg Producing Company**  
**Dagger Draw Salt Water Disposal Facilities**

<u>Well</u>	<u>Location</u>	<u>Disposal Formation</u>	<u>Current Capacity Barrels per Day</u>	<u>Current Utilization Barrels per Day</u>
Aikman SWD State #1	Unit N, Section 27, T19S, R25E	Devonian	10,000	8,000
Holstun #1 SWD	Unit B, Section 4, T20S, R25E	Devonian	18,000	11,000

**BEFORE THE  
OIL CONSERVATION DIVISION**  
Case No. 11265 Exhibit No. 17  
Submitted By:  
**Nearburg Exploration Company**  
Hearing Date: July 27, 1995