

March 18, 1999

David Arrington Oil and Gas, Inc.
P.O. Box 2071
Midland, Texas 79702

Dear David:

Subject: Beadle #1
W/2 SW/4 Section 35,
T-15-S, R-35-E
Lea County, New Mexico

As per our telephone conversation from last Tuesday, enclosed please find the following:

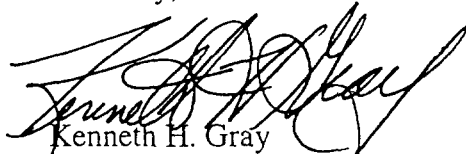
1. JOA in duplicate
2. Recording Supplement to JOA in duplicate
3. AFE in duplicate

Please indicate your willingness to join in the above well by signing, dating and returning one copy of the three items outlined above.

We are staking the location and title is presently being examined.

If you would like to approach this in some other way, please let us know.

Sincerely,


Kenneth H. Gray
KHG/dcw
ARR-BEA-JOA

NMOCD CASE NO. 12174
APRIL 29, 1999
EXHIBIT NO. 3
SUBMITTED BY:
ENERGEN RESOURCES CORP.

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

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

OPERATING AGREEMENT

DATED

March 17, 19 99,

OPERATOR Energen Resources Corporation

CONTRACT AREA W/2 SW/4, Section 35, T-15-S, R-35-E

COUNTY OR PARISH OF Lea STATE OF New Mexico

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	<u>DEFINITIONS</u>	1
II.	<u>EXHIBITS</u>	1
III.	<u>INTERESTS OF PARTIES</u>	2
	A. OIL AND GAS INTERESTS	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION	2
	C. EXCESS ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	2
	D. SUBSEQUENTLY CREATED INTERESTS	2
IV.	<u>TITLES</u>	2
	A. TITLE EXAMINATION	2-3
	B. LOSS OF TITLE	3
	1. Failure of Title	3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	<u>OPERATOR</u>	4
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	4
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	<u>DRILLING AND DEVELOPMENT</u>	4
	A. INITIAL WELL	4-5
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6-7
	3. Stand-By Time	7
	4. Sidetracking	7
	C. TAKING PRODUCTION IN KIND	7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	8
	E. ABANDONMENT OF WELLS	8
	1. Abandonment of Dry Holes	8
	2. Abandonment of Wells that have Produced	8-9
	3. Abandonment of Non-Consent Operations	9
VII.	<u>EXPENDITURES AND LIABILITY OF PARTIES</u>	9
	A. LIABILITY OF PARTIES	9
	B. LIENS AND PAYMENT DEFAULTS	9
	C. PAYMENTS AND ACCOUNTING	9
	D. LIMITATION OF EXPENDITURES	9-10
	1. Drill or Deepen	9-10
	2. Rework or Plug Back	10
	3. Other Operations	10
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	10
	F. TAXES	10
	G. INSURANCE	11
VIII.	<u>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</u>	11
	A. SURRENDER OF LEASES	11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTIONS	11-12
	D. MAINTENANCE OF UNIFORM INTEREST	12
	E. WAIVER OF RIGHTS TO PARTITION	12
	F. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	<u>INTERNAL REVENUE CODE ELECTION</u>	12
X.	<u>CLAIMS AND LAWSUITS</u>	13
XI.	<u>FORCE MAJEURE</u>	13
XII.	<u>NOTICES</u>	13
XIII.	<u>TERM OF AGREEMENT</u>	13
XIV.	<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
	C. REGULATORY AGENCIES	14
XV.	<u>OTHER PROVISIONS</u>	14
XVI.	<u>MISCELLANEOUS</u>	15

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Energen Resources Corporation, 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.

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 as appearing in the applicable leases plus additional burdens of record as of the effective 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 reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

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

ARTICLE IV
continued

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

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

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well or title defects have been waived by the contributing party of the lease and/or oil and gas interest which involves such defect.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests; and,

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V. OPERATOR

A. Designation and Responsibilities of Operator:

Energex Resources Corporation 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 May, 1999, Operator shall commence the drilling of a well for oil and gas at the following location:
330' FSL and 330' FWL of Section 35, Township -15- South, Range -35- East,
Lea County, New Mexico.

and shall thereafter continue the drilling of the well with due diligence to 11,800 feet or a depth sufficient to test the Strawn formation.

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

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

ARTICLE VI
continued

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:

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)~~ ^{fifteen (15)} days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the 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 twenty-four (24) hours, inclusive of Saturday, Sunday, and legal holidays. In order to elect to participate in a proposed operation, a party must, prior to the expiration of the time period provided for a response, deliver to Operator (1) written notice of party's election to participate, (2) the party's signed AFE for the estimated costs of the proposed operation, and (3) any advance payment of the party's share of the AFE which is requested in the notice of proposed operation. The notice provisions of Article XV shall apply to the notices. A party's failure to respond properly and timely to a notice of a proposed operation shall be deemed to be that party's election not to participate in the proposed operation.

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)~~ ^{fifteen (15)} days (or as promptly as possible after the expiration of the ~~thirty (30)~~ ^{twenty-four (24)} 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.

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)~~ ^{fifteen (15)} days (or as promptly as possible after the expiration of the ~~thirty (30)~~ ^{twenty-four (24)} 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 ~~thirty (30)~~ ^{twenty-four (24)} 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 ~~thirty (30)~~ ^{twenty-four (24)} 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, * "Rework" includes sidetrack.

** Provided, however, that a Non-Consenting Party that participated in the drilling, reworking, re-entering, deepening or sidetracking of the well shall remain liable for and shall pay its proportionate share of the costs of plugging and abandonment of the well and the restoration of the surface, but only insofar as those costs were not increased by the subsequent operations of the Consenting Parties.

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/^{sidetracking} 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) 200% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 200% 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/^{sidetracking} 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/^{sidetracking} 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 ^{three} hundred percent (300%) of that portion of the costs of the reworking/^{sidetracking} or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking/^{sidetracking} 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/^{sidetracking} 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/^{sidetracking} 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/^{sidetracking} 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 ^{quarter} 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 ^{quarter} 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.

ARTICLE VI
continued

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

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

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

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to ~~forty-eight (48) hours~~ ^{twenty-four (24)} hours, ~~exclusive of Saturday, Sunday and legal holidays~~ ^{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~~ ^{twenty-four (24)} 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:

with respect to an operation to which it is a participating party
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 participating 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. Any non-participating party shall only have access to Operator's records for the exclusive purpose of verification of the costs attributable to the operation in which it is a non-participating party.

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)~~ ^{twenty-four (24)} 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

* Who at that time have an interest in such well.

** If any party fails to make a specific election in writing within said thirty (30) days, it shall be conclusively deemed to have consented to the abandonment of such well.

ARTICLE VI

continued

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

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

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

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefore by Operator, the interest of such party in any and all wells for which such statement was rendered shall become subject to the provisions of Article VI.B.2 on the first day of the month following the expiration of the sixty (60) day period following rendition of such statement.* In the event this provision is exercised, all non-defaulting Consenting Parties, including Operator, shall, if requested by Operator, carry the non-consenting interest in the proportion that the interest of each such party bears to the interest of all such parties.

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:

*Prior to Operator exercising this provision, Operator must provide written notice by certified mail to the party and/or parties in default and the defaulting party shall have an additional 15 days after receipt of such notice to pay its share of expenses.

ARTICLE VII

continued

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

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have ~~twenty-four~~ ^{twenty-four} (24) 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 Twenty Five Thousand Dollars (\$ 25,000.00) 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 be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII

continued

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

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

D. Maintenance of Uniform Interest:

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

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

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

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

E. Waiver of Rights to Partition:

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

~~F. Preferential Right to Purchase:~~

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

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed fifteen thousand Dollars (\$ 15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and 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 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.

COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of _____ shall govern.

C. Regulatory Agencies:

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

A. Applicable Laws and Regulatory Agencies:

This Operating Agreement and the respective rights and obligations of the parties hereunder shall be subject to all applicable Federal, State, Local or other governmental laws, rules, regulations and orders and in the event this Agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any such laws, rules, regulations or orders, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly, and so modified, to continue in full force and effect. Operator shall prepare and furnish to any duly constituted authority having jurisdiction in the premises through its proper agency or department any and all reports, statements and information that may be requested when such reports are required to be filed by Operator.

Operator shall act as the representative of all parties hereto in all hearings and proceedings before administrative bodies concerning the contract Area and all cost and expenses incurred by the Operator directly or by retention of outside personnel in participation in such hearings or proceedings shall be proper charges against the joint account; provided however, that nothing herein contained shall prohibit any of the parties other than Operator from participating in any such hearing or proceeding for his or its own behalf and at his or its own cost and expense.

The Operator shall at all times consult freely with the other parties concerning the operations being or to be conducted on the Contract Area and shall permit any party hereto to collaborate in any litigation or hearings before any administrative body, State or Federal, affecting the Contract Area or the production therefrom.

B. Obligatory Operations:

If any party hereto does not consent to join in the drilling of any Obligation Well (hereinafter defined), such "Non-Drilling Party" shall assign to the "Drilling Party or Parties" all of its interest in any lease or farmout acreage, or portion thereof, subject to this agreement and which would be earned or protected against termination or loss by the non-drilling of such Obligation Well. The term "Obligation Well", as used in this provision, shall mean any well which must be drilled in order to prevent the termination of any lease, farmout acreage, or any portion thereof, including any well proposed to be drilled during production. Failure to participate in a completion attempt on any Obligation Well where production is required to prevent the loss of any lease, farmout acreage or portion thereof, will result in such Non-Drilling Party's forfeiture of its interest only within the formation to be completed to the same extent as if such party had failed to participate in the actual drilling of the Obligation Well. In the event acreage is lost as aforesaid by the party's non-participation in the Obligation Well, the parties hereto agree that such assigned acreage, and the parties' interests therein, shall no longer be subject to the terms of this agreement, but in lieu hereof shall be deemed to be subject to a separate Operating Agreement in form identical hereto, changed only with respect to Exhibit "A" in order to reflect the Drilling parties' percentages of interest in such acreage.

C. Advances in Payment by Non-Operators:

1. If any party elects to participate in any operation proposed under the terms of this Agreement, said party agrees to prepay any advance costs in accordance with Article VII.C. hereof; provided however, for subsequent operations conducted pursuant to Article VI.B., prepayment, if demanded by Operator, shall be based upon the AFE for the operation and shall be submitted with the AFE response as provided in Article VI.B. Failure to make payments timely by any party hereto shall also render it subject to the lien and payment default provisions of Article VII.B. and XV.C. Non-Operators who have elected to participate in any such operations shall remit to Operator within fifteen (15) days of receipt of invoice thereof, or within 24 hours prior to the commencement of the proposed operation, whichever occurs first, one hundred percent (100%) of the amount so invoiced. The invoice may be included with the notice of a proposed operation and the fifteen (15) days, or (24 hour) period in which to pay may run simultaneously with the fifteen (15) days, or 24 hours, as the case may be. Operator shall notify Non-Operator in writing that it has not received payment and grant Non-Operator an additional period of fifteen (15) days in which to pay.
2. Funds advanced by Non-Operators to Operator for any operation hereunder shall remain the property of Non-Operators until applied by Operator to the costs for which they were advanced. Such funds shall not become personal funds of Operator and shall be drawn on by Operator solely for the purpose of paying bills for the operations specified in the request for advance payments. In the event of a change of Operator pursuant to the provisions hereof, any funds not therefore committed to any expenditures hereunder shall be returned to Non-Operators. In the event Operator becomes insolvent, bankrupt or subject to receivership, the funds shall be immediately returned to Non-Operators. In the event the actual costs for any operation are less than the amount of the funds advanced by Non-Operators, then Operator shall promptly refund and pay to each Non-Operator their proportionate share of the difference between AFE costs and actual costs.

D. Billing Additional Interests:

Notwithstanding the provisions of this agreement and of the accounting procedure attached as Exhibit "C", the parties to this agreement specifically agree that in no event during the term of this contract shall Operator be required to make more than one billing for the entire interest credited to each party on Exhibit "A". It is further agreed that if any Party to this Agreement (hereinafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A" the Selling Party will be solely responsible for billing its assignee or assignees and 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 billing rendered to it. It is further understood and agreed that if Selling Party disposes of all of its interest as set out on Exhibit "A" whether to one or several assignees; Operator shall continue to issue statements and billings to the Selling Party for the interest conveyed until such Selling Party has designated and qualified one assignee to receive the billings for the entire interest. In order to qualify one assignee to the billing for the entire interest credited to Selling Party on Exhibit "A", Selling Party shall furnish Operator the following:

- (1) Written notice of the conveyance and photostatic or certified copies of assignments by which the transfer was made; and,
- (2) The name of the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof; and further, consents to handle any necessary sub-billings in the event it does not own the entire interest credited to Selling Party on Exhibit "A".

E. Disbursements of Royalties:

If a purchaser of any oil, gas or other hydrocarbons produced from the Unit Area declines to make disbursements of all royalties, overriding royalties and other payments out of, or with respect to production which are payable on the Unit Area, Operator will, if any Non-Operator so desires, make such disbursements on behalf of said Non-Operator at his discretion, provided, Non-Operator shall execute such documents as may be necessary in the opinion of Operator to enable Operator to receive all payment for oil, gas or other hydrocarbons directly from said purchaser. In that event, Operator will use its best efforts to make disbursements correctly but will be liable for incorrect disbursements only in the event of gross or willful negligence.

F. Emergency Operations:

Operator is authorized to take all reasonable action in any emergency situation at the joint expense of the parties without prior consent of the parties where such action is prudent in the circumstances in the interests of parties of the jointly owned properties subject to this Agreement; provided, however, Operator shall promptly notify the parties as soon as reasonably possible of the development of such emergency situation and the action taken by it in the circumstances.

G. Covenant Running with the Land:

Should any party hereto sell or transfer any or all of the leasehold estate committed to this Agreement, the obligations, terms and covenants hereof shall be considered covenants running with the land and shall inure to and be binding upon the parties hereto, their respective heirs, devisees, legal representatives, successors and assigns. The transferring party shall remain bound to and liable for the performance of obligations and covenants of this Agreement until the transferee executes and agrees to become a party to this Agreement. Should any such transferee fail to assume all of the obligations and covenants of this Agreement, then the transferring party remains bound to the other parties of this Agreement for the performance of all such obligations, covenants and indemnification hereof.

H. Taxes:

If the Operator is required hereunder to pay ad valorem taxes 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 percentage of tax value generated by each party's working interest.

I. Department of Energy Regulations:

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 agencies to the extent Operator's interpretation or application of such rules, regulations, or orders were made in good faith.

Non-Operators further agree to reimburse Operator for their proportionate share of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the Non-Operators; part of interest and penalties owing by Operator as a result of such incorrect interpretation or applications of such rules, rulings, regulations or orders.

J. Waiver of Penalties:

Any State or Federal regulation, penalties and/or assessments which may be lawfully applied to Operator as the result of any action by him in his conduct of the operations hereunder, shall be shared by the Operator and the Non-Operators in proportion to their interests as set forth in Exhibit "A" hereof; provided there is an absence of fraud or intentional misrepresentation or other acts of misconduct by the Operator.

K. Additional Proposals:

It is specifically understood that no proposal shall be made for the drilling of a well (including a proposal to re-enter, deepened or sidetrack and abandoned well) while there is an outstanding proposal for such operation and no such proposal shall include more than one well. If a proposal for such an operation is made while a well is being drilled, then the period, provided for in Article VI.B. in which an election to participate in such operation is to be made shall be suspended until thirty (30) days after production pipe is set or a decision is made by the parties to plug and abandon such well, whichever first occurs. This paragraph shall not apply where the well or other operations to which notice is given is a well or operations (1) required under the terms of an oil and gas lease or other contract, or (2) required to maintain oil and gas lease or a portion thereof in force, or (3) required by governmental regulations, court orders or other mandate.

L. Sequence of Operations:

Where a well, authorized under the terms of this agreement by all parties (or by less than all parties under Article VI.B.) has been drilled to the authorized depth or the objective formation and the parties participating in the well cannot agree on the sequence and timing of further operations regarding such well, the following elections shall control in the order enumerated below:

- (1) an election to do additional logging, coring or testing;
- (2) an election to attempt to complete the well at either the authorized depth or in the objective formation;
- (3) an election to deepen the well;
- (4) an election to sidetrack the well; and
- (5) an election to plug back and attempt to complete the well;
- (6) an election to plug and abandon.

It is provided, however, that if the hole is in such a condition that, in the opinion of the Operator, a reasonably prudent Operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy of losing the same prior to completing the well at the authorized depth or objective formation, the operations which, in the opinion of the Operators, is then less likely to jeopardize the well will be conducted. If the parties are equally divided as to whether such operations may jeopardize the well, the Operator's opinion will prevail. It is further understood that if some, but not all parties, elect to participate in the additional logging, coring or testing, they may do so at their sole costs and the party or parties not participating in such operations shall not be entitled to the logs, cores or the results of the tests but shall suffer no other penalty.

If the Operator is not successful with its first (or subsequent) completion attempt(s) and the

Operator, or Non-Operator, recommends a completion attempt in another zone, then any previous Non-Consent parties shall be entitled to notice and the option to participate regardless of their election on a previous completion attempt; however, to have such options, such parties must have participated in all operations leading up to the initial completion attempt (for the purposes here, the conducting of sole benefit logging, coring, or testing shall not exclude any other party from the right to participate), and, if they did not pay their share of the casing and cementing in the initial completion attempt, they shall pay their share of the costs of casing and cementing to the zone being contemplated for completion (which shall be calculated by multiplying the total costs of casing and cementing times the lowest depth of the zone being contemplated for completion divided by the total depth of the casing in the hole). The money received by Operator shall be allocated to the Consenting Parties in the proportion that they paid for the casing and cementing. This option is a recurring right.

M. Direct Charges to the Joint Account:

The following costs and services shall be direct charges to the Joint Account whether performed by Operator's employees or by outside parties if such services are previously approved by Non-Operator, with such approval not to be unreasonably withheld.

All costs of services performed which are associated with investigations of legal or other requirements concerning any proposed well location, including but not limited to the following: researching field rules and spacing requirements, review of leases for drilling or other restrictions, determining surface ownerships and access routes, acquiring rights-of-way, assessments and settlements of damages, or any other procedure deemed necessary by the Operator for the benefit of the Joint Property.

All costs and services associated with preparation and establishment of a production unit or units. This shall also include all additional title work and division order work of existing and additional acreage involved in the unit.

All costs associated with any and all geological and engineering services conducted for the benefit of the parties hereto in relation to the Contract Area covered by this agreement.

All costs associated with the negotiation and preparation of Gas Contracts.

All costs incurred by operator in appearances before state and federal regulatory commissions involving establishment of drilling units, allowable approval of gas pricing arrangements and other matters directly related to the production, storage, transportation and disposition of production from a well or wells covered by this agreement.

N. Additional Plugging and Abandonment Costs:

Notwithstanding anything to the contrary contained in Article VI.E.1. and Article VII.D.1., Option No. 2, it is agreed that where a party participated in the drilling of a well but then is a Non-Consenting party to a subsequent operation on such a well that directly or indirectly causes additional plugging and abandoning costs to be incurred above what was normal and reasonable, then such additional plugging and abandoning costs shall be borne solely by the Consenting Parties hereto (proportionately to their aggregated interest in the subsequent operation).

O. Deceptive Trade Practices Act Waiver:

Each Non-Operator represents that it has knowledge and experience in financial and business matters which enable it to evaluate the merits and risks of the transactions contemplated by this Operating Agreement. Non-Operator is in a significantly disparate bargaining position with respect to this Operating Agreement. IN ACCORDANCE WITH SECTION 17.42 OF THE TEXAS DECEPTIVE TRADE PRACTICES - CONSUMER PROTECTION ACT, EACH NON-OPERATOR EXPRESSLY WAIVES THE PROVISIONS OF CHAPTER 17, SUBCHAPTER E, TEXAS BUSINESS AND COMMERCE CODE, DECEPTIVE TRADE PRACTICES AND CONSUMER PROTECTION, SECTION 17.41 ET. SEQ. (WITH THE EXCEPTION OF SECTION 17.55A, WHICH IS NOT WAIVED).

P. Well Access and Information:

Operator shall inform participating Non-Operators of its recommendation for drilling, completing, testing, equipping, including building of facilities, in enough time to allow participating Non-Operators to provide their input regarding these operations. Operator shall, throughout the course of all operations conducted hereunder, keep participating Non-Operators fully informed with respect thereto, furnishing to participating Non-Operators in a timely manner, among other things copies of all location plats, well prognosis, forms required by any governmental office or body, daily drilling reports, notices of shows, notices prior to logging, coring and testing, and copies of all logs, core analysis and testing results. Participating Non-Operators shall be notified in sufficient time prior to logging, coring, or testing in order to have the opportunity of having their representative present. Participating Non-Operators and duly authorized agents, employees and representatives shall have access to said well at all time at their sole risk and expense.

Q. Attorney Fees:

In the event that any party to this Agreement shall institute any action or proceeding against any other party to this Agreement relating to this Agreement, the unsuccessful party in such action or proceeding shall reimburse the successful party or parties for their actual, necessary and reasonable costs and attorneys fees incurred in that action or proceeding, said costs and fees to be determined by the court.

R. Specific Performance:

In the event of any default or breach by a party of any duty or obligation under this Agreement and in addition to all and any other remedies which said party has under this Agreement or at law or in equity, the party who is not in default or in breach shall be entitled to the remedy of specific performance, and shall also be entitled to file a lien or lis pendens on all of the defaulting or breaching party's interest under this Agreement in order to provide security and payment for any damages suffered by the party not in default or breach.

S. Notices:

Any and all notices, elections and communications required or permitted by this Agreement shall be made or given in writing and shall be delivered in person or sent (1) by postage prepaid United States mail, by regular or certified or registered mail, or (2) by nationally recognized overnight delivery service, including the United States Postal Service, or (3) by telegram, telex, telecopier or facsimile, provided that written confirmation of that transmission is sent not later than the next business day by a nationally recognized overnight delivery service, to the other party at the addresses set forth in Exhibit "A" or to such other address as may be furnished by notice in accordance with this Agreement.

The effective date of notice given by personal delivery shall be the date of delivery. The effective date of notice by overnight delivery service and by telegram, telex, telecopier or facsimile (provided there is the required written confirmation of that transmission) shall be the date of delivery by the overnight delivery service. The effective date of notice by regular or registered or certified United States mail shall be the earlier of the date of receipt by the addressee or five (5) days after the notice is mailed to the addressee at the address then in effect under this Agreement.

T. Bankruptcy:

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

Operator or said other party shall be entitled to adequate assurance as to future performance of debtors' obligation hereunder and the protection of the interest of all other parties.

U. Modifications:

This Agreement may not be modified, amended, waived or terminated except by a written agreement executed by the parties with the same formality as this Agreement.

V. Waiver and Severability:

Waiver by a party of any default in this performance or any of the obligation(s) or duty(ies) under this Agreement by another party shall not be deemed to be a waiver of any subsequent default in the performance of the obligation(s) or duty(ies) by that party.

The invalidity or unenforceability under any particular circumstance of any provision of this Agreement shall not extend beyond that provision or circumstance, and no provision of this Agreement shall be affected thereby. This Agreement is made solely for the benefit of those persons who are signatory parties hereto (including those persons succeeding to all or part of the interest of any original party if such succession is recognized under the other provisions hereof), and no other person shall have or claim to be entitled to enforce any rights, benefits or obligations under this Agreement.

W. Multiple Counterparts:

This instrument may be executed in one document signed by all the parties or in separate documents which shall be counterparts hereof, or by an instrument or instruments of ratification of an executed counterpart of counterparts. If executed in separate counterparts, all such counterparts and all ramifications thereof when executed by one or more parties, shall constitute but one and the same instrument. The failure of one or more parties to execute this instrument, a counterpart hereof or a ratification hereof shall not in any manner affect the validity and binding effect of same as to the parties who executed said instrument.

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.

ARTICLE XVI.
MISCELLANEOUS

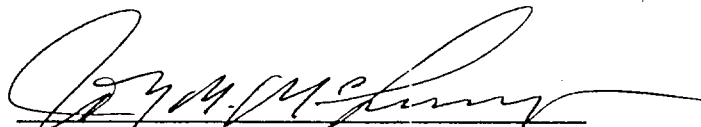
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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 17th day of March, 1999.

OPERATOR

Energen Resources Corporation



By: Jon M. McLennan
Its: General Manager

NON-OPERATORS

David Arrington Oil and Gas, Inc.

By:
Its:

By execution of this Operating Agreement David Arrington Oil and Gas, Inc. is claiming all interest presently owned of record by Permian Basin Land Associates, Inc.

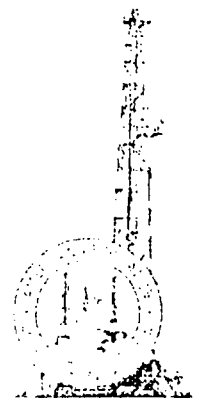


EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated March 17, 1999 by and between Energen Resources Corporation, as Operator and David Arrington Oil and Gas, Inc., as Non Operator.

- (1) Identification of lands subject to this agreement:

Lea County, New Mexico
T-15-S, R-35-E
Section 35: W/2 SW/4

- (2) Restrictions, if any, as to depths, formations, or substances: None

- (3) *Percentages or fractional interests of parties to this agreement:

Energen Resources Corporation	82.27975%
David Arrington Oil and Gas, Inc.	17.71775%

*Subject to revision once Title Opinion has been completed

- (4) Oil and gas leases and/or oil and gas interests subject to this agreement. (See page 2 of Exhibit "A")

- (5) Addresses of parties for notice purposes:

Energen Resources Corporation
3300 North "A" St., Building 4, Suite 100
Midland, Texas 79705
Attention: Kenneth H. Gray
Telephone: 915-687-1155
Fax: 915-687-1796

David Arrington Oil and Gas, Inc.
P.O. Box 2071
Midland, Texas 79702
Attention: David Arrington
Telephone: 915-682-6685
Fax: 915-682-4139

EXHIBIT "A"
(continued)

Tract 1: A 19.9837 acre tract out of SW/4 SW/4 more particularly described as beginning at the SW corner of the SW/4 of Section 35, T-15-S, R-35-E; thence North 933 feet; thence East 933 feet; thence South 933 feet; thence West 933 to point of beginning.

Tract 2: SW/4 SW/4 of Section 35, T-15-S, R-35-E
Save and Except Tract 1 above containing 20.0163 acres more or less.

Tract 3: NW/4 SW/4 of Section 35, T-15-S, R-35-E
Containing 40 acres more or less

*Ownership in above Tracts

	<u>Interest</u>	<u>Energen</u> <u>Acres</u>	<u>Interest</u>	<u>Arrington</u> <u>Acres</u>
Tract 1:	100.0000%	19.9837	-0-	-0-
Tract 2:	41.6667%	8.3401	58.3333%	11.6762
Tract 3:	93.7500%	<u>37.5000</u>	6.2500%	<u>2.5000</u>
<u>Acres Total</u>		65.8238		14.1762

<u>*Ownership in W/2 SW/4</u>	Energen Resources Corporation	82.27975%
	David Arrington Oil and Gas, Inc.	17.71775%

*Oil and Gas Leases

<u>Lessor</u>	<u>Lessee</u>	<u>Date</u>	<u>Volume</u>	<u>Recording</u> <u>Page</u>

*Subject to revision once Title Opinion has been completed

THIS AGREEMENT made this _____ day of _____, 19____, between _____ of _____ (Post Office Address) _____

rein called Lessor (whether one or more), and _____, Lessee:

1. Lessor, in consideration of _____ Dollars (\$_____) hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, mining and operating for and producing oil, gas, and all other minerals, injecting gas, water, other fluids, and air into subsurface strata, establishing and utilizing facilities for surface and subsurface disposal of salt water, constructing roads, laying pipe lines, boring oil, building tanks, power stations and lines, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land in _____ County, Texas, to-wit:

EXHIBIT "B"

Attached to and made a part of that certain Joint Operating Agreement dated as of March 17, 1999, by and between Energen Resources Corporation, as Operator, and David Arrington Oil and Gas, Inc., as Non-Operator

is to royalty paid the fraction one-eighth (1/8) shall be replaced with three-sixteenth (3/16).

This lease covers all of the land described above, and in addition thereto, it covers and there is hereby leased, let and demised to the same extent as if they were described herein specifically, all lands owned or claimed by Lessor adjacent, contiguous to, or a part of the tract or tracts specifically described above, whether such additional lands be owned or claimed by deed, limitation or otherwise, and whether the same be inside or outside the metes and bounds description and whether the same be held under lease by Lessor or not and whether such additional lands be in the named survey or other survey or surveys. This is a lease in gross and not by the acre and the bonus money paid shall be effective to cover all such lands irrespective of the number of acres contained therein, and the lands included within the terms of this lease are estimated to comprise _____ acres, whether they actually comprise more or less.

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations, or to the discovery, development or cessation at any time of production of oil, gas or other minerals, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of ONE (1) year from this date (called "primary term") and as long thereafter as oil, gas or other minerals are produced from said land, or land with which said land is pooled hereunder, or as long as this lease is continued in effect as otherwise herein provided.

3. The royalties to be paid by Lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, one-eighth of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipelines to which the wells may be connected; Lessor's interest in either case shall bear its proportion of any expenses for treating oil to make it marketable as crude; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of one-eighth (1/8) of the gas so sold or used, provided it on gas sold at the wells the royalty shall be one-eighth (1/8) of the amount realized from such sale; (c) on all other minerals mined and marketed, one-eighth (1/8), whether in kind or value at the well or mine, at Lessee's election, except that on sulphur the royalty shall be One Dollar (\$1.00) per long ton; and (d) at any time and from time to time either at or after the expiration of the primary term of this lease, if there is a gas well or wells on said land or lands pooled therewith (and for the purposes of this clause (d) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate, or any gaseous substance and wells classified as gas wells by any governmental authority) and such well or wells are or have been shut-in before or after production therefrom, it shall be deemed that said well or wells are producing gas within the meaning of paragraph numbered 2 of this lease and this lease shall not terminate. In such event, Lessee covenants and agrees to pay a royalty shut-in gas royalty the amount of One Dollar per net acre Dollars (\$1.00 per net acre) as long as such well or wells are shut-in and this lease is not maintained in force or effect by other provisions hereof. Such shut-in royalty shall be paid or tendered to Lessor or to his credit in the _____ Bank of _____ (City and State)

which Bank or any successor Bank thereof shall continue to be the agent for Lessor and Lessor's successors and assigns. Should Lessee elect, such Bank may also be used to pay any other sums, including royalties, due hereunder. If such Bank (or any successor Bank) should fail, liquidate or be succeeded by another Bank or for any reason fail or refuse to accept shut-in royalty or any other payment, Lessee shall not be held in default until thirty (30) days after Lessor shall deliver to Lessee a recordable instrument making provision for another method of payment or tender. Any depository charge is a liability of the Lessor. Any payment or tender of shut-in royalty made under the terms of this lease may be made by check or draft of Lessee mailed or delivered to said Bank or to Lessor. In the event Lessee is obligated to pay the shut-in royalty as indicated, the first payment of such shut-in royalty shall be due and payable on or before ninety (90) days following the date on which the well is shut-in, or if shut-in during the primary term then on or before ninety (90) days following the expiration of the primary term, and subsequent payments, if required under the terms of this paragraph, shall be due and payable annually on or before the anniversary of the date of the original payment. It is specifically provided that this is a paid-up lease during the term set out above as "primary term" and there shall be no obligation or liability on the Lessee to make any shut-in royalty payment or other payment during said primary term, and without any such payment this lease shall remain in full force and effect during said primary term. The obligation to pay the shut-in royalty provided for above, shall be a covenant running with the land and, under no conditions, shall the failure to comply with such obligation serve or be used to terminate this lease or to take any forfeiture.

4. If at the expiration of the primary term of this lease oil, gas or other minerals are not being produced from the leased premises or land pooled therewith, but Lessee then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as drilling or reworking operations are prosecuted (whether on the same different wells) with no cessation of more than sixty (60) consecutive days, and if they result in production, so long thereafter as oil, gas or other minerals are produced on said land or land pooled therewith. If production of oil, gas or other minerals on said land or land pooled therewith should cease from any cause after the primary term, this lease nevertheless shall continue in force and effect as long as additional drilling operations or reworking operations are conducted on this lease, or on acreage pooled therewith, which additional operations shall be deemed to be had when not more than sixty (60) days elapse between the abandonment of operations on one well and commencement of operations on another well, and if production is obtained this lease shall continue as long thereafter as oil, gas or other mineral is produced from said land or land pooled therewith, and as long thereafter as additional operations, either drilling or reworking, are had thereon. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 330 feet of and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances. The judgment of the Lessee, when not fraudulently exercised, in carrying out the purpose of this lease shall be conclusive.

5. Lessee, its successors and assigns, at its option, at any time and from time to time, and without Lessor's joinder or further consent, is hereby given the right and power to pool the land or any interests covered by this lease, or any portion thereof, as to oil, gas, condensate or distillate, or any of them, or either of them, with any other land, interests, lease or leases, or any of them, adjacent, adjoining or located in the immediate vicinity of these lands, when in Lessee's judgment it is necessary or advisable to do so in order efficiently to develop or operate said premises in compliance with the spacing rules of the Railroad Commission of Texas or other lawful authority or when to do so, would, in the judgment of the Lessee, promote the conservation of oil and gas on said premises, such pooling to be into a well unit or units not exceeding forty (40) acres plus an acreage tolerance of ten per cent (10%) of forty (40) acres for oil, and not exceeding six-hundred-forty (640) acres plus an acreage tolerance of ten per cent (10%) of six-hundred-forty (640) acres for gas, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units may be created or enlarged to conform substantially in size with those prescribed by governmental regulations. Lessee may pool the acreage interests above described, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and units so formed need not conform in size or area with unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool the land above described, or any portion thereof, into other units. Lessee shall execute in writing and file for record in the county or counties where the land is situated an instrument designating and describing the pooled acreage, which pooling and designation may be accomplished either before or after a well or wells are drilled or completed on the unit. The entire acreage so pooled into a unit shall be treated for all purposes, except payment of royalties, overriding royalties or payments out of production, as if it were included in this lease; and drilling or reworking operations thereon, production of oil or gas, condensate or distillate therefrom, cessation of production thereon, or the existence thereof of a shut-in gas well, shall be considered for all purposes, except the payment of royalties, as if such operations were conducted, or such production or cessation of production, or existence of a shut-in gas well were on the land above described, whether or not the well or wells be located on the said lands. In lieu of the royalties, overriding royalties or payments out of production, if any, elsewhere herein specified, or shall receive from a unit so formed only such portion of the royalty, overriding royalty or payment out of production, if any, stipulated herein as the amount of the acreage (surface acres) above described which is placed in the unit bears to the total acreage (surface acres) so pooled in the particular unit involved. Shut-in gas royalties in respect to unit shut-in gas wells shall be payable in accordance with the provisions and in the amount set forth in this Lease. Should any unit as created hereunder contain less than the maximum number of acres hereinabove specified or allowed, then Lessee may at any time thereafter, whether before or after production is obtained on unit, enlarge such unit by adding additional acreage thereto, but the enlarged unit shall in no event exceed the acreage content hereinabove specified or allowed. In the event an existing unit is so enlarged, Lessee shall execute and file for record in the county or counties in which the land is situated a supplemental designation and description of the land added to the existing unit; provided, that if such supplemental designation and description is not filed until production is obtained on the unit as originally designated, then and in such event, the supplemental designation and description shall not become effective until the first day of the calendar month next following the filing thereof. In the event the well or wells drilled on any unit shall fail to produce oil or gas, or in the event the production from any such well or wells shall cease, Lessee may terminate any unitized area created hereunder by filing for record in the county or counties where the land is situated proper instruments evidencing such termination.

6. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations hereunder, including, but not limited to repressuring, pressure maintenance, cycling, and secondary recovery operations, and the royalty on oil and gas shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and use all casing. No well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns of the parties hereto, but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the effectiveness of any payment theretofore made by Lessee. No such change or division in the ownership of the land or royalties shall impair the effectiveness of any payment theretofore made by Lessee or be binding upon Lessee for any purpose (and irrespective of whether Lessee has either actual or constructive knowledge thereof) until 60 days after such person acquiring any interest has furnished Lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original Lessor.

8. Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder due to force majeure. The term "force majeure" as employed herein shall mean: any act of God including, but not limited to storms, floods, washouts, landslides, and lightning; acts of the public enemy; wars, blockades, insurrections or riots; strikes or lockouts; epidemics or quarantine regulations; laws, acts, orders or requests of federal, state, municipal or other governments or other governmental officers or agents under color of authority; freight embargoes or failures; exhaustion or unavailability or delays in delivery of any product, labor, service or material. If force is required, ordered or directed by any federal, state or municipal law, executive order, rule, regulation or request enacted or promulgated under color of authority to drilling operations, reworking operations or producing operations on the land covered by this lease or if Lessee by force majeure is prevented from conducting drilling operations, reworking operations, or producing operations, then until such time as such law, order, rule, regulation, request or force majeure is terminated and for a period of thirty (30) days after such termination each and every provision of this lease that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this lease shall continue in full force. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee, at its option, may discharge any tax, mortgage, other lien upon said land, and in the event Lessee does so, it shall be subrogated to such lien with the right to enforce the same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in the event of failure of title in whole or in part, it is agreed that if Lessor does not own, or have the right to lease, the mineral estate herein purported to be leased in the land above described, then the royalties and any other sums payable hereunder shall be reduced proportionately. If any party named above as Lessor fail to execute this lease, or should any party execute the lease who is not named as a Lessor, it shall nevertheless be binding upon the party or parties executing the same.

10. Lessee, its successors and assigns, shall have the right at any time to surrender this lease, in whole or in part, to Lessor or his heirs and assigns by delivering or filing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon Lessee shall be relieved from all obligations, expressed or implied, of this agreement as to the acreage so surrendered.

IN WITNESS WHEREOF, this instrument is executed the day and year first above written.

LESSOR: _____

EXHIBIT

" C "

Attached to and made a part of that certain Joint Operating Agreement dated March 17, 1999 by and between Energen Resources Corporation, as Operator, and David Arrington Oil and Gas, Inc., as Non-Operator.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Manhattan Bank of New York 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 true ring 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 eight percent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 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:

() 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 \$ 6,000.00
 (Prorated for less than a full month)

Producing Well Rate \$ 600.00

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

(b) Producing Well Rates

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

- A. _____ 5 _____ % of first \$100,000 or total cost if less, plus
- B. _____ 3 _____ % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. _____ 2 _____ % 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. _____ 5 _____ % of total costs through \$100,000; plus
- B. _____ 3 _____ % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. _____ 2 _____ % 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 $\frac{3}{8}$ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 $\frac{3}{8}$ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

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

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated March 17, 1999 by and between Energen Resources Corporation, as Operator, and David Arrington Oil and Gas, Inc., as Non-Operator.

INSURANCE

During the drilling and completing of all wells located on the lands covered by this Agreement and during the performance of all operations hereunder, Operator shall carry, and require Operator's contractors or subcontractors to carry the following described minimum insurance coverages with a reputable insurer and shall furnish certificates evidencing such insurance, when required:

1. Employer's Liability and Worker's Compensation Insurance covering operations hereunder, in compliance with the requirements of the State of Alabama, or any other State in which work is performed;
2. General Public Liability Insurance covering the parties hereto in connection with all operations conducted, with bodily injury or death limit to not less than One Million Dollars (\$1,000,000.00) for injury to or death of more than one person, resulting from any one accident; and for property damage with a limit of not less than One Million Dollars (\$1,000,000.00) for damage to property for each accident;
3. Automobile Public Liability and Property Damage Insurance with bodily injury on death limit of not less than Two Hundred Fifty Thousand (\$250,000.00) for injury to or death of more than one person; not less than Five Hundred Thousand (\$500,000.00) for injury to or death of more than one person resulting from any one accident; and property damage limit of not less than One Hundred Thousand Dollars (\$100,000.00) for damage to property for each accident; and
4. Control of Well Insurance when required by the parties hereto in connection with all operations conducted hereunder by Operator with liability not to exceed Ten Million Dollars (\$10,000,000.00) per any one occurrence with a Fifty Thousand Dollar (\$50,000.00) deductible applicable to any one occurrence and with normal and customary exclusions for such coverage.

All premiums paid on such insurance (except item 3. above which is provided for in Exhibit "C") shall be charged to the joint account. Except by mutual consent of the parties, no other insurance shall be maintained for the joint account and all losses not covered by such insurance shall be charged to the Joint Account. Each drilling or other contractor performing work of the joint account shall be required to maintain in force respect to the work performed by such contractor, the same insurance as specified in items 1. and 2. above, and whenever Operator performs a drilling or reworking operation for the joint account with its own equipment. Operator, at its own expense, shall provide the same insurance coverage in respect thereof as would be required if the work were performed by an independent contractor.

All policies of insurance shall contain waivers of subrogation, reflect Non-Operator as additional named insured, and shall be cancelable only upon thirty (30) days prior written notice to the parties. Operator shall provide certificates of insurance evidencing compliance herewith.

Any party who wishes to have Liability or Control of Well coverage in amounts in excess of the amounts noted herein should contract for such additional coverage limits on its own behalf.

Any party hereto who wishes to carry Control of Well coverage on its own behalf and be excluded from Operator's coverage, the Party should notify Operator immediately upon execution of this Operating Agreement and provide a Certificate of Insurance evidencing such coverage. If the certificate of insurance is not received at least seven days prior to commencement of operations under this agreement, all Parties will be considered as covered by Operator's insurance and will be invoiced accordingly.

In the event a claim is in excess of the coverage limits, the excess amount will be billed to the parties through the Joint Account.

EXHIBIT "E"

Attached to and made a part of that Certain Operating Agreement dated as of March 17, 1999, by and between Energen Resources Corporation, as Operator, and David Arrington Oil and Gas, Inc., as Non-Operator

GAS BALANCING AGREEMENT

1. Definitions.

(a) For the purpose of this Gas Balancing Agreement (the "Agreement"), the terms not otherwise defined herein shall have the same meaning as in the above-described Operating Agreement (the "Operating Agreement").

(b) "Balance" (or "Balanced") is the condition occurring when a Party has utilized or sold the same percentage of the cumulative gas production as such Party's Percentage Ownership therein.

(c) "Entitlement Share" is a share of total gas production from a Well or Lease which is proportionately equal to a working interest owner or owner's Percentage Ownership in such Well or Lease.

(d) "Overproduced" (or "Overproduction") is the condition occurring when a Party has utilized or sold a greater quantity of gas at any time (individually or through its gas purchaser) than if such Party was in Balance.

(e) "Underproduced" (or "Underproduction") is the condition occurring when a Party has utilized or sold a lesser quantity of gas at any given time (individually or through its gas purchaser) than if such Party was in Balance.

(f) "Party" (or "Parties") are the signatory Operator and Non-Operators to the Operating Agreement.

(g) "Percentage Ownership" is the working interest in the oil and gas rights underlying the area covered by the Operating Agreement in accordance with the percentage of participation as determined under the Operating Agreement.

(h) "Reservoir" shall mean a stratum of earth containing or thought to contain a common accumulation of oil and gas separately produceable from any other common accumulation of oil and gas.

(i) "BTU" means a British Thermal Unit.

(j) "Mcf" means one thousand cubic feet.

(k) "Effective Date" is June 19, 1998.

2. Right to Produce and Market Gas. In accordance with the terms of the Operating Agreement, each Party has specific rights relating to the taking and disposition of gas produced, including the right to take in kind its share of gas produced and to market or otherwise dispose of same. In the event any Party is not, at any time, taking or marketing its share of gas for any reason, then the terms of this Agreement shall automatically become effective.

3. Overproduction.

(a) Subject to the other provisions hereof, during any period when a Party is not marketing or otherwise disposing of or utilizing its full Percentage Ownership of gas produced, such gas, if any, not so marketed or disposed of shall be deemed to remain unproduced and stored within its Reservoir(s) for such Party, and the other Parties shall be allowed to produce a quantity of gas which would otherwise exceed their own Percentage Ownership of gas production, equaling the portion of gas production which such Party is not marketing or otherwise disposing of, and shall be allowed to take such gas production and require Operator to deliver the same to its or their purchaser(s).

The Party not marketing, or otherwise disposing of or utilizing its Percentage Ownership of gas produced shall be Underproduced by a quantity of gas equal to its Percentage Ownership of gas produced, less the quantity of gas taken by such Party or on behalf of such Party, and less such Party's share of gas vented or gas lost or used in Lease operations on the lease premises. Those Parties which elect to take the share of gas attributable to the Underproduced Party shall each take shares of gas attributable to each Underproduced Party, in the absence of any other agreement between them, in the direct proportion that each producing Party's Percentage Ownership bears to the total Percentage Ownership of all Parties taking an Underproduced Party's share, and each such Party so taking shall be considered Overproduced in the amount of such additional production attributed to it. Each Overproduced Party shall, subject to the terms of this Agreement, own all gas delivered to its purchaser(s) or taken for its own use.

4. Lease Liquids. All Parties shall share in and own liquid hydrocarbons recovered from all gas by primary separation equipment prior to processing in a gas plant in accordance with their respective Percentage Ownership in the Reservoir from which such gas was produced, whether or not such Parties are actually producing and marketing their Percentage Ownership in the gas produced.

5. Accounting of Balances. Each Party not taking or marketing its full share of the gas produced shall be credited with gas in the Reservoir equal to its full share of the gas produced under this Agreement, less its share of gas vented, or gas lost or used in Lease operations on the lease premises, and less that portion such Party took or delivered to its purchaser. The Operator will maintain a current account of the gas balance between the Parties and will furnish all Parties monthly statements within ninety (90) days after the end of the production month showing the Entitled Share of sales production of each Party, the quantity of gas delivered to pipeline purchaser(s) for the account of each Party, and the current month and cumulative over and under account of each Party. Balancing will be accounted for in Mcf's using a standard pressure base of 14.73 pounds per square inch and a standard temperature base of sixty degrees (60°) Fahrenheit. All statements and accounts with respect to gas quantities shall be made and maintained separately by Reservoir.

6. Right of Underproduced Party to Make Up Production. After written notice to the Operator at least thirty (30) days prior to the beginning of a calendar month, any Underproduced Party at any time shall be entitled to take additional quantities of gas, but limited to (i) fifty percent (50%) of such Party's Percentage Ownership of current gas production for gas produced during the months of April through September and (ii) twenty-five percent (25%) of such Party's Percentage Ownership of current gas production for gas produced during the months of October through March, until it has balanced the gas account to its Percentage Ownership with respect to a particular Reservoir, and provided that the right to take such additional quantities shall be in the proportion that its Percentage Ownership bears to the Percentage Ownership of all Underproduced Parties desiring to take more than their Percentage Ownership of gas produced. Each Overproduced Party shall reduce its respective share of production therein in the proportion that such Overproduced Party's Percentage Ownership bears to the total Percentage Ownership of all Overproduced Parties; provided, however, that no Overproduced Party shall be required to reduce its respective share of production by more than (i) fifty percent (50%) of its Percentage Ownership of current gas production during the months of April through September and (ii) twenty-five percent (25%) of its Percentage Ownership of current gas production during the months of October through March.

7. Settlement When Production Is Permanently Discontinued.

(a) If gas production from a particular Reservoir ceases and no attempt is made to restore production (or substitute therefor) within ninety (90) days, Operator shall distribute, within one

hundred twenty (120) days of the date the Reservoir last produced, a statement of net unrecouped Underproduction and Overproduction ("final accounting").

(b) Within sixty (60) days of receipt of such final accounting, each Overproduced Party shall remit to Operator for disbursement to the Underproduced Parties, a sum of money (which sum shall not include interest) equal to the amount actually received or constructively received under subparagraph (e) below, by such Overproduced Party. Such remittance shall be based on the number of Mcf's of Overproduction and shall be accompanied by a statement showing volumes and prices for each month with accrued unrecouped Overproduction. In calculating the amount due, the Overproduced Party will begin with the most recent month in which production was taken and calculate the amount due. Progressing backward in time, each month's value of production will be calculated until the production imbalance is zero. In the event the overproduced Party processed the gas at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement shall include proceeds received from the sale of liquids less actual transportation, processing and fractionation costs.

(c) Within thirty (30) days of receipt of any such remittance by Operator from an Overproduced Party, Operator shall disburse such funds to the Underproduced Party(ies) in accordance with the final accounting. The Operator shall calculate the overproduced value in total per Mcf and distribute to the underproduced parties on a weighted average dollar per Mcf basis. Operator assumes no liability with respect to any such payment other than remitting the funds received from the Overproduced Parties (unless such payment is attributable to Operator's Overproduction). It being the intent of the Parties that each Overproduced Party shall be solely responsible for reimbursing each Underproduced Party for such Underproduced Party's respective share of Overproduction taken by such Overproduced Party in accordance with the provisions herein contained. If any Party fails to pay any sum due under the terms hereof after demand therefor by Operator, Operator may turn responsibility for the collection of such sum to the Party or Parties to whom it is owed, and Operator shall have no further responsibility for collection.

(d) In determining the amount of Overproduction for which settlement is due, production taken during any month by an Underproduced Party in excess of such Underproduced Party's share shall be treated as make-up and shall be applied to reduce prior deficits.

(e) An Overproduced Party that took gas in kind for its own use, sold gas to an affiliate, or otherwise disposed of gas in other than a cash sale shall pay for such gas at market value using the methodology set forth in paragraph 7(b), even if the Overproduced Party sold such gas to an affiliate at a price less than market value.

(f) If refunds are later required by any governmental authority, each Party shall be accountable for its respective share of such refunds as finally balanced hereunder. In the event an Underproduced Party has not received a cash settlement at the time a refund is required by a governmental authority, the Overproduced Parties who sold the gas which is the basis for the refund shall be liable for and pay such refund and hold the Underproduced Party harmless from same.

8. Payment of Royalty. At all times while Gas is produced, each Party marketing gas hereunder will make settlement for the royalties based upon their takes. Each Party hereto agrees to hold each other Party harmless from any and all claims for royalty payments asserted by royalty owners to whom each Party is accountable.

9. Production Taxes. Each Party taking gas shall pay any and all production tax due on such gas.

10. Operating Expenses. The operating expenses are to be borne as provided in the Operating Agreement, regardless of whether all Parties are selling or using gas or whether the sales and use of each are in proportion of their respective Percentage Ownership interests in such gas.

11. Audits. Notwithstanding any provision to the contrary in this or any other agreement, for a period of three (3) years after the date that a gas balance statement is provided by Operator hereunder, any Underproduced Party shall have the right to audit an Overproduced Party's and Operator's records as to quantities and, in the event of cash balancing, prices received for gas produced. Any Overproduced Party shall have the right to audit both the Underproduced Party's and Operator's records as to quantities of gas produced. All such audits shall be at the sole cost and expense of the auditing Party.

12. Scope, Effective Date and Term. The provisions of this Agreement shall separately apply to each Reservoir. This Agreement shall become effective for all purposes as of the Effective Date and shall remain in force and effect as long as the Operating Agreement is in effect and thereafter until all accounts between/among the Parties maintained pursuant to this Agreement are settled in full. This Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors and assigns.

13. Deliverability Tests. Nothing herein contained shall be construed as denying Operator the right, from time to time, to conduct deliverability tests required by governmental authority, or as denying any Party the right, from time to time, with at least fifteen (15) days' written notice to Operator, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet deliverability tests required by its gas purchaser or governmental authority.

14. Nominations. On or before the 10th day of each month prior to the month of production, each Party shall give Operator sufficient data either to nominate such Party's respective share of gas to the transporting pipeline(s) or, if Operator is not nominating such Party's gas, to inform Operator of the manner in which to dispatch such Party's gas. Except as and to the extent caused by Operator's negligence or willful misconduct, Operator shall not be responsible for any fees and/or penalties associated with imbalances charged by any pipeline to any Underproduced or Overproduced Party(ies) other than Operator's proportionate share of such fees and/or penalties.

15. Conflicts with Operating Agreement. To the extent the provisions of this Agreement conflict with provisions of the Operating Agreement, the provisions of this Agreement shall control.

16. Balancing Area. If this Agreement covers more than one well or Reservoir (the "Balancing Area"), it shall be applied as if each Balancing Area were covered by separate but identical agreements.

EXHIBIT "F"

Attached to and made a part of an Operating Agreement dated
March 17, 1999, by and between Energen Resources Corporation,
as Operator, and David Arrington Oil and Gas, Inc., as Non-Operator.

The following terms and conditions pertain to employment practices of federal government contractors and the practices of their non-exempt subcontractors, vendors and suppliers. These terms and conditions are, or will become, a part of this Operating Agreement only to the extent specifically required by applicable statutes, executive orders or regulations of federal law.

1) Operator agrees to be bound by the provisions of paragraphs (1) through (7) of the Equal Opportunity Clause contained in 41 Code of Federal Regulations (hereinafter, C.F.R.) §60-1.4(a) and same are incorporated herein by reference unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order No. 11246.

2) Pursuant to 41 C.F.R. §60-1.8, the Operator certifies that it does not and will not maintain any facilities it provides for its employees in a segregated manner or permit its employees to perform their services at any location under its control, where segregated facilities are maintained.

3) Pursuant to 41 C.F.R. §§60-1.7 and 60-1.40, the Operator agrees and certifies that, if it has 50 or more employees and a contract of \$50,000.00 or more, it will file complete and accurate EEO reports on Standard Form 100 (EEO-1) with the appropriate government contracting or administering agency and develop affirmative action programs for each of its establishments in accordance with Executive Order No. 11246 and all rules, regulations and orders promulgated thereunder.

4) Operator affirms that, if it has 50 or more employees and a contract of \$50,000.00 or more, it has developed and is maintaining a current written affirmative action compliance program for each of its establishments as required by 41 C.F.R. §60-1.40 and Part 60-2 and in accordance with any other rules and regulations of the Secretary of Labor promulgated under Executive Order No. 11246.

5) Operator agrees to abide by and comply with the provisions of the Affirmative Action Clause for Disabled Veterans and Veterans of the Vietnam Era contained in 41 C.F.R. §60-250.3 which provisions are incorporated

herein by reference unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to the Vietnam Era Veterans Readjustment Assistance Act of 1974.

6) Operator agrees to abide by and comply with the provisions of the Affirmative Action Clause for Handicapped Workers contained in 41 C.F.R. §60-741.3 which provisions are incorporated herein by reference unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 503 of the Rehabilitation Act of 1973, as amended by the Rehabilitation Act Amendments of 1974 and 1978.

7) For contracts of \$5,000.00 or more, when applicable, the Operator recognizes the policy of the United States Government that small and disadvantaged business enterprises shall have the maximum practicable opportunity to participate. The Operator agrees to use its best efforts to carry out this policy in the award of its subcontracts to the fullest extent consistent with the efficient performance of this Operating Agreement. As used herein, the term "Small and Disadvantaged Business" means a business at least 50% of which is owned by minority group members, or in the case of publicly owned businesses, at least 51% of the stock of which is owned by minority group members.

For contracts of \$500,000.00 or more, the Operator agrees to conduct a program, where applicable, to enable small and disadvantaged business utilization as set forth in Public Law 95-507 and DAR 7-104.14, the provisions of which are incorporated herein by reference.

8) For contracts and purchase orders that may exceed \$10,000.00, except those that (a) including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico; and (b) are personal in nature, the Operator recognizes the policy of the United States Government that women-owned businesses shall have the maximum practicable opportunity to participate in the performance of contracts awarded by any federal agency. The Operator agrees to use its best efforts to carry out this policy in the award of subcontracts to the fullest extent consistent with the efficient performance of the contract. As used in this Operating Agreement, a "woman-owned business" concern means a business that is at least 51% owned by a woman or women who also control and operate it. "Control" in this context means exercising the power to make policy decisions. "Operate" in this context means

being actively involved in the day-to-day management. "Women" means all women business owners.

For contracts and purchase orders that may exceed \$500,000.00 and that offer substantial subcontracting possibilities, the Operator agrees to establish and conduct a program, when applicable, that will enable women-owned business concerns to be considered fairly as subcontractors and suppliers under this Operating Agreement as set forth in the appropriate clauses of Executive Order No. 12138, which clauses are incorporated herein by reference.

9) The Operator agrees, unless otherwise exempt, that (a) It shall not discriminate against any employee or applicant for employment because of such individual's age, except upon the basis of a bona fide occupational qualification, retirement plan or statutory requirement; (b) It shall not specify in solicitations and advertisements for employment a maximum age limit for such employment unless the specified age limit is based upon a bona fide occupational qualification, retirement plan, or statutory requirement; and (c) It shall generate and maintain all records relating to age in accordance with 29 C.F.R. §850.

MODEL FORM RECORDING SUPPLEMENT TO
OPERATING AGREEMENT AND FINANCING STATEMENT

THIS AGREEMENT, entered into by and between Energen Resources Corporation, hereinafter referred to as "Operator", and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator", and collectively as "Non-Operators".

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" (said land, Leases and Interests being hereinafter called the "Contract Area"), and in any instance in which the Leases or Interests of a party are not of record, the record owner and the party hereto that owns the interest or rights therein are reflected on Exhibit "A";

WHEREAS, the parties hereto have executed an Operating Agreement dated March 17, 1999 (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

WHEREAS, the parties hereto have executed this agreement for the purpose of imparting notice to all persons of the rights and obligations of the parties under the Operating Agreement and for the further purpose of perfecting those rights capable of perfection.

NOW, THEREFORE, in consideration of the mutual rights and obligations of the parties hereto, it is agreed as follows:

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.

2. The parties do hereby agree that:

A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.

B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.

C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.

D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A", all production of Oil and Gas from the Contract Area shall be owned by the parties as provided in the Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.

E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.

F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.

G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.

H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.

I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.

J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.

K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.

3. The parties hereby grant reciprocal liens and security interests as follows:

A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement and the Operating Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under this agreement and the Operating Agreement. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from the sale of production at the wellhead),

contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.

C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they 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 a party 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 party in the payment of its share of expenses, interest or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.

D. If any party fails 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. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.

E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

F. The lien and security interest granted by this paragraph 3 supplements identical rights granted under the Operating Agreement.

G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials supplied by Operator.

H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.

4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial obligations.

5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.

6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.

7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.

8. Other provisions.

IN WITNESS WHEREOF, this agreement shall be effective as of the 17th day of March, 1999.

OPERATOR

ENERGEN RESOURCES CORPORATION

By: [Signature]
Name: Jon M. McLennan
Title: General Manager

NON-OPERATORS

David Arrington Oil and Gas, Inc.

By: _____
Name: _____
Title: _____

ACKNOWLEDGMENTS

STATE OF TEXAS §
COUNTY OF MIDLAND §

This instrument was acknowledged before me this 19th day of March, 1999,
by Jon M. McLennan, as General Manager of Energen
Resources Corporation, an Alabama Corporation, on behalf of said corporation.



[Signature]
Notary Public, STATE OF TEXAS

STATE OF TEXAS §
COUNTY OF _____ §

This instrument was acknowledged before me this _____ day of _____, 19____,
by _____, as _____ of David Arrington Oil and
Gas, Inc., a corporation, on behalf of said corporation _____.

Notary Public, STATE OF TEXAS

EXHIBIT "A"

Attached to and made a part of that certain Model Form Recording Supplement to Operating Agreement and Financing Statement dated March 17, 1999 by and between Energen Resources Corporation, as Operator and David Arrington Oil and Gas, Inc., as Non Operator.

- (1) Identification of lands subject to this agreement:

Lea County, New Mexico
T-15-S, R-35-E
Section 35: W/2 SW/4

- (2) Restrictions, if any, as to depths, formations, or substances: None

- (3) *Percentages or fractional interests of parties to this agreement:

Energen Resources Corporation	82.27975%
David Arrington Oil and Gas, Inc.	17.71775%

*Subject to revision once Title Opinion has been completed

- (4) Oil and gas leases and/or oil and gas interests subject to this agreement. (See page 2 of Exhibit "A")

- (5) Addresses of parties for notice purposes:

Energen Resources Corporation
3300 North "A" St., Building 4, Suite 100
Midland, Texas 79705
Attention: Kenneth H. Gray
Telephone: 915-687-1155
Fax: 915-687-1796

David Arrington Oil and Gas, Inc.
P.O. Box 2071
Midland, Texas 79702
Attention: David Arrington
Telephone: 915-682-6685
Fax: 915-682-4139

EXHIBIT "A"

(continued)

Tract 1: A 19.9837 acre tract out of SW/4 SW/4 more particularly described as beginning at the SW corner of the SW/4 of Section 35, T-15-S, R-35-E; thence North 933 feet; thence East 933 feet; thence South 933 feet; thence West 933 to point of beginning.

Tract 2: SW/4 SW/4 of Section 35, T-15-S, R-35-E
Save and Except Tract 1 above containing 20.0163 acres more or less.

Tract 3: NW/4 SW/4 of Section 35, T-15-S, R-35-E
Containing 40 acres more or less

*Ownership in above Tracts

	<u>Energen</u>		<u>Arrington</u>	
	<u>Interest</u>	<u>Acres</u>	<u>Interest</u>	<u>Acres</u>
Tract 1:	100.0000%	19.9837	-0-	-0-
Tract 2:	41.6667%	8.3401	58.3333%	11.6762
Tract 3:	93.7500%	<u>37.5000</u>	6.2500%	<u>2.5000</u>
<u>Acres Total</u>		65.8238		14.1762

<u>*Ownership in W/2 SW/4</u>	Energen Resources Corporation	82.27975%
	David Arrington Oil and Gas, Inc.	17.71775%

*Oil and Gas Leases

<u>Lessor</u>	<u>Lessee</u>	<u>Date</u>	<u>Volume</u>	<u>Recording Page</u>
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*Subject to revision once Title Opinion has been completed

AUTHORITY FOR EXPENDITURE
ESTIMATED WELL COSTS

ENERGEN RESOURCES CORPORATION

AFE NUMBER: PB030999		PROPERTY NUMBER: NA		DATE: 3/9/99	
WELL NAME AND NUMBER: Beadle #1		FIELD OR AREA West Lovington Strawn LOCATION: 330' FS & WL			
OPERATOR: ENERGEN RESOURCES CORPORATION		COUNTY: Lea		STATE: NM	
PROJECT DESCRIPTION AND LOCATION: Drill & Complete-Flowing Well		SECTION: 35		BLOCK: T-15S, R-35-E	
PROPOSED FORMATION: Strawn		SURVEY:			
PROPOSED DEPTH: 11800					
<input checked="" type="checkbox"/> SINGLE	<input checked="" type="checkbox"/> OIL	<input type="checkbox"/> EXPL.	<input type="checkbox"/> STRAT	<input checked="" type="checkbox"/> NEW	<input type="checkbox"/> DEEPEN
<input type="checkbox"/> DUAL	<input type="checkbox"/> GAS	<input checked="" type="checkbox"/> DEV.		<input type="checkbox"/> WORKOVER	
<input checked="" type="checkbox"/> LAND	<input type="checkbox"/> BAY	DATE TO START		DAYS TO DRILL/COMPLETE	
<input type="checkbox"/> MARSH	<input type="checkbox"/> GULF	N/A		45	
				<input checked="" type="checkbox"/> ORIGINAL	<input type="checkbox"/> SUPPLEMENT

				DRY HOLE	COMPLETION COSTS	TOTAL
TANGIBLES						
OO TUBULAR GOODS						
O1	Conductor Pipe	0 in.	0 Ft.	0.00 \$/Ft.	\$ -	\$ -
O2	Surface Casing	13-3/8 in.	400 Ft.	20.00 \$/Ft.	\$ 8,000	\$ 8,000
O3	Production	5 1/2 in.	11800 Ft.	7.50 \$/Ft.	\$ -	\$ 88,500
O4	First Inter.	8 5/8 in.	5000 Ft.	12.00 \$/Ft.	\$ 60,000	\$ 60,000
O5	Second Inter.	0 in.	0 Ft.	0.00 \$/Ft.	\$ -	\$ -
O6	Prod. Liner	0 in.	0 Ft.	0.00 \$/Ft.	\$ -	\$ -
O7	Tieback String	0 in.	0 Ft.	0.00 \$/Ft.	\$ -	\$ -
O8	Tubing	2 7/8 in.	11800 Ft.	4.50 \$/Ft.	\$ 52,200	\$ 52,200
O9	Tubing	0 in.	0 Ft.	0.00 \$/Ft.	\$ -	\$ -
10 EQUIPMENT						
11	Wellhead & Accessories			\$ 12,000	\$ 12,000	\$ 24,000
12	Tbg & Csg Acc., Production Packer			\$ 3,500	\$ 5,000	\$ 8,500
13	Production Equip./Misc			\$ -	\$ 5,500	\$ 5,500
14	Tank Battery, Flowlines & Fittings			\$ -	\$ 47,500	\$ 47,500
TOTAL TANGIBLES				\$ 83,500	\$ 210,700	\$ 294,200
INTANGIBLES						
20 DRILLING COST						
21	Footage	11800 Ft.	17 \$/Ft.	\$ 200,600	\$ -	\$ 200,600
22	Daywork	4 Days	5500 \$/Day	\$ 22,000	\$ -	\$ 22,000
23	Compl. Rig	120 Hrs.	115 \$/Hr.	\$ -	\$ 13,800	\$ 13,800
24	Service Unit			\$ -	\$ -	\$ -
25	Rental Tools, Services, Chokes, Etc.			\$ 5,000	\$ 10,000	\$ 15,000
26	Rig Moving Cost			\$ -	\$ -	\$ -
27	Other			\$ 1,000	\$ 8,000	\$ 9,000
30 CEMENTING (INCL. FLOAT EQUIP., ETC.)						
31	Surface			\$ 6,000	\$ -	\$ 6,000
32	Intermediate			\$ 12,000	\$ -	\$ 12,000
33	Production			\$ -	\$ 17,500	\$ 17,500
34	Production Liners			\$ -	\$ -	\$ -
35	Tieback String			\$ -	\$ -	\$ -
36	Squeeze Cement (incl. Ret. & Pkr.)			\$ -	\$ -	\$ -
37	Other			\$ -	\$ -	\$ -
40 FORMATION TREATMENT						
41	Acidizing			\$ -	\$ 15,000	\$ 15,000
42	Fracturing Equipment & Materials			\$ -	\$ -	\$ -
43	Frac Fluid & Gas			\$ -	\$ -	\$ -
44	Tank Rental & Hauling			\$ -	\$ 3,000	\$ 3,000
50 SPECIAL SERVICES						
51	Perforations (set BP & Pkrs., W/L)			\$ -	\$ 10,000	\$ 10,000
52	Mud Logging/Geologist			\$ 10,500	\$ -	\$ 10,500
53	Formation Logging/Sidewall Cores			\$ 12,000	\$ -	\$ 12,000
54	DST/Sidewall Core Analysis			\$ 13,000	\$ -	\$ 13,000
55	Drilling Logs (CBL, Tracer, Inspection, W/L)			\$ -	\$ -	\$ -
56	Packer & Retr. BP			\$ -	\$ 3,000	\$ 3,000
57	Whipstocking & Sidetracking			\$ -	\$ -	\$ -
58	Compressors			\$ -	\$ -	\$ -
60 DRILLING FLUIDS						
61	Mud & Chemicals			\$ 20,000	\$ -	\$ 20,000
62	Water & Brine			\$ 25,000	\$ 5,000	\$ 30,000
63	Other (Gas & Air)			\$ -	\$ -	\$ -
70 MATERIALS & SERVICES- OTHER						
71	Bits & Reamers			\$ -	\$ 1,500	\$ 1,500
72	Fuel			\$ -	\$ -	\$ -
73	Hauling			\$ 5,000	\$ 5,000	\$ 10,000
74	Tubular Inspection: VCI, Sandblast, Roughcoat, Etc.			\$ 2,500	\$ 4,500	\$ 7,000
75	Testing (Manifolds, BOP, Tbg, Etc.)			\$ -	\$ -	\$ -
76	Misc Csg Exp: Csg Crew, PU/LD, Protectors, Etc.			\$ 1,000	\$ 5,500	\$ 6,500
78	Equip Rental: DOP, Racks, Mats, Trailer, Sanitary			\$ 10,000	\$ 5,000	\$ 15,000
79	Misc: Elec Const., Fencing, Anchors, Welding, Labor			\$ 3,000	\$ 7,000	\$ 10,000
80	LOCATION, ACCESS, LINERS & CLEANUP			\$ 20,000	\$ 3,500	\$ 23,500
81	Safety/Environmental			\$ 3,000	\$ 3,000	\$ 6,000
90	SUPERVISION & LEGAL, ETC.			\$ 18,000	\$ 6,000	\$ 24,000
TOTAL INTANGIBLE				\$ 389,600	\$ 126,300	\$ 515,900
Plus 10 % Contingency				\$ 47,310	\$ 33,700	\$ 81,010
TOTAL COST				\$ 520,410	\$ 370,700	\$ 891,110

Date: 3/9/99	Partner's Approval:
Prepared By: JJP	Company Name: David Arrington Oil and Gas, Inc.
Approved By: <i>James T. McManus II</i>	Date: (17.71775% W.I.)