

Mid-Continent Region  
Production United States



P.O. Box 552  
Midland, TX 79702-0552  
Telephone 915/682-1626

November 17, 1997

CERTIFIED MAIL & RETURN  
RECEIPT REQUESTED

WORKING INTEREST OWNERS  
Garvin 22 State No. 1  
S/2 Section 22, T-18-S, R-28-E, N.M.P.M.,  
Eddy County, New Mexico

Re: Operating Agreement

Dear Working Interest Owner:

Enclosed is an Operating Agreement with extra signature pages for the captioned well. The AFE and well proposal were mailed to you earlier this month. If you plan to participate in this well, please execute and return the AFE and the extra signature pages to this Operating Agreement. If you do not plan to participate, we request that you either sell Marathon a term assignment covering your interest in this well or farmout your interest to Marathon under the terms outlined in our well proposal dated November 4, 1997.

If you have any questions, please call me at (915) 687-8490.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Robertson".

Tim Robertson, CPL  
Advanced Landman

TBR:mmc'  
Encl.

BEFORE THE  
OIL CONSERVATION COMMISSION  
Case No. 11909 Exhibit No. 5  
Submitted By:  
**Marathon Oil Company**  
Hearing Date: January 22, 1998

Garvin 22 State No. 1  
S/2 Section 22, T-18-S, R-28-E  
Eddy County, New Mexico

WORKING INTEREST OWNERS:

MARATHON OIL COMPANY	9.98264%
ATLANTIC RICHFIELD COMPANY	31.25000%
Attn: Mr. Lee Scarborough P. O. Box 1610 Midland, TX 79702-1610	
YATES PETROLEUM CORPORATION	11.28472%
Attn: Mr. Robert Bullock 105 S. Fourth St. Artesia, NM 88210	
LOUIS DREYFUS NATURAL GAS CORP.	9.98264%
Attn: Mr. Rusty Waters 14000 Quail Springs Prkwy., Ste 600 Oklahoma City, OK 73134	
CHEVRON USA, INC.	12.50000%
Attn: Mr. Ray M. Vaden P. O. Box 1150 Midland, TX 79702-1150	
EXXON CORPORATION	12.50000%
Attn: Mr. R. Lee Avera, Jr. P. O. Box 4697 Houston, TX 77210-4697	
MARSHALL & WINSTON, INC.	8.00000%
Attn: Mr. Kevin Hammit P. O. Box 50880 Midland, TX 79710-0880	
PETRO-QUEST EXPLORATION	4.05000%
Attn: Mr. Mark Hoffman P. O. Box 10016 Midland, TX 79702-0016	
LOGRO CORPORATION	0.45000%
Attn: Mr. David Frye P. O. Box 261324 Plano, TX 75026-1324	

Is your RETURN ADDRESS completed on the reverse side?

<b>SENDER:</b> ■ 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. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to:  ATLANTIC RICHFIELD COMPANY Attn: Mr. Lee Scarborough P. O. Box 1610 Midland, TX 79702-1610		4a. Article Number P 245 774 259	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery NOV 20 1994	
5. Received By: (Print Name) [Signature]		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature: (Addressee or Agent) X [Signature]			

PS Form 3811, December 1994

Domestic Return Receipt

Thank you for using Return Receipt Service.

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3. Article Addressed to:  LOUIS DREYFUS NATURAL GAS CORP. Attn: Mr. Rusty Waters 14000 Quail Springs Prkwy., Ste 600 Oklahoma City, OK 73134		4a. Article Number - 245 774 261	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery 11/21	
5. Received By: (Print Name)		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature: (Addressee or Agent) X [Signature]			

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3. Article Addressed to:  CHEVRON USA, INC. Attn: Mr. Ray M. Vaden P. O. Box 1150 Midland, TX 79702-1150		4a. Article Number P 245 774 262	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery NOV 20 1997	
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3. Article Addressed to:  EXXON CORPORATION Attn: Mr. R. Lee Avera, Jr. P. O. Box 4697 Houston, TX 77210-4697		4a. Article Number P 245 774 263	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
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3. Article Addressed to:  LOGRO CORPORATION Attn: Mr. David Frye P. O. Box 261324 Plano, TX 75026-1324		4a. Article Number P245-774-266	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery 11/26/97	
5. Received By: (Print Name)		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature: (Addressee or Agent) X [Signature]			

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3. Article Addressed to:  YATES PETROLEUM CORPORATION Attn: Mr. Robert Bullock 105 S. Fourth St. Artesia, NM 88210		4a. Article Number P245 774-260	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery 11-20-97	
5. Received By: (Print Name) Kyla K. Butts		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature: (Addressee or Agent) X Kyla K. Butts			

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<b>SENDER:</b> <ul style="list-style-type: none"><li>Complete items 1 and/or 2 for additional services.</li><li>Complete items 3, 4a, and 4b.</li><li>Print your name and address on the reverse of this form so that we can return this card to you.</li><li>Attach this form to the front of the mailpiece, or on the back if space does not permit.</li><li>Write "Return Receipt Requested" on the mailpiece below the article number.</li><li>The Return Receipt will show to whom the article was delivered and the date delivered.</li></ul>		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to:  MARSHALL & WINSTON, INC. Attn: Mr. Kevin Hammit P. O. Box 50880 Midland, TX 79710-0880		4a. Article Number P245 774-264	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
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3. Article Addressed to:  PETRO-QUEST EXPLORATION Attn: Mr. Mark Hoffman P. O. Box 10016 Midland, TX 79702-0016		4a. Article Number P245-774-265	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery	
5. Received By: (Print Name) [Signature]		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature: (Addressee or Agent) X [Signature]			

Thank you for using Return Receipt Service.

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

GARVIN 22 STATE NO. 1

OPERATING AGREEMENT

DATED

November 12, 19 97,

OPERATOR MARATHON OIL COMPANY

CONTRACT AREA S/2 Section 22, T-18-S, R-28-E

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

ARTICLE VI

continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, 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~~ <sup>all parties</sup> 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 ~~it~~ <sup>all parties</sup> 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 above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

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:

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,400.00  
(Prorated for less than a full month)

Producing Well Rate \$ 540.00

- (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 drilling rig, completion rig, or other units used in completion of the well is released, whichever