

# 25S-36E

20

ENSERCH, et al

ENSERCH, et al

21

SKELLY  
WEST JAL UNIT FEDERAL

1  
TD 17086

ENSERCH EXPLORATION, INC.  
MOBERLY "21"

1  
40 acres

SKELLY  
WEST JAL FEDERAL "A"

1  
TD 12,782

29

28

BEFORE EXAMINER CATANACH  
OIL CONSERVATION DIVISION

ENSERCH EXHIBIT NO. 1

CASE NO. 11473

**ENSERCH  
EXPLORATION** INC.

JABALINA AREA  
LEA COUNTY, NEW MEXICO

LAND PLAT

0 1000' 2000'  
SCALE IN FEET

ORIGINATOR:  
DATE:

C.I.:  
REVISION:

**Moberly "21" No. 1 Well  
1980' FNL & 1980' FEL  
Section 21, T25S-R36E  
Lea County, New Mexico**

**Working Interest Owners**

Enserch Exploration, Inc.	72.656250%
McBride Oil & Gas Corporation	16.145834%
Yates Energy Corporation	8.072916%
Mrs. W. O. Bryant (Minerals)	1.562500%
Henry A. Felt, Sr. (Minerals)	<u>1.562500%</u>
	100%

P.O. Box 2356  
Midland, Texas 79702

**RAY L. MCKIM, III**  
Certified Professional Landman  
Environmental Site Assessor

(915) 570-9905  
FAX (915) 683-6485

~~November 20, 1995~~

Henry A. Felt, Sr.  
212 Compton Road  
Haledon, New Jersey 07508

RE: TOWNSHIP 25 SOUTH, RANGE 36 EAST  
Section 14: SW/4NE/4  
Lea County, New Mexico

Re-sent  
11/10/96  
\$1/28/96

Dear Mr. Felt:

Pursuant to our phone conversation, please find enclosed one original oil and gas lease covering your 1/84th mineral interest in the above captioned subject to the following terms;

- 1) \$100.00 bonus consideration, inclusive of paid-up rentals (\$160.00 x .625 net acres),
- 2) 3/16ths royalty on oil and gas, and
- 3) a two (2) year primary term.

Upon your review and approval, please execute the lease in front of a notary public and to avoid collection charges, return the lease direct to me and I will forward for prompt payment a check direct to you. A copy is enclosed for your files.

Please also find an IRS form W-9 to be filled out and returned with the lease. This form will be kept on file to keep tax ID numbers consistent with names.

I appreciate your time and attention to this matter and if you have any questions, please call me at the number above.

Sincerely,

Ray L. McKim, III

**FAX MEMO**

# PAGES  
1

TO: Henry Anderson

DEPT.: LAND

FAX: \_\_\_\_\_

FROM: Ray McKim

CO: \_\_\_\_\_

PHONE: \_\_\_\_\_

FAX: \_\_\_\_\_

COMMENTS:

OVLET.CHK

BEFORE EXAMINER CATANACH  
OIL CONSERVATION DIVISION

EN SERCH EXHIBIT NO. 2

CASE NO. 11473

**OLETCH**

**ENSERCH  
EXPLORATION** INC

4849 Greenville Avenue, Suite 1200  
Dallas, Texas 75206-4186  
214-369-7893

February 12, 1996

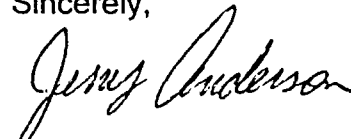
Henry Felt, Sr.  
212 Pompton Road  
Haledon, New Jersey 07508

RE: Jabalina Prospect  
Moberly "21" No. 1 Well  
Lea County, New Mexico

Gentlemen:

Mr. Ray McKim is an Independent Landman that is working for Dalen Resources (now Enserch Exploration, Inc.). Mr. McKim has informed me that you have rejected our offer to lease your minerals rights under the SW/4 NE/4 of Section 21, Township 25 South, Range 36 East, Lea County, New Mexico. Therefore, I am attaching a copy of the AFE for the drilling of the Moberly "21" No. 1 well. This will afford you the opportunity to participate in the drilling of this well. Please execute and return one copy of the AFE, and we will invoice you for your share of the costs prior to drilling of the well.

Sincerely,

  
Jerry Anderson

JRA/tle

Enclosures

jra.002

*Mailed 2/17/96*

P 652 007 896

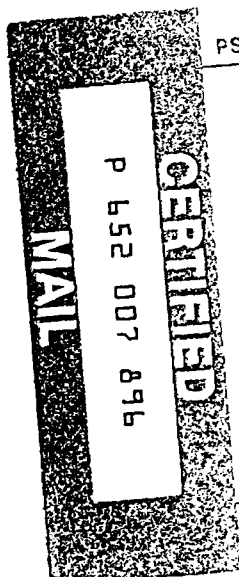
**RECEIPT FOR CERTIFIED MAIL**

NO INSURANCE COVERAGE PROVIDED  
NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1983-403-517

PS Form 3800, Feb. 1982



Postage	
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

*Henry Jelt - 3rd fl*

**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 next to the article number.

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:

*Henry Jelt  
212 Pompton Rd.  
Haledon, New Jersey 07508*

4a. Article Number

*P652007896*

4b. Service Type

- |                                       |   |
|---------------------------------------|---|
| <input type="checkbox"/> Registered   | <input type="checkbox"/> Insured                        |
| <input type="checkbox"/> Certified    | <input type="checkbox"/> COD                            |
| <input type="checkbox"/> Express Mail | <input type="checkbox"/> Return Receipt for Merchandise |

7. Date of Delivery

5. Signature (Addressee)

6. Signature (Agent)

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

Is your **RETURN ADDRESS** completed on the reverse side?

Thank you for using  
Return Receipt Service.

PS Form 3811, October 1990

★ U.S. GPO: 1990-273-861

**DOMESTIC RETURN RECEIPT**



**J.O. EASLEY, INC.**

*Petroleum Land Service*

P.O. BOX 1796

ROSWELL, NM 88202-1796

TELEPHONE 505 - 623-3758

FAX 505 - 623-3797

## AFFIDAVIT

RE:           Dalen Resources Oil & Gas Co.  
              Section 21, T25S-R36E  
              Lea County, New Mexico  
              Mrs. W. O. Bryant

This is an affidavit outlining my efforts to locate Mrs. W. O. Bryant as to her undivided 2/128 interest in the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 21, T25S-R36E, Lea County, New Mexico.

Mrs. W. O. Bryant last executed an oil and gas lease covering these lands in 1960. At that time, she resided in Perkins, Oklahoma. Perkins, Oklahoma, is located within Payne County and closely adjacent to Lincoln County, Oklahoma.

Our efforts were conducted by researching probate records in each county, as well as tax-roll records, for that time period. We also used Panjea, Inc., a professional service specializing in computer phone book research, as well as the use of criss-cross directories. Several Bryants were located, but none were related to, or knew of, Mrs. W. O. Bryant. Due to the unknown first name of Mrs. Bryant, we were unable to determine, through records at the Oklahoma State Bureau of Vital Statistics, if she had died. We also contacted several older citizens of the town of Perkins, but none were of any help.

In conclusion, without a social security number or additional information, we have been unable to locate this individual.

Signed and delivered this 15th day of January, 1996.

Al Swanson, Landman

J. O. Easley, Inc.

**ENSERCH  
EXPLORATION<sub>INC</sub>**

4849 Greenville Ave., Suite 1200  
Dallas, Texas 75206-4186  
214-369-7893

November 6, 1995

**OVERNITE MAIL**

McBride Oil & Gas Corporation  
400 North Pennsylvania, Suite 1200  
Roswell, New Mexico 88201  
Attn: Ray Willis

Re: Jabalina Prospect  
Moberly "21" No. 1 well  
Lea County, New Mexico

Dear Ray:

Enclosed for your review is a copy of the Title Opinion covering the NE/4 of Section 21 - Township 25 South, Range 36 East. Also enclosed is a copy of the AFE covering the drilling and completion of the Moberly "21" No. 1, located in the SW/4 NE/4 of Section 21-T25S-R36E, Lea County, New Mexico. Please let me know within 30 days your decision as to whether you wish to participate in the drilling of this test.

As I have previously discussed with you, we will be in Roswell for an Operators Meeting, hopefully next week or the week after, to discuss the drilling of this well. I will bring a copy of the Operating Agreement for your review.

Yours very truly,



Jerry Anderson  
Regional Land Representative  
Mid-Continent Region

JA/edv

enclosure

a: JA/jerry/mcbride.to

**ENSERCH  
EXPLORATION** INC

4849 Greenville Ave., Suite 1200  
Dallas, Texas 75206-4186  
214-369-7893

November 6, 1995

**OVERNITE MAIL**

Fred Yates Petroleum  
500 North Main, Suite 1010  
Sunwest Bank Center  
Roswell, New Mexico 88201  
Attn: Sherry Hamilton

Re: Jabalina Prospect  
Moberly "21" No. 1 well  
Lea County, New Mexico

Dear Sherry:

Enclosed for your review is a copy of the Title Opinion covering the NE/4 of Section 21 - Township 25 South, Range 36 East. Also enclosed is a copy of the AFE covering the drilling and completion of the Moberly "21" No. 1, located in the SW/4 NE/4 of Section 21-T25S-R36E, Lea County, New Mexico. Please let me know within 30 days your decision as to whether you wish to participate in the drilling of this test.

As I have previously discussed with you, we will be in Roswell for an Operators Meeting, hopefully next week or the week after, to discuss the drilling of this well. I will bring a copy of the Operating Agreement for your review.

Yours very truly,



Jerry Anderson  
Regional Land Representative  
Mid-Continent Region

JA/edv

enclosure

a: JA/jerry/yates.to



**DRAFT**

For Discussion Purposes Only

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

## MODEL FORM OPERATING AGREEMENT

### OPERATING AGREEMENT

DATED

November 8 , 19 95 ,

OPERATOR DALEN Resources Oil & Gas Co.

CONTRACT AREA See Exhibit "A"

\_\_\_\_\_

\_\_\_\_\_

COUNTY OR PARISH OF Lea STATE OF New Mexico

(MC# NM 100)

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

BEFORE EXAMINER CATANACH  
OIL CONSERVATION DIVISION

ENCERCH EXHIBIT NO. 3

CASE NO. 11473

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For Discussion Purposes Only

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**DRAFT**  
For Discussion Purposes Only

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between DALEN Resources Oil & Gas Co., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.  
EXHIBITS

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

- ☒ A. Exhibit "A", shall include the following information:
  - (1) Identification of lands subject to this agreement,
  - (2) Restrictions, if any, as to depths, formations, or substances,
  - (3) Percentages or fractional interests of parties to this agreement,
  - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
  - (5) Addresses of parties for notice purposes.
- ☒ B. Exhibit "B", Form of Lease.
- ☒ C. Exhibit "C", Accounting Procedure.
- ☒ D. Exhibit "D", Insurance.
- ☒ E. Exhibit "E", Gas Balancing Agreement.
- ☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
- ☐ ~~G. Exhibit "G", Tax Partnership.~~

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

**DRAFT**

For Discussion Purposes Only

### 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 burdens of record as of the date of this Agreement, 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), 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 title opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C".~~  
~~Option No. 2: Costs incurred by Operator in procuring abstracts and title examination (including preliminary supplemental title opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C".~~

## ARTICLE IV

## continued

**DRAFT**

For Discussion Purposes Only

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.

**DRAFT**

For Discussion Purposes Only

**ARTICLE V.  
OPERATOR****A. Designation and Responsibilities of Operator:**DALEN Resources Oil & Gas Co.

shall be the

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

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

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest 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 1st day of March, 1996, Operator shall commence the drilling of a well for oil and gas at the following location: 1,980 feet from the north line and 1,980 feet from the east line of Section 21, Township 25 South, Range 36 East, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 7,700 feet below the surface of the earth

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 the 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 be limited.

**DRAFT****ARTICLE VI**  
**continued****For Discussion Purposes Only**

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,

**ARTICLE VI****For Discussion Purposes Only**

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, 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:

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

b. 300 % 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 300 % 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, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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

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



## ARTICLE VI

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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 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

**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

**DRAFT****ARTICLE VI**

continued

For Discussion Purposes Only

"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 intervals 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****For Discussion Purposes Only**

~~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 (\$ 25,000.00) 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 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 (\$ 15,000.00) 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 bears more than a fair share, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty, to the Drilling Parties in the proportions

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**ARTICLE VIII**  
**continued**

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

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

**D. Maintenance of Uniform Interest:**

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

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

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

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

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

26  
27 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
28 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided  
29 interest therein.

**F. ~~Preferential Right to Purchase~~**

30  
31 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
32 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~  
33 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~  
34 ~~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~~  
35 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~  
36 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~  
37 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~  
38 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~  
39 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

**ARTICLE IX.**  
**INTERNAL REVENUE CODE ELECTION**

40  
41 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
42 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
43 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
44 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
45 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-  
46 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-  
47 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the  
48 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
49 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
50 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
51 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other  
52 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
53 Area is located or any future internal tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,  
54 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-  
55 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
56 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
57 computation of partnership taxable income.

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 Ten Thousand Dollars (\$ 10,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

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 \_\_\_\_\_ 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 \_\_\_\_\_ 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 New Mexico 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, on tracts offsetting or adjacent to the Contract Area.

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

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

**XV.A. MULTIPLE OPERATIONS.** Notwithstanding anything to the contrary contained in this Agreement, the parties agree that none of them shall be required to consider or make an election to participate in any proposed operation to drill, rework, deepen, complete, recomplate, sidetrack, or plug back any well while:

- (a) Any drilling, reworking, deepening, completing, recompleting, side-tracking, or plugging back operation is in progress on any well covered by this Agreement; or
- (b) Any proposal to drill, rework, deepen, complete, recomplate, sidetrack, or plug back any well covered by this Agreement is being considered by the parties.

If, however, any operation is proposed to comply with any express or implied covenant provided for in any lease or interest subject to this Agreement, or if any lease will expire at the end of its primary term in the absence of such operation, the proposing party shall clearly include this information in its notice of the proposed operation. Should any party fail to elect within thirty (30) days of receipt of such notice either to participate or to become a non-consenting party, such failure shall constitute its election not to participate in the proposed operation. Failure by any party to assert or invoke the rights provided for herein shall not prejudice that party's right to assert or invoke such rights on any future occasion.

**XV.B. DEFAULT.** 1. If any party (including the Operator) fails to pay, as provided in the Accounting Procedure (attached hereto as Exhibit "C"), its share of any cost that it is obligated to pay under any provision of this Agreement, and if such default continues for a period of fifteen (15) days following delivery by Operator (or by any Non-Operator in case of a default by Operator) of notice of such default to such party, then at any time after the expiration of such notice period the Operator (or any Non-Operator if the Operator is the party in default) shall be entitled to the remedies in (a) and (b) or (a) and (c) below:

- (a) Operator (or any Non-Operator if Operator is the party in default) may suspend by written notice any or all of the rights of the defaulting party granted by this Agreement, without prejudice to the right of the non-defaulting party to continue to enforce the obligations of the defaulting party under this Agreement. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right to elect to participate in any subsequent



operation regarding the well to which the default relates, or any subsequent operation proposed under this Agreement; and

(b) Operator (or any Non-Operator if Operator is the party in default) may take any action to which it may be entitled or pursue any remedy to collect the amounts in default, together with all damages suffered by the non-defaulting parties as a result of the default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in the Accounting Procedure (attached hereto as Exhibit "C") together with reasonable attorney's fees and court costs related thereto; or

(c) Operator (or any Non-Operator if the Operator is the party in default) may deliver a written Notice of Nonparticipation Election to the defaulting party at any time after the default occurs with the following effect:

(i) If the billing is for the drilling of a new well or the plugging back, reworking, or deepening (including side-tracking) of a dry hole or a well not then producing in paying quantities, or the completion or recompletion of any well, the nonpaying party shall be deemed conclusively to have elected not to participate in the subject operation from the time of the billing which led to the default and to be a Nonparticipating party with respect thereto, notwithstanding any election to participate theretofore made.

(ii) Until the delivery of such Notice of Nonparticipation Election to the non-paying party, such party shall have the right to cure its default by paying the unpaid billing plus interest at the rate set forth in the Accounting Procedure (attached hereto as Exhibit "C"). Any interest relinquished pursuant to this Article shall be owned by the non-defaulting parties in proportion to their interests, and the non-defaulting parties shall be liable to contribute their shares of the defaulted amount.

2. Notwithstanding the other provisions of this Article, if a party fails to pay part or all of its share of costs hereunder because of a legitimate disagreement as to the appropriateness of part or all of the billing in question, and if such party makes such disagreement and the grounds therefor known to the Operator in writing prior to the due date of such billing and timely tenders payment of all undisputed amounts, then such party shall not be subject to paragraph 1.(a) or 1.(c) of this Article.

**XV.C. FINANCING STATEMENT.** The parties hereto agree to execute simultaneously herewith a Financing Statement and Memorandum of Operating Agreement that will be provided by Operator. The parties shall have a continuing obligation to execute additional Memoranda of Operating Agreements accurately to reflect the current properties covered by the Operating Agreement and the current working interests of the parties.

**XV.D. SECURITY PROVISIONS.** Notwithstanding anything to the contrary contained in this Operating Agreement, it is understood and agreed that:

1. Each Non-Operator, to secure payment of its share of expenses incurred under this Operating Agreement, together with interest thereon at the rate provided in the Accounting Procedure (attached hereto as Exhibit "C"), grants to Operator a lien on all of its right, title, and interest now owned or hereafter acquired in the Contract Area, including, but not limited to, the oil, gas, and mineral leases, mineral estates, and other mineral interests described in Exhibit "A," as hereafter amended, modified, ratified, renewed, or extended; any properties now or hereafter pooled or unitized with any of the properties affected by such mineral interests; and all unsevered and unextracted oil, gas, and other hydrocarbons that may be produced, obtained, or secured from the lands covered and affected by such mineral interests.
2. To further secure its share of expenses incurred under this Operating Agreement, together with interest thereon at the rate provided in the Accounting Procedure, each Non-Operator grants to Operator a security interest in all of its interest now owned or hereafter acquired in and to all other properties associated with or attributable to the Contract Area, including: (i) all equipment; (ii) all hydrocarbons severed and extracted from or attributable to the properties described in the Contract Area; (iii) all accounts (including, but not limited to, accounts resulting from the sale of such hydrocarbons), contract rights, and general intangibles arising in connection with the sale or other disposition of such hydrocarbons; (iv) fixtures; and (v) all proceeds and products of all such properties.
3. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expenses. Each party paying its share of unpaid expenses pursuant to Article VII.B. hereof shall, to obtain reimbursement thereof, be subrogated to the security rights described in this Agreement.

**XV.E. BILLING ADDITIONAL INTERESTS.** Notwithstanding anything to the contrary contained in this Operating Agreement, Operator shall not be required to make more than one billing per billing period for the entire interest credited to each party on Exhibit "A." If any party hereto (the "Selling Party") disposes of part of

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the interest credited to it on Exhibit "A," it shall remain primarily liable to the other parties for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it. Such Selling Party shall be solely responsible for billing its assignee or assignees. If a Selling Party disposes of all of its interest, as set out on Exhibit "A," Operator shall continue to issue statements and billings to the Selling Party for the interest conveyed until such time as Selling Party has qualified a single assignee (whether the assignment is to one or several assignees) to receive the billing for the entire interest. To qualify an assignee to receive and assume primary liability for the billing for the entire interest credited to Selling Party on Exhibit "A," Selling Party shall furnish to Operator the following:

- (i) Written notice of the conveyance and copies of the assignments by which the transfer was made;
- (ii) The name and address of the assignee to be billed; and
- (iii) A written statement signed by such assignee in which it consents to be bound by the Operating Agreement and agrees to receive and assume primary liability for statements and billings for the entire interest credited to Selling Party together with such party's agreement to handle any sub-billings made necessary by any division of the interest credited to Selling Party on Exhibit "A."

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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 the 8th day of November, 1995.

OPERATOR

DALEN Resources Oil & Gas Co.

By: Jeffrey B. Camp  
Regional Director

NON-OPERATORS

Yates Energy Corporation

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

McBride Oil & Gas Corporation

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



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**EXHIBIT "A"**

Attached to and made a part of that certain Operating Agreement (or Financing Statement and Memorandum of Operating Agreement provided for in the Operating Agreement), dated November 8, 1995, executed by and between DALEN Resources Oil & Gas Co., as Operator, and Yates Energy Corporation, et al., as Non-Operators.

**I. LANDS SUBJECT TO THIS AGREEMENT:**

Township 25 South, Range 36 East, Lea County, New Mexico,  
Section 21: SW/4 NE/4.

**II. DEPTH LIMITATION:**

None.

**III. INTERESTS OF THE PARTIES:**

DALEN Resources Oil & Gas Co.	75.7820%
Yates Energy Corporation	12.1090%
McBride Oil & Gas Corporation	<u>12.1090%</u>
TOTAL	100.0000%

**IV. LEASES SUBJECT TO THIS AGREEMENT:**

See Schedule of Leases set forth on pages 2 through 5 of this Exhibit "A."

**V. ADDRESSES OF THE PARTIES:**

DALEN Resources Oil & Gas Co.  
6688 North Central Expressway, Suite 1000  
Dallas, Texas 75206

Yates Energy Corporation  
P. O. Box 2323  
Roswell, New Mexico 88202-2323

McBride Oil & Gas Corporation  
P. O. Box 1515  
Roswell, New Mexico 88202-1515

Exhibit "A"  
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SCHEDULE OF LEASES

Lessor: Elizabeth Greis Mason  
Lessee: DALEN Resources Oil & Gas Co.  
Date: April 23, 1995  
Recording Information: Book 518, page 291  
Royalty: 3/16

Lessor: Billy Wayne Dinwiddie  
Lessee: McBride Oil & Gas Corporation  
Date: January 29, 1992  
Recording Information: Book 503, Page 556, as extended and modified by instruments  
recorded in Book 510, Pages 150 and 153  
Royalty: 1/5

Lessor: Helen Haynes Franklin  
Lessee: McBride Oil & Gas Corporation  
Date: November 4, 1991  
Recording Information: Book 469, Page 696  
Royalty: 1/8

Lessor: Robbie Shearer Barrett  
Lessee: McBride Oil & Gas Corporation  
Date: November 1, 1991  
Recording Information: Book 470, Page 228  
Royalty: 1/8

Lessor: Joseph Leroy Haynes  
Lessee: McBride Oil & Gas Corporation  
Date: November 4, 1991  
Recording Information: Book 470, Page 353  
Royalty: 1/8

Lessor: Jerry D. Haynes  
Lessee: McBride Oil & Gas Corporation  
Date: November 10, 1991  
Recording Information: Book 473, Page 266  
Royalty: 1/8

Exhibit "A"  
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Lessor: Standard Royalty Corporation and Larry E. Haynes  
Lessee: McBride Oil & Gas Corporation  
Date: November 22, 1991  
Recording Information: Book 473, Page 268  
Royalty: 1/8

Lessor: Betty Jennings  
Lessee: McBride Oil & Gas Corporation  
Date: December 15, 1991  
Recording Information: Book 473, Page 270  
Royalty: 1/8

Lessor: Philip H. Simpson  
Lessee: McBride Oil & Gas Corporation  
Date: December 30, 1991  
Recording Information: Book 473, Page 272  
Royalty: 1/8

Lessor: Beverly Jenkins  
Lessee: McBride Oil & Gas Corporation  
Date: February 1, 1992  
Recording Information: Book 473, Page 274  
Royalty: 1/8

Lessor: Richard W. Kendall  
Lessee: McBride Oil & Gas Corporation  
Date: February 17, 1992  
Recording Information: Book 503, Page 536  
Royalty: 3/16

Lessor: Rosemary K. Geary  
Lessee: McBride Oil & Gas Corporation  
Date: February 17, 1992  
Recording Information: Book 503, Page 538  
Royalty: 3/16

Lessor: Hazel Haynes Riffel  
Lessee: McBride Oil & Gas Corporation  
Date: March 12, 1992  
Recording Information: Book 503, Page 552  
Royalty: 1/5

Exhibit "A"

Page 4

**DRAFT**  
For Discussion Purposes Only

Lessor: Maxine Blackmar Lombard, formerly Maxine B. Zorn  
Lessee: McBride Oil & Gas Corporation  
Date: November 1, 1994  
Recording Information: Book 503, Page 660  
Royalty: 3/16

Lessor: Richard A. Blackmar  
Lessee: McBride Oil & Gas Corporation  
Date: November 1, 1994  
Recording Information: Book 503, Page 669  
Royalty: 3/16

Lessor: Pamela B. Link and J. E. Cieszinski, Trustees for the Donald E. Blackmar  
Testamentary Trust  
Lessee: McBride Oil & Gas Corporation  
Date: November 1, 1994  
Recording Information: Book 503, Page 679  
Royalty: 3/16

Lessor: Bank of Oklahoma, N.A., Trustee of the Matthews Family Trust  
Lessee: Ray L. McKim, III  
Date: April 17, 1995  
Recording Information: Book 516, Page 728  
Royalty: 1/5

Lessor: Bank of Oklahoma, N.A., Agent for James L. Matthews  
Lessee: Ray L. McKim, III  
Date: April 17, 1995  
Recording Information: Book 516, Page 731  
Royalty: 1/5

Lessor: Cynthia Harper, Independent Executrix of the Estate of Geraldine Griffin, deceased  
Lessee: Ray L. McKim, III  
Date: August 22, 1994  
Recording Information: Book 506, Page 664  
Royalty: 1/5

Lessor: Hayden M. Moberly  
Lessee: Ray L. McKim, III  
Date: October 4, 1994  
Recording Information: Book 507, Page 496  
Royalty: 1/5



Exhibit "A"  
Page 5

**DRAFT**  
For Discussion Purposes Only

Lessor: Betty Kerr Moberly  
Lessee: Ray L. McKim, III  
Date: October 4, 1994  
Recording Information: Book 507, Page 576  
Royalty: 1/5

Lessor: Robert R. Matthews, Trustee under Robert R. Matthews Inter Vivos Revocable  
Trustee UTA, dated April 4, 1995  
Lessee: DALEN Resources Oil & Gas Co.  
Date: April 25, 1995  
Recording Information: Book 516, Page 10  
Royalty: 1/5

(Recording references herein are to the Oil and Gas Records of Lea County, New Mexico)

DRAFT

For Discussion Purposes Only

## EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement, dated November 8, 1995, between DALEN Resources Oil & Gas Co., as Operator, and Yates Energy Corporation, et al., as Non-Operators.

Producers 88 (7-69) - Paid Up  
With 640 Acres Pooling Provision

TEXAS STANDARD FORM

\*POUND PRINTING & STATIONERY COMPANY  
2325 FANNIN, HOUSTON, TEXAS 77002 (713) 659-3159

# OIL, GAS AND MINERAL 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, receipt of which is hereby acknowledged, and of the covenants and agreements of lessee hereinafter contained, does hereby grant, lease and let unto lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil, gas, sulphur and all other minerals (whether or not similar to those mentioned), together with the right to make surveys on said land, lay pipe lines, establish and utilize facilities for surface or subsurface disposal of salt water, construct roads and bridges, dig canals, build tanks, power stations, telephone lines, employee houses and other structures on said land, necessary or useful in lessee's operations in exploring, drilling for, producing, treating, storing and transporting minerals produced from the land covered hereby or any other land adjacent thereto. The land covered hereby, herein called "said land", is located in the County of \_\_\_\_\_, State of \_\_\_\_\_, and is described as follows:

This lease also covers and includes, in addition to that above described, all land, if any, contiguous or adjacent to or adjoining the land above described and (a) owned or claimed by lessor by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which lessor has a preference right of acquisition. Lessor agrees to execute any supplemental instrument requested by lessee for a more complete or accurate description of said land. For the purpose of determining the amount of any bonus or other payment hereunder, said land shall be deemed to contain \_\_\_\_\_ acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof. Lessor accepts the bonus as lump sum consideration for this lease and all rights and options hereunder.

2. Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term of ten (10) years from the date hereof, hereinafter called "primary term", and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than ninety (90) consecutive days.

3. As royalty, lessee covenants and agrees: (a) To deliver to the credit of lessor, in the pipe line to which lessee may connect its wells, the equal one-eighth part of all oil produced and saved by lessee from said land, or from time to time, at the option of lessee, to pay lessor the average posted market price of such one-eighth part of such oil at the wells as of the day it is run to the pipe line or storage tanks, lessor's interest, in either case, to bear one-eighth of the cost of treating oil to render it marketable pipe line oil; (b) To pay lessor on gas and casinghead gas produced from said land (1) when sold by lessee, one-eighth of the amount realized by lessee, computed at the mouth of the well, or (2) when used by lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one-eighth of such gas and casinghead gas; (c) To pay lessor on all other minerals mined and marketed or utilized by lessee from said land, one-tenth either in kind or value at the well or mine at lessee's election, except that on sulphur mined and marketed the royalty shall be one dollar (\$1.00) per long ton. If, at the expiration of the primary term or at any time or times thereafter, there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-ins, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from said wells, but in the exercise of such diligence, lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety day period, lessee shall pay or tender, by check or draft of lessee, as royalty, a sum equal to one dollar (\$1.00) for each acre of land then covered hereby. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing, and may be deposited in the \_\_\_\_\_ Bank

at \_\_\_\_\_, or its successors, which shall continue as the depositories, regardless of changes in the ownership of shut-in royalty. If at any time that lessee pays or tenders shut-in royalty, two or more parties are, or claim to be, entitled to receive same, lessee may, in lieu of any other method of payment herein provided, pay or tender such shut-in royalty, in the manner above specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as lessee may elect. Any payment hereunder may be made by check or draft of lessee deposited in the mail or delivered to the party entitled to receive payment or to a depository bank provided for above on or before the last date for payment. Nothing herein shall impair lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

4. Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all minerals or horizons, so as to establish units containing not more than 80 surface acres, plus 10% acreage tolerance; provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one or more horizons, so as to contain not more than 640 surface acres plus 10% acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction. If larger units than any of those herein permitted, either at the time established, or after enlargement, are required under any governmental rule or order, for the drilling or operation of a well at a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled, any such unit may be established or enlarged to conform to the size required by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying such unit and filing it for record in the public office in which this lease is recorded. Each of said options may be exercised by lessee at any time and from time to time while this lease is in force, and whether before or after production has been established either on said land, or on the portion of said land included in the unit, or on other land unitized therewith. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered, for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land (or in each such separate tract) covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, shut-in royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder which includes land not covered by this lease shall not have the effect of exchanging or transferring any interest under this lease (including, without limitation, any shut-in royalty which may become payable under this lease) between parties owning interests in land covered by this lease and parties owning interests in land not covered by this lease. Neither shall it impair the right of lessee to release as provided in paragraph 5 hereof, except that lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but lessee shall nevertheless have the right to pool or unitize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with title ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

5. Lessee may at any time and from time to time execute and file for record in the public office in which this lease is recorded a release of this lease as to any part or all of said land or of any mineral or horizon thereon, and may, in its discretion, release any part or all of said land or of any mineral or horizon thereon, and may, in its discretion, release any part or all of said land or of any mineral or horizon thereon, and may, in its discretion, release any part or all of said land or of any mineral or horizon thereon.

Whenever used in this lease, the words "unit" shall mean a unit as defined in paragraph 4 hereof, and the words "unitized" shall mean unitized as defined in paragraph 4 hereof. The words "lease" shall mean any lease, whether or not it is a lease, and the words "leases" shall mean any leases, whether or not they are leases, and the words "leasehold" shall mean any leasehold interest, whether or not it is a leasehold interest, and the words "leasehold" shall mean any leasehold interest, whether or not it is a leasehold interest.

8. The rights and estate of any party hereto may be assigned from time to time in whole or in part and ~~is to any mineral or horizontal~~ All of the covenants, obligations, and considerations of this lease shall extend to and be binding upon the parties hereto, their heirs, successors, assigns, and successive assigns. No change or division in the ownership of said land, royalties, or other moneys, or any part thereof, howsoever effected, shall increase the obligations or diminish the rights of lessee, including, but not limited to, the location and drilling of wells and the measurement of production. Notwithstanding any other actual or constructive knowledge or notice thereof of or to lessee, its successors or assigns, no change or division in the ownership of said land or of the royalties, or other moneys, or the right to receive the same, howsoever effected, shall be binding upon the then record owner of this lease until thirty (30) days after there has been furnished to such record owner at his or its principal place of business by lessor or lessor's heirs, successors, or assigns, notice of such change or division, supported by either originals or duly certified copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division. If any such change in ownership occurs by reason of the death of the owner, lessee may, nevertheless pay or tender such royalties, or other moneys, or part thereof, to the credit of the decedent in a depository bank provided for above.

10. Lessor hereby warrants and agrees to defend title to said land against the claims of all persons whomsoever. Lessor's rights and interests hereunder shall be charged primarily with any mortgages, taxes or other liens, or interest and other charges on said land, but lessor agrees that lessee shall have the right at any time to pay or reduce same for lessor, either before or after maturity, and be subrogated to the rights of the holder thereof and to deduct amounts so paid from royalties or other payments payable or which may become payable to lessor and/or assigns under this lease. If this lease covers a less interest in the oil, gas, sulphur, or other minerals in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not), or no interest therein, then the royalties and other moneys accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. All royalty interest covered by this lease (whether or not owned by lessor) shall be paid out of the royalty herein provided. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as lessor.

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

~~SECRET~~  
For Discussion Purposes Only

INDIVIDUAL ACKNOWLEDGMENT—TEXAS OR NEW MEXICO

## My Commission Expires

Notary Public in and for the State of Texas

Notary's Printed Name \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT—TEXAS OR NEW MEXICO

**My Commission Expires**

Notary Public in and for the State of Texas

Notary's Printed Name \_\_\_\_\_

HUSBAND AND WIFE ACKNOWLEDGMENT—TEXAS OR NEW MEXICO

### My Commission Expires

Notary Public in and for the State of Texas

Notary's Printed Name \_\_\_\_\_

UNIVERSITY OF  
CALIFORNIA

# Oil, Gas and Mineral Lease

**FROM**

19

19

# For All

County.

The document was filed for record on the

\_\_\_\_\_, 19\_\_\_\_, at \_\_\_\_\_

o'clock \_\_\_\_\_ M. and duly recorded in \_\_\_\_\_

Page \_\_\_\_\_

of the \_\_\_\_\_ records of this office.

County Clerk

## Deputy

**When recorded return to**

**BRUNNEN PRINTING & STATIONERY COMPANY**  
1325 Hannin, Houston, Texas 77002 (713) 659-3159

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement, dated November 8, 1995,  
between DALEN Resources Oil & Gas Co., as Operator, and Yates Petroleum Corporation,  
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 NationsBank,  
Dallas, Texas on the first day of the month in which delinquency occurs plus 1% 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.

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 twelve percent ( 12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

**9. Damages and Losses to Joint Property**

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

**10. Legal Expense**

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

**11. Taxes**

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

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

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

( X ) shall be covered by the overhead rates, or  
( ) 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 \$ 6,685.00  
(Prorated for less than a full month)

Producing Well Rate \$ 669.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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



Account for overhead based on the following rates for any Major Construction project in excess of \$ \_\_\_\_\_\* :

A. \_\_\_\_\_\* % of first \$100,000 or total cost if less, plus

B. \_\_\_\_\_\* % of costs in excess of \$100,000 but less than \$1,000,000, plus

C. \_\_\_\_\_\* % 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. \_\_\_\_\_\* % of total costs through \$100,000; plus

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

C. \_\_\_\_\_\* % 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 2 $\frac{3}{4}$  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 70,000

\* To be negotiated.

1                    pound Oil Field Haulers Association interstate truck rate shall be used.

2  
3                    (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,  
4                    Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,  
5                    to the railway receiving point nearest the Joint Property.

6  
7                    (d) Macaroni tubing (size less than 2 $\frac{3}{4}$  inch OD) shall be priced at the lowest published out-of-stock prices  
8                    f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate  
9                    per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10  
11                    (2) Line Pipe

12  
13                    (a) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) 30,000 pounds or  
14                    more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.  
15                    Freight charges shall be calculated from Lorain, Ohio.

16  
17                    (b) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) less than 30,000  
18                    pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,  
19                    plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular  
20                    goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
21                    Ohio.

22  
23                    (c) Line pipe 24 inch OD and over and  $\frac{3}{4}$  inch wall and larger shall be priced f.o.b. the point of  
24                    manufacture at current new published prices plus transportation cost to the railway receiving point  
25                    nearest the Joint Property.

26  
27                    (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall  
28                    be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at  
29                    prices agreed to by the Parties.

30  
31                    (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable  
32                    supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the  
33                    railway receiving point nearest the Joint Property.

34  
35                    (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current  
36                    new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or  
37                    point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint  
38                    Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39  
40                    B. Good Used Material (Condition B)

41  
42                    Material in sound and serviceable condition and suitable for reuse without reconditioning:

43  
44                    (1) Material moved to the Joint Property

45  
46                    At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47  
48                    (2) Material used on and moved from the Joint Property

49  
50                    (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was  
51                    originally charged to the Joint Account as new Material or

52  
53                    (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was  
54                    originally charged to the Joint Account as used Material.

55  
56                    (3) Material not used on and moved from the Joint Property

57  
58                    At seventy-five percent (75%) of current new price as determined by Paragraph A.

59  
60                    The cost of reconditioning, if any, shall be absorbed by the transferring property.

61  
62                    C. Other Used Material

63  
64                    (1) Condition C

65  
66                    Material which is not in sound and serviceable condition and not suitable for its original function until  
67                    after reconditioning shall be priced at fifty percent (50%) of current new price as determined by  
68                    Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition  
69                    C value plus cost of reconditioning does not exceed Condition B value.

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Societies

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(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 within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

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**EXHIBIT "D"**

For Discussion Purposes Only

Attached to and made a part of that certain Operating Agreement, dated November 8, 1995, between DALEN Resources Oil & Gas Co., as Operator, and Yates Energy Corporation, et al., as Non-Operators.

**INSURANCE PROVISIONS**

- I. Operator shall carry the following insurance covering Operator's employees directly employed in all operations on the Contract Area:
  - (a) Workmen's compensation insurance as required by the laws of the State of New Mexico; and
  - (b) Employer's liability insurance with limits of not less than \$500,000.00.

Such insurance shall be carried for the benefit of the parties hereto and its cost shall be charged to the joint account. Operator may elect to include the risk of worker's compensation and/or employers liability under its self-insurance program if it is so authorized under the laws of the jurisdiction in which Joint Operations are conducted, and, in that case, shall charge to the Joint Account, in lieu of any premiums for such insurance, a premium-equivalent in an amount to be determined by applying manual insurance rates to the payroll.

- II. Operator shall not be required to carry any other insurance for the joint account. All losses resulting from operations on or development of the Contract Area which are not covered by the insurance provided pursuant to Paragraph I. above shall be borne by the parties hereto in the proportions of their respective interests in the Contract Area at the time of any loss. Each party individually may acquire such insurance as it deems proper to protect itself against such losses. Operator shall require all third party contractors performing work in or on the premises covered hereby to carry such insurance and in such amounts as Operator shall deem necessary.

## **EXHIBIT "E"**

Attached to and made a part of that certain Operating Agreement, dated November 8, 1995, between DALEN Resources Oil & Gas Co., as Operator, and Yates Energy Corporation, et al., as Non-Operators.

### **GAS BALANCING AGREEMENT**

Subject to and under the terms of the Operating Agreement to which this Agreement is attached as Exhibit "E" (the "Operating Agreement"), the parties hereto own and are entitled to share in the oil and gas production from the Contract Area (as defined in the Operating Agreement) in accordance with their respective interests as set forth in the Operating Agreement. Each party has made or will make arrangements to sell or utilize its share of the gas production; however, it is recognized that one or more of the parties may be unable from time to time to take in kind or otherwise dispose of its interest in the gas production. In order to permit each party to produce and utilize or dispose of its interest in the gas production with as much flexibility as possible, the parties hereto have agreed as follows:

1. The term "Percentage Interest" means the percentage ownership interest of each party as determined in the Operating Agreement. The term "Accumulated Underproduction" means the amount by which the cumulative volume for gas taken by a party is less than the cumulative volume that party was entitled to take according to its Percentage Interest; the term "Accumulated Overproduction" means the amount by which the cumulative volume of gas taken by a party exceeds the cumulative volume that party was entitled to take according to its Percentage Interest; the term "Underproduced Party" means a party credited with Accumulated Underproduction; the term "Overproduced Party" means a party charged with Accumulated Overproduction; the term "Make-up Gas" means the volume of gas taken by an Underproduced Party to make up Accumulated Underproduction pursuant to paragraph 4 below.
2. From and after the date of initial delivery of gas from the Contract Area, during any period when any party is taking less than its full Percentage Interest share of the gas production, the other party or parties shall produce from the Contract Area and take or deliver to a purchaser their pro rata share of all or any part of that portion of the allowable gas production that is not then being produced as a result of a party taking less than its full share; provided, however, that no party shall be entitled to take or deliver to a purchaser gas production in excess of 200% of its share of the allowable gas production assigned thereto by the regulatory body having jurisdiction unless that party is an Underproduced Party. The parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interest in the Contract Area as set forth in said Operating Agreement, but the party or parties taking gas shall own all of such gas delivered to its or their purchaser(s).
3. The Operator shall maintain an account of the gas balance as between the parties hereto and will furnish each party monthly statements showing the total quantity of gas produced, the portion thereof used in operations on the Contract Area, vented or lost, the total quantity of gas taken by each party or delivered to its purchaser, and the Accumulated Overproduction and Underproduction of each party.
4. After ten (10) days' written notice to the Operator and commencing on the first day of any month, any party may at any time begin taking or delivering to a purchaser its full share of the gas produced (less such party's share of gas used in operations in the Contract Area, vented or lost). In addition to such share, each Underproduced Party, including the Operator, until it has brought its gas account into balance, shall be entitled to take or deliver to its purchaser an additional share of the gas produced determined by multiplying the applicable Make-up Percent (hereinafter defined) of the Percentage Interest of the Overproduced Parties in the current gas production by a fraction, the numerator of which is the Accumulated

Underproduction of such party and the denominator of which is the total Accumulated Underproduction of all Underproduced Parties then undertaking to make up production. "Make-up Percent" shall mean twenty-five percent (25%) for gas made up in the months of October, November, December, January, February, and March; and fifty percent (50%) for the months of April, May, June, July, August, and September. Make-up Gas shall offset Accumulated Underproduction in the order of accrual.

5. In the event any party enters into an agreement subsequent to this Agreement for the disposition of its gas, including but not limited to a gas sales agreement(s), the subsequent agreement shall be subordinated to the rights of the parties under this Agreement.

6. 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. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from the Contract Area so that the well(s) will not be shut in for overproducing the allowable, if any, assigned thereto by the regulatory body having jurisdiction.

7. During the term of this Agreement, each party shall pay or cause to be paid its own royalty owners (the term "royalty owners" shall include owners of royalty interests, overriding royalty interests, production payments, and similar interests) as they may be entitled, respectively, to be paid, and shall hold the other parties harmless from any liability therefor.

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

9. Should production of gas from the Contract Area be permanently discontinued before the gas account is balanced, a final 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 equal to the value of the total Accumulated Overproduction less applicable taxes and royalties theretofore paid by the Overproduced Party on such overproduction. The value of the total Accumulated Overproduction shall be based on the price the Overproduced Party actually received for the gas during the month(s) in which the Accumulated Overproduction accrued. Operator shall furnish to all parties a statement showing the final Accumulated Overproduction and Accumulated Underproduction of each party and the month and year in which it accrued. Within sixty (60) days after receipt of Operator's statement, each Overproduced Party shall furnish to all other parties a statement showing the value of its Accumulated Overproduction based on the price the Overproduced Party actually received for the gas during the month(s) in which the Accumulated Overproduction accrued, less applicable taxes and royalties theretofore paid by the Overproduced Party on such Accumulated Overproduction. Based upon the statements furnished by the Overproduced Parties, the net amount owed by or to each party shall be calculated by Operator and furnished to all parties in a final cash balancing statement. Within sixty (60) days after receipt of Operator's final cash balancing statement, each Overproduced Party shall pay each Underproduced Party in accordance with the statement and without interest. Any party may challenge any volumes or values or amounts specified in any of the statements furnished under paragraph 3 above or this paragraph 9 in the same manner and subject to the same limitations that an invoice from Operator may be challenged under the Operating Agreement or the accounting procedure attached thereto. If any portion of the proceeds collected by an Overproduced Party is subject to a contingent refund obligation under law, regulation, or court order, such amount shall be withheld until such time as a final determination is made with respect thereto, or the

Underproduced Party agrees in writing to indemnify, defend, and hold harmless from any refund obligation the party paying such amount.

10. This Gas Balancing Agreement shall be and remain in full force and effect for a term concurrent with the term of the Operating Agreement.

11. This Gas Balancing Agreement shall be deemed to be a separate agreement for each well on the Contract Area and as to each separate reservoir from which gas is produced from each well.

12. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on the Contract Area, as set forth in the Operating Agreement. All costs and expenses of administering this Gas Balancing Agreement shall be borne in accordance with the provisions of the Operating Agreement.

13. Any party transferring its interest, or any part thereof, which is covered by the Operating Agreement, shall give notice of this Gas Balancing Agreement to any transferee, and such transfer shall not be binding upon the parties until such transferee has agreed in writing to be bound by the terms of the Operating Agreement, including this Gas Balancing Agreement. At the option of any Underproduced Party, cash settlement as between such Underproduced Party and the Overproduced Party transferring the interest shall occur whenever any Overproduced Party transfers any of its interest in the Contract Area to an unaffiliated third party.

14. The Operator under the Operating Agreement is authorized to carry out the provisions of this Agreement but shall not be liable for its failure to do so as long as it acts without gross negligence or willful misconduct. The Operator has no duty or authority to maintain or restore balanced production, except as specifically provided herein.

# Well Cost Estimate


## Authorization for Expenditure

AFE Type:	Drilling and Completion: X	Recompletion:	Onshore: X
Prepared By: Terry Stull and Eric Hadsell			Offshore:
AFE No: 95-1124	Well Name: Moberly "21"	Well No: 1	Date: 5-1-95
Prospect:	State: NM	County: Lea	
Location: 1980' FNL & 1980' FEL	Sec 21 T25S R36E	MD: 7,700	TVD: 7,700
Formation Objective: Basal Brushy Canyon & Orange Sd	Exploratory X	Dev. Oil	Gas X
Production Area: Northern	Field Name: Wildcat		

DRILLING ACCT.SUB NUMBER	COMPLETION ACCT.SUB NUMBER	INTANGIBLE COSTS	DRILLING COSTS	COMPLETION / RECOMPLETION COSTS	TOTAL COSTS
9365.101		Abstracts, Legal Fees, Permits, Surveying	✓ 5,000		5,000
9365.102	9366.201	Location, Road, Canal, Dock, Damages	✓ 20,000	✓ 2,000	22,000
9365.103		Rig Mobilization/Demobilization			0
9365.104		Contract Drilling; Footage 7,700 ft. @ \$16.25/ft.	✓ 125,000		125,000
9365.105		Contract Drilling; Daywork 2 days @ \$4,500/day	✓ 9,000		9,000
	9366.202	Completion Rig		✓ 10,000	10,000
9365.106	9366.203	Fuel, Power, Water	✓ 12,500		12,500
9365.108	9366.205	Drilling/Completion Fluids	✓ 13,500	✓ 1,000	14,500
9365.109		Bits, Reamers, Stabilizers			0
9365.110	9366.206	Cement, Cementing Services, Accessories	✓ 22,500	✓ 12,000	34,500
9365.111		Directional Drilling Equipment and Services			0
9365.112		Open Hole Logging	✓ 14,000		14,000
9365.113		Mud Logging	✓ 5,000		5,000
9365.114		Coring and Analysis			0
9365.115		Drill Stem Testing			0
9365.116	9366.207	Rental Equipment - Surface - Testing	✓ 5,000	✓ 9,000	14,000
9365.123	9366.218	Rental Equipment - Subsurface			0
9365.117	9366.212	Trucking, Boats, Cranes, Other Transportation	✓ 5,000		5,000
	9366.208	Well Service, Coiled Tubing or Swabbing Units			0
	9366.209	Perforating and Cased Hole Logs		✓ 12,000	12,000
	9366.210	Gravel Packing and Sand Control			0
	9366.211	Formation Stimulation		✓ 60,000	60,000
9365.118	9366.213	Welding, Casing Crews, Other Misc. Labor	✓ 10,000	✓ 2,500	12,500
9365.124	9366.219	Disposal Services	✓ 5,000		5,000
9365.119	9366.214	Company and Contract Supervision	✓ 12,500	✓ 3,600	16,100
9365.120	9366.215	Administrative Overhead	✓ 5,000		5,000
9365.121	9366.216	Miscellaneous Services and Contingencies	✓ 10,000	✓ 33,400	43,400
9365.122	9366.217	Insurance			0
<b>TOTAL INTANGIBLE COSTS</b>			279,000	145,500	424,500
<b>TANGIBLE COSTS</b>					
9360.101		Drive or Structural Pipe ft. of "OD			0
9360.102		Conductor Casing ft. of "OD			0
9360.103		Surface Casing 400 ft. of 13 3/8"OD	✓ 7,500		7,500
9360.104		Intermediate Casing 3,500 ft. of 8 5/8"OD	✓ 45,000		45,000
9360.106		Other Casing			0
	9361.201	Production Casing 7,700 ft. of 5 1/2"OD		✓ 50,000	50,000
	9361.202	Liner and Hanger ft. of "OD			0
	9361.203	Tubing 7,700ft. of 2 7/8" OD		✓ 39,000	39,000
9360.107	9361.204	Well Head Equipment	✓ 7,500	✓ 7,000	14,500
9360.108	9361.205	Mudline Suspension Equipment			0
	9361.206	Packers, Sleeves, Landing Nipples, SSCV			0
	9361.208	Navigational Aids			0
	9362.301	Artificial Lift and Prime Mover			0
	9362.302	Sucker Rods and Pump			0
	9362.303	Tankage		✓ 15,000	15,000
	9362.304	Heater Treater/Separator/Production Unit		✓ 10,000	10,000
	9362.305	Gas Conditioning and Compression Equipment			0
	9362.306	Flow Lines, Connections and Misc. Valves		✓ 15,000	15,000
	9362.307	Metering, LACT and Loading Facilities		✓ 5,000	5,000
	9362.308	Platform			0
	9362.318	Pipeline		✓ 20,000	20,000
	9362.310	Labor and Installation Costs		✓ 15,000	15,000
	9362.312	Injection Equipment			0
	9362.316	Scada / Controls/ ESD			0
9360.105	9362.309	Other Equipment			0
<b>TOTAL TANGIBLE COSTS</b>			60,000	176,000	236,000
<b>TOTAL ESTIMATED WELL COSTS</b>			339,000	321,500	660,500

APPROVALS:  NAME:	DATE: 5/22/95
BY: J. T. Williams	TITLE: President



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

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


IN THE MATTER OF THE APPLICATION OF  
ENSERCH EXPLORATION INC. FOR COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO

CASE NO. 11473


AFFIDAVIT

STATE OF NEW MEXICO   )  
                                  ) ss  
COUNTY OF SANTA FE   )

J. SCOTT HALL, attorney in fact and authorized representative of Enserch Exploration Inc., the Applicant herein, being first duly sworn, upon oath, states that the notice provisions of Rule 1207 of the New Mexico Oil Conservation Division have been complied with, that Applicant has caused to be conducted a good faith, diligent effort to find the correct addresses of all interested persons entitled to receive notice, as shown by Exhibit "A" attached hereto, and that pursuant to Rule 1207, notice has been given by certified mail at the correct addresses provided by such rule.

  
\_\_\_\_\_  
J. SCOTT HALL

SUBSCRIBED AND SWORN to before me this 20<sup>th</sup> day of March, 1996, by J. Scott Hall.

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

My commission expires:

11/19/99

EXHIBIT NO. 6

MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.  
LAW OFFICES

RANNE B. MILLER  
ALAN C. TORGERSON  
KENDALL O. SCHLENKER  
ALICE TOMLINSON LORENZ  
GREGORY W. CHASE  
ALAN KONRAD  
MARGO J. MCCORMICK  
LYMAN G. SANDY  
STEPHEN M. WILLIAMS  
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MICHAEL H. HOSES  
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TIMOTHY R. BRIGGS  
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RUDOLPH LUCERO  
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THOMAS M. DOMME  
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MICHELE MARKS  
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JAMES R. WOOD  
MICHAEL J. SEIBEL  
DANA M. KYLE

ALBUQUERQUE, N.M.

500 MARQUETTE N.W., SUITE 1100  
POST OFFICE BOX 25687  
ALBUQUERQUE, N.M. 87125  
TELEPHONE: (505) 842-1950  
FAX: (505) 243-4408

LAS CRUCES, N.M.

500 SOUTH MAIN, SUITE 600  
POST OFFICE BOX 1209  
LAS CRUCES, N.M. 88004  
TELEPHONE: (505) 523-2481  
FAX: (505) 526-2215

FARMINGTON, N.M.

300 WEST ARRINGTON  
POST OFFICE BOX 869  
FARMINGTON, N.M. 87499  
TELEPHONE: (505) 326-4521  
FAX: (505) 325-5474

SANTA FE, N.M.

125 LINCOLN AVE., SUITE 221  
POST OFFICE BOX 1986  
SANTA FE, N.M. 87504-1986  
TELEPHONE: (505) 989-9614  
FAX: (505) 989-9857

January 31, 1996

WILLIAM K. STRATVERT, COUNSEL  
PAUL W. ROBINSON, COUNSEL

PLEASE REPLY TO SANTA FE

McBride Oil & Gas Corp.  
400 N. Pennsylvania Ave.  
Roswell, NM 88201

**CERTIFIED MAIL AND  
RETURN RECEIPT REQUESTED**

Re: Application of Enserch Exploration, Inc. for Compulsory Pooling  
Lea County, New Mexico

Dear Sirs:

This will advise that Enserch Exploration, Inc. has filed an application with the New Mexico Oil Conservation Division seeking an order for the compulsory pooling of all mineral interests from the surface to the base of the Delaware formation in and under the SW/4 NE/4 Section 21, Township 25 South, Range 36 East, NMPM, Lea County, New Mexico. (A copy of the application is enclosed.) Enserch Exploration, Inc. proposes to dedicate the referenced pooled unit to a well drilled at a standard location in the SW/4 NE/4 of said Section 21.

This application will be set for hearing before a Division Examiner on February 22, 1996, at the New Mexico Oil Conservation Division, 2040 Pacheco, Santa Fe, New Mexico. You are not required to attend this hearing, but as an owner of an interest that may be subject to pooling, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging this application at a later time.

Very truly yours,

MILLER, STRATVERT, TORGERSON  
& SCHLENKER, P.A.

*T. Scott Hall*

J. Scott Hall

JSH/ag  
Enclosure  
cc: Jerry Anderson

P 329 613 586

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to  
**McBride Oil & Gas Corp.**Street & Number  
**400 N. Pennsylvania Ave**Post Office, State, & ZIP Code  
**Roswell, NM 88201**

Postage \$

Certified Fee

Special Delivery Fee

Restricted Delivery Fee

Return Receipt Showing to Whom &amp; Date Delivered

Return Receipt Showing to Whom, Date, &amp; Addressee's Address

\*TOTAL Postage &amp; Fees \$

Postmark or Date

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

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

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**McBride Oil & Gas Corp.**  
**400 N. Pennsylvania Ave.**  
**Roswell, NM 88201**

4a. Article Number

P 329 613 586

4b. Service Type

- |   |   |
|---|---|
| <input type="checkbox"/> Registered                     | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail                   | <input type="checkbox"/> Insured              |
| <input type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD                  |

7. Date of Delivery

2-2-96

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)

X *Butay*

PS Form 3811, December 1994

Domestic Return Receipt

**MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.**  
LAW OFFICES

RANNE B. MILLER  
ALAN C. TORGERSON  
KENDALL O. SCHLENKER  
ALICE TOMLINSON LORENZ  
GREGORY W. CHASE  
ALAN KONRAD  
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ROBIN A. GOBLE  
MICHELE MARKS  
ALISON I. ARIAS  
JAMES R. WOOD  
MICHAEL J. SEIBEL  
DANA M. KYLE

**ALBUQUERQUE, N.M.**

500 MARQUETTE N.W., SUITE 1100  
POST OFFICE BOX 25687  
ALBUQUERQUE, N.M. 87125  
TELEPHONE: (505) 842-1950  
FAX: (505) 243-4408

**LAS CRUCES, N.M.**

500 SOUTH MAIN, SUITE 600  
POST OFFICE BOX 1209  
LAS CRUCES, N.M. 88004  
TELEPHONE: (505) 523-2481  
FAX: (505) 526-2215

**FARMINGTON, N.M.**

300 WEST ARRINGTON  
POST OFFICE BOX 869  
FARMINGTON, N.M. 87499  
TELEPHONE: (505) 326-4521  
FAX: (505) 325-5474

**SANTA FE, N.M.**

125 LINCOLN AVE., SUITE 221  
POST OFFICE BOX 1986  
SANTA FE, N.M. 87504-1986  
TELEPHONE: (505) 989-9614  
FAX: (505) 989-9857

January 31, 1996

WILLIAM K. STRATVERT, COUNSEL  
PAUL W. ROBINSON, COUNSEL

PLEASE REPLY TO SANTA FE

Ray L. McKim, III  
Box 2356  
203 W. Wall, Ste. 10,000  
Midland, TX 78702

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

Re: Application of Enserch Exploration, Inc. for Compulsory Pooling  
Lea County, New Mexico

Dear Sirs:

This will advise that Enserch Exploration, Inc. has filed an application with the New Mexico Oil Conservation Division seeking an order for the compulsory pooling of all mineral interests from the surface to the base of the Delaware formation in and under the SW/4 NE/4 Section 21, Township 25 South, Range 36 East, NMPM, Lea County, New Mexico. (A copy of the application is enclosed.) Enserch Exploration, Inc. proposes to dedicate the referenced pooled unit to a well drilled at a standard location in the SW/4 NE/4 of said Section 21.

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Very truly yours,

MILLER, STRATVERT, TORGERSON  
& SCHLENKER, P.A.

J. Scott Hall

JSH/ag  
Enclosure  
cc: Jerry Anderson

P 334 795 282

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to <b>Ray L. McKim, III</b>	
Street & Number <b>Box 2356, 203 W. Wall, Ste</b>	
Post Office, State, & ZIP Code <b>Midland, TX 79702 10,000</b>	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
<b>TOTAL Postage &amp; Fees</b>	<b>\$</b>
Postmark or Date	

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

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

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

**Ray L. McKim, III**  
**Box 2356**  
**203 W. Wall, Ste. 10,000**  
**Midland, TX 79702**

**4a. Article Number**

**P 334 795 282**

**4b. Service Type**

- |   |   |
|---|---|
| <input type="checkbox"/> Registered                     | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail                   | <input type="checkbox"/> Insured              |
| <input type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD                  |

**7. Date of Delivery**

**5. Received By: (Print Name)**

**6. Signature: (Addressee or Agent)**

**X**

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

PS Form 3811, December 1994

Domestic Return Receipt

**MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.**  
LAW OFFICES

RANNE B. MILLER  
ALAN C. TORGERSON  
KENDALL O. SCHLENKER  
ALICE TOMLINSON LORENZ  
GREGORY W. CHASE  
ALAN KONRAD  
MARGO J. MCCORMICK  
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ALISON I. ARIAS  
JAMES R. WOOD  
MICHAEL J. SEIBEL  
DANA M. KYLE

**ALBUQUERQUE, N.M.**

500 MARQUETTE N.W., SUITE 1100  
POST OFFICE BOX 25687  
ALBUQUERQUE, N.M. 87125  
TELEPHONE: (505) 842-1950  
FAX: (505) 243-4408

**LAS CRUCES, N.M.**

500 SOUTH MAIN, SUITE 600  
POST OFFICE BOX 1209  
LAS CRUCES, N.M. 88004  
TELEPHONE: (505) 523-2481  
FAX: (505) 526-2215

**FARMINGTON, N.M.**

300 WEST ARRINGTON  
POST OFFICE BOX 869  
FARMINGTON, N.M. 87499  
TELEPHONE: (505) 326-4521  
FAX: (505) 325-5474

**SANTA FE, N.M.**

125 LINCOLN AVE., SUITE 221  
POST OFFICE BOX 1986  
SANTA FE, N.M. 87504-1986  
TELEPHONE: (505) 989-9614  
FAX: (505) 989-9857

February 1, 1996

WILLIAM K. STRATVERT, COUNSEL  
PAUL W. ROBINSON, COUNSEL

PLEASE REPLY TO SANTA FE

Yates Energy Corporation  
P.O. Box 2323  
Roswell, NM 88202

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

Re: Application of Enserch Exploration, Inc. for Compulsory Pooling  
Lea County, New Mexico

Dear Sirs:

This will advise that Enserch Exploration, Inc. has filed an application with the New Mexico Oil Conservation Division seeking an order for the compulsory pooling of all mineral interests from the surface to the base of the Delaware formation in and under the SW/4 NE/4 Section 21, Township 25 South, Range 36 East, NMPM, Lea County, New Mexico. (A copy of the application is enclosed.) Enserch Exploration, Inc. proposes to dedicate the referenced pooled unit to a well drilled at a standard location in the SW/4 NE/4 of said Section 21.

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Very truly yours,

MILLER, STRATVERT, TORGERSON  
& SCHLENKER, P.A.



J. Scott Hall

JSH/ag  
Enclosure

P 329 611 403

US Postal Service

**Receipt for Certified Mail**

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to <b>Yates Energy Corp.</b>	
Street & Number <b>P.O. Box 2323</b>	
Post Office, State, & ZIP Code <b>Roswell, NM 88202</b>	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
<b>TOTAL Postage &amp; Fees</b>	<b>\$</b>
Postmark or Date	

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**Yates Energy Corporation  
P.O. Box 2323  
Roswell, NM 88202**

4a. Article Number

**P 329 611 403**

4b. Service Type

- |   |   |
|---|---|
| <input type="checkbox"/> Registered                     | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail                   | <input type="checkbox"/> Insured              |
| <input type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD                  |

7. Date of Delivery

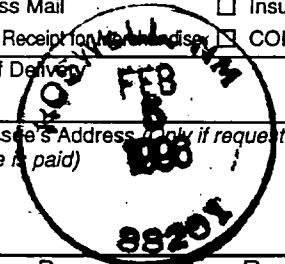
5. Received By: (Print Name)

*Lori Sanders*

6. Signature: (Addressee or Agent)

**X**

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



PS Form 3811, December 1994

Domestic Return Receipt

Thank you for using Return Receipt for Certified Mail



MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.  
LAW OFFICES

RANNE B. MILLER  
ALAN C. TORGERSON  
KENDALL O. SCHLENKER  
ALICE TOMLINSON LORENZ  
GREGORY W. CHASE  
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JOEL T. NEWTON  
JUDITH K. NAKAMURA  
THOMAS M. DOMME  
DAVID H. THOMAS III  
C. BRIAN CHARLTON  
RUTH O. PREGENZER  
MATTHEW URREA  
KAREN L. ACOSTA  
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MANUEL I. ARRIETA  
LEONARD D. SANCHEZ  
ROBIN A. GOBLE  
MICHELE MARKS  
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DANA M. KYLE

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SANTA FE, N.M.

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POST OFFICE BOX 1986  
SANTA FE, N.M. 87504-1986  
TELEPHONE: (505) 989-9614  
FAX: (505) 989-9857

February 13, 1996

WILLIAM K. STRATVERT, COUNSEL  
PAUL W. ROBINSON, COUNSEL

PLEASE REPLY TO SANTA FE

Henry A. Felt, Sr.  
212 Pompton Road  
Haledon, NJ 07508

CERTIFIED MAIL AND  
RETURN RECEIPT REQUESTED

Re: Application of Enserch Exploration, Inc. for Compulsory Pooling  
Lea County, New Mexico

Dear Sirs:

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Very truly yours,

MILLER, STRATVERT, TORGERSON  
& SCHLENKER, P.A.

*J. Scott Hall*

J. Scott Hall

JSH/ag  
Enclosure

P 329 613 575

US Postal Service

# Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for international Mail (See reverse)

Sent to <b>Henry A. Felt, Sr.</b>	
Street & Number <b>212 Pompton Road</b>	
Post Office, State, & ZIP Code <b>Haledon, NJ 07508</b>	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	

PS Form 3800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

## SENDER:

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

**Henry A. Felt, Sr.**  
**212 Pompton Road**  
**Haledon, NJ 07508**

### 4a. Article Number

**P 329 613 575**

### 4b. Service Type

- |   |   |
|---|---|
| <input type="checkbox"/> Registered                     | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail                   | <input type="checkbox"/> Insured              |
| <input type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD                  |

### 7. Date of Delivery

**2/6/96**

### 5. Received By: (Print Name)

### 6. Signature: (Addressee or Agent)

**X** 

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

PS Form 3811, December 1994

Domestic Return Receipt