

Nearburg Producing Company

Exploration and Production

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Scoggins Draw 27 Federal WELL #: 1 PROPOSED TOTAL DEPTH: 10,025'
 LOCATION: N/2 Section 27, T-18-S, R-27-E, Eddy County, New Mexico
 DESCRIPTION OF WORK: Drill and complete as a flowing Morrow Sand gas well.

DATE PREPARED: 2/4/92 EST. SPUD DATE: 6/1/92 EST. COMPLETION DATE: 7/15/92
 AFE NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage - 10,025 @ \$17.00/Ft	701	170,425	751		170,425
Drilling Daywork - 5 Days @ \$3900/Day	702	11,700	752	7,800	19,500
Drilling Turnkey	703		753		0
Bits, Stabilizers, Reamers Etc.	704		754	750	750
Directional Services	705		755		0
Mud & Chemicals	706	30,000	756		30,000
Fresh Water	707	5,000	757	1,500	6,500
Brine	708	10,000	758		10,000
Fuel & Oil	709		759		0
Cement Surface Casing	710	15,000	760		15,000
Cement Intermediate Casing	711		761		0
Cement Production Casing	712		762	25,000	25,000
Cement - Other	713		763		0
Plug and Abandon	714	12,000	764	(12,000)	0
Road & Location	715	12,000	765	1,500	13,500
Survey	716	750	766		750
Damages	717	2,500	767		2,500
Open Hole Logging	718	35,000	768		35,000
Testing	719	10,000	769	2,500	12,500
Coring & Analysis	720		770		0
Pulling and/or Swabbing Unit	721		771	12,000	12,000
Case Hole Perforate & Wireline	722		772	15,000	15,000
Acidizing and Fracturing	723		773	25,000	25,000
Field Supervision	724	9,000	774	4,500	13,500
Mudlogging Unit	725	10,000	775		10,000
Geologist	726	1,200	776		1,200
Engineering	727	2,100	777	900	3,000
Equipment Rental	728	7,500	778	2,500	10,000
Misc Labor	729	2,000	779	1,500	3,500
Tubular Inspection and Testing	730	500	780	7,000	7,500
Roustabout Labor	731		781		0
Supplies	732	500	782	500	1,000
Insurance	733	8,000	783		8,000
Overhead	734	6,000	784	2,000	8,000
Title Opinion	735	1,500	785		1,500
Legal and Professional	736	2,500	786	500	3,000
Telephone	737	150	787	100	250
Hauling and Trucking	738	2,500	788	3,500	6,000
Fishing Tools	739		789		0
Mud Engineer	740		790		0
Csg Crew and LD Mach.	741	1,500	791	9,000	10,500
Mudlogger	742		792		0
Reverse Unit and Tools	743		793	2,000	2,000
SUBTOTAL		369,325		113,050	482,375
Contingencies (10%)		36,933		11,305	48,238
ESTIMATED TOTAL INTANGIBLES		406,258		124,355	530,613

YATES PETROLEUM CORP.
BEFORE THE COMMISSION
NMOC CASE NOS. 10467/10473
DATE: 08/13/92 De Novo
EXHIBIT NO. 14

Nearburg Producing Company

Exploration and Production
Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Scoggins Draw 27 Federal WELL #: 1 PROPOSED TOTAL DEPTH: 10,025'
LOCATION: N/2 Section 27, T-18-S, R-27-E, Eddy County, New Mexico
DESCRIPTION OF WORK: Drill and complete as a flowing Morrow Sand gas well.

DATE PREPARED: 4/24/92 EST. SPUD DATE: 6/1/92 EST. COMPLETION DATE: 7/15/92
AFE NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage - 10,025 @ \$14.70/Ft	701	147,368	751		147,368
Drilling Daywork - 5 Days @ \$4300/Day	702	17,200	752	4,300	21,500
Drilling Turnkey	703		753		0
Blts, Stabilizers, Reamers Etc.	704		754	750	750
Directional Services	705		755		0
Mud & Chemicals	706	20,000	756		20,000
Fresh Water	707	5,000	757	1,500	6,500
Brine	708	12,000	758		12,000
Fuel & Oil	709		759		0
Cement Surface Casing	710	12,000	760		12,000
Cement Intermediate Casing	711	20,000	761		20,000
Cement Production Casing	712		762	25,000	25,000
Cement - Other	713		763		0
Plug and Abandon	714		764		0
Road & Location	715	10,000	765	1,000	11,000
Survey	716	750	766		750
Damages	717	1,500	767		1,500
Open Hole Logging	718	19,000	768		19,000
Testing	719	10,000	769	2,000	12,000
Coring & Analysis	720		770		0
Pulling and/or Swabbing Unit	721		771	7,200	7,200
Case Hole Perforate & Wireline	722		772	10,000	10,000
Acidizing and Fracturing	723		773	25,000	25,000
Field Supervision	724	6,000	774	4,000	10,000
Mudlogging Unit	725	10,000	775		10,000
Geologist	726	1,000	776		1,000
Engineering	727	1,000	777	900	1,900
Equipment Rental	728	7,500	778	2,500	10,000
Misc Labor	729	1,500	779	1,500	3,000
Tubular Inspection and Testing	730	500	780	6,000	6,500
Roustabout Labor	731		781		0
Supplies	732	500	782	250	750
Insurance	733	7,000	783		7,000
Overhead	734	5,500	784	1,500	7,000
Title Opinion	735	2,500	785		2,500
Legal and Professional	736	2,500	786		2,500
Telephone	737	150	787	100	250
Hauling and Trucking	738	2,500	788	2,500	5,000
Fishing Tools	739		789		0
Mud Engineer	740		790		0
Csg Crew and LD Mach.	741	500	791	8,000	8,500
Mudlogger	742		792		0
Reverse Unit and Tools	743		793	1,200	1,200
SUBTOTAL		323,468		105,200	428,668
Contingencies					0
ESTIMATED TOTAL INTANGIBLES		323,468		105,200	428,668

YATES PETROLEUM CORP.
BEFORE THE COMMISSION
NMOCD CASE NOS. 10467/10473
DATE: 08/13/92 De Novo
EXHIBIT NO. 14A

Nearburg Producing Company

Exploration and Production
Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Scoggins Draw 27 Federal WELL #: 1 PROPOSED TOTAL DEPTH: 10,025'
LOCATION: N/2 Section 27, T-18-S, R-27-E, Eddy County, New Mexico
DESCRIPTION OF WORK: Drill and complete as a flowing Morrow Sand gas well.

DATE PREPARED: 4/24/92 EST. SPUD DATE: 6/1/92 EST. COMPLETION DATE: 7/15/92
AFE NUMBER:

<u>TANGIBLE COSTS:</u>	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing	201		201		0
Surface Casing 350' 13-3/8" @ \$17.00/Ft	202	5,950	202		5,950
Intermediate Casing 1350' @ \$8.50/Ft ✓OK	203	11,475	203		11,475
Production Csg 10,025' 5-1/2" @ \$6.50/Ft ✓OK	205		205	65,165	65,165
Tubing 9800' 2-3/8" @ \$2.50/Ft Ballpark	206		206	24,500	24,500
Rods	207		207		0
Pumping Unit	208		208		0
Tanks	209		209	3,000	3,000
Separators & Heater Treat.	210		210		0
Well Head - Csg	211	2,500	211		2,500
Flow Lines	212		212	2,500	2,500
Valves, Fittings & Connections	213		213	2,500	2,500
Packer	214		214	3,000	3,000
Subsurface Pump	215		215		0
Gas Meter	216		216	2,000	2,000
Artificial Lift Equipment	217		217		0
Compressor	218		218		0
Production Unit	219		219	10,000	10,000
Installation Costs	225		225	5,000	5,000
Lact Unit	226		226		0
Vapor Recovery Unit	227		227		0
Well Head - Tbg	221		221	10,000	10,000
Elect. Installation	228		228		0
ESTIMATED TOTAL TANGIBLES		19,925		127,665	147,590
ESTIMATED TOTAL WELL COSTS		343,393		232,865	576,258

9,450/Ft
Need 2 3/8"

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

NPC APPROVAL	BY	DATE
LAND:		
GEOLOGICAL:		
DRLG / PROD:		
FINANCIAL:		
ENGINEERING:		
EXECUTIVE:		

WI APPROVAL: COMPANY _____
BY _____
TITLE _____
DATE _____



AUTHORITY FOR EXPENDITURE

AFE DATE 3-24-92

NEW DRILLING

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

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

Type of Well	
<input type="checkbox"/>	Development
<input checked="" type="checkbox"/>	Exploratory

AFE STATUS:

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

LEASE NAME	Chalk AKH Federal #2	PROJ'D DEPTH	10025'
COUNTY	Eddy	STATE	New Mexico
LEGAL DESC.	Sec. 27-T18S-R27E	LOCATION	660'N & 1330'/E
FIELD		HORIZON	Morrow
DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	800	800
920-110	Location, Right-of-Way	15000	15000
920-120	Drilling, Footage 10025' @ \$17/ft	170500	170500
920-130	Drilling, Daywork 5 days @ \$4400/day	22000	22000
920-140	Drilling Water, Fasline Rental	17000	17000
920-150	Drilling Mud & Additives	20000	20000
920-160	Mud Logging Unit, Sample Bags	9800	9800
920-170	Cementing - Surface Casing	26000	26000
920-180	Drill Stem Testing, OHT	25000	25000
920-190	Electric Logs & Tape Copies	20000	20000
920-200	Tools & Equip. Rntl., Trkg. & Welding	20000	20000
920-210	Supervision & Overhead	12000	12000
920-220	Contingency	-	-
920-230	Coring, Tools & Service	-	-
920-240	Bits, Tool & Supplies Purchase	1800	1800
920-350	Cementing - Production Casing	-	30000
920-410	Completion Unit - Swabbing	-	6000
920-420	Water for Completion	-	1200
920-430	Mud & Additives for Completion	-	1000
920-440	Cementing - Completion	-	-
920-450	Elec. Logs, Testing, Etc. - Completion	-	7500
920-460	Tools & Equip. Rental, Etc. - Completion	-	8000
920-470	Stimulation for Completion	-	25000
920-480	Supervision & O/H - Completion	-	2000
920-490	Additional LOC Charges - Completion	-	1800
920-510	Bits, Tools & Supplies - Completion	-	1200
920-500	Contingency for Completion	-	-
TOTAL INTANGIBLE DRILLING COSTS		359900	443600

TANGIBLE EQUIPMENT COSTS:		DRY HOLE	COMP'D WELL
930-010	Christmas Tree & Wellhead	1200	14000
930-020	Casing 8-5/8" @ 1800'	17000	17000
	5-1/2" @ 10225'	-	67700
930-030	Tubing 2-7/8" @ 9800'	-	27500
930-040	Packer & Special Equipment	-	-
930-500	Contingency	-	-
940-010	Pumping Equipment	-	-
940-020	Storage Facilities	-	12000
940-030	Separation Equip., Flowlines, Misc.	-	16000
940-040	Trucking & Construction Costs	-	10000
TOTAL TANGIBLE EQUIPMENT COSTS		18200	164200
TOTAL COSTS		378100	607800

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

Prepared By	<i>Albert L. Spinger</i>	Operations Approval	<i>S</i>
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		SHARE
YATES PETROLEUM CORPORATION		10.50000%
BY <i>[Signature]</i>	DATE	
ABO PETROLEUM CORPORATION		5.25000%
BY <i>[Signature]</i>	DATE	
YATES DRILLING COMPANY		5.25000%
BY <i>[Signature]</i>	DATE	
MYCO INDUSTRIES, INC.		5.25000%
BY <i>[Signature]</i>	DATE	

YATES PETROLEUM CORP.
BEFORE THE COMMISSION
NMOCD CASE NOS. 10467/10473
DATE: 08/13/92 De Novo
EXHIBIT NO. 15

Chalk AKH Fed. Com. #2
Sec. 27, T18S-R27E
Eddy County, New Mexico

AFE No. 92-112-0
Date: 3-24-92
Page 2

SHARE:

H. M. BETTIS, INC.

2.91375%

By _____ Date _____

TURNCO, INC.

2.91375%

By _____ Date _____

L. E. OPPERMANN

1.16550%

By _____ Date _____

BETTIS BROTHERS, INC.

10.50700%

By _____ Date _____

M. CRAIG CLARK

3.12500%

By _____ Date _____

DAVID W. CROMWELL

3.12500%

By _____ Date _____

NEARBURG EXPLORATION COMPANY

50.00000%

By _____ Date _____



Daily Drilling Report

Well name and number Scoggin Draw Federal Comm. B #1 CSG @ 6-5-89
 Days since spud 2 Status A I Indicators: SD, LOG, ST, F, **(PROB)**
 AFE number 04195 Daily cost 0 I 10607 Mud 1203 1847
 CSGPT Date

Mud Properties Type FW Wt. 8.4 Vis 29 PV YP Gels 1 APIWL HTHP PH 10.0
 CHL 600 Total hardness 400 O/W ratio ES % Oil % SD MBT #/BBL % Total Sol. .5
 % LGS % HGS #/BBL BEN #/BBL DS LCM #/BBL M. Cake 1/32

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water: <u>1330 BFW</u>	<u>2595 BFW meter</u>	Pore press	SYS Vol	bbls	SYS eff %
Gel : <u>63</u> SX@\$		BG gas	Shakers screen size		
Paper : <u>43</u> SX@\$		Conn gas	D-Sander		hrs
Plug it : <u>67</u> SX@\$		Trip gas	D-Sifter		hrs
Lime : <u>3</u> SX@\$		Max gas	Mud cleaner		hrs
Inventory		Shale density	Screen size		
Barite		Lithology	Centrifuge #1		hrs
Water			Centrifuge #2		hrs
Fuel					

Hydraulics	#1	#2	Surveys (Mag. corr. _____)		
Pump (Make and Model)	<u>EWCO W-600</u>	<u>EWCO W-400</u>	Meas depth	Angle	DIR
LS x SL x SPM	<u>5 1/2 x 15 x 53</u>	<u>5 x 14 x</u>	<u>537</u>	<u>3/4°</u>	
Slow rate (SPM/PSI)	<u>1</u>	<u>1</u>	<u>1018</u>	<u>1°</u>	
GPM <u>303</u>	Press <u>500</u>	BHHP			
AV:DP <u>57</u>	DC <u>72/85</u>	JV			
ECD @ CS	@ TD	Frac grad @ cs			

Bit record				BOP	
Bit No.	<u>1</u>	<u>2</u>	Depth out	<u>537</u>	Test date
Size	<u>12 1/4</u>	<u>12 1/4</u>	Depth in	<u>0</u>	Press
Make	<u>HTC</u>	<u>HTC</u>	Ft. made	<u>537</u>	Sidetrack <input type="checkbox"/> Yes <input type="checkbox"/> No
Type	<u>01 RI</u>	<u>J44C</u>	Hrs. drlg.	<u>10 1/2</u>	KOTMD
Senal No.		<u>Retio</u>	WOB	<u>55 M</u>	KOTVD
No. & Size Jets	<u>3-11</u>	<u>3-12</u>	RPM	<u>100</u>	PBTMD
IADC code		<u>627</u>	Condition	<u>4-4-I</u>	PBTVD

BHA Hours 28 3/4 Wt. in mud 65 M Min ID 2.25 Torque
 Details: bit, shock sub, 8" DC, blade stab, 4-8" DCs, 19-6 1/4" DCs
731' Sir. wt Up 85M Down 80M Rotating 80M

Time breakdown (% hours)			
Drilling <u>20 3/4</u>	Reaming	Cementing	Rig Move/Mobilization
Tapping <u>2</u>	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys <u>1</u>	Total <u>24</u>

Narrative (See back) Current TMD/TVD 1055 Current formation Any LM Current OPS DNig Hole made 24 hours 594
 drlg from 461' to 537', trip for new bit, no drag or fill, cont. drlg to 660', lost 100% returns, mix = spot 3 LCM sweeps, regained 80% returns, cont. drlg to 1055' w/ approx 80% returns and no other prob., MW 8.4, Surveys: 537' - 3/4°, 1018' - 1°



Well name and number SCOGGIN DRAW FEDERAL 'B' #1 CSG - @ - Date 6-6-81
 Days since spud 3 Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number 04195 Daily cost 12851 Mud 268 Turnkey 2115
 CSGPT Date

Mud Properties Type FW Wt. 8.4 Visc 28 PV 1 YP 1 Gels 1 APIWL 10.0 HTHP 10.0 PH 10.0
 CHL 2500 Total hardness 800 O/W ratio ES % Oil 1 % SD 1 MBT 1 #/BBL 1 % Total Sol. .8
 % LGS 1 % HGS 1 #/BBL BEN 1 #/BBL DS 1 LCM 1 #/BBL 1 M. Cake 1 /32

Materials used last 24 hrs.			Mud Log Data			Solids Control Equipment		
BBLs. Water:	<u>59 BFW</u>		Pore press			SYS Vol	bbis	SYS eff %
Paper:	<u>11</u> SX@\$		BG gas			Shakers screen size		
Plug it:	<u>5</u> SX@\$		Conn gas			D-Sander		hrs
Caustic:	<u>6</u> SX@\$		Trip gas			D-Sifter		hrs
			Max gas			Mud cleaner		hrs
Inventory			Shale density			Screen size		
Barite			Lithology			Centrifuge #1		hrs
Water						Centrifuge #2		hrs
Fuel								

Hydraulics	#1	#2	Surveys (Mag. corr.)		
Pump (Make and Model)	<u>EWCO W-600</u>	<u>EWCO W-400</u>	Meas depth	Angle	DIA
LS x SL x SPM	<u>5 1/2 x 15 x 58</u>	<u>5 x 14 x</u>	<u>1500'</u>	<u>14°</u>	
Slow rate (SPM/PSI)	<u>29</u> <u>1</u> <u>250</u>	<u>1</u>			
GPM	<u>303</u>				
AV:DP	<u>57</u>				
ECD @ CS	<u>@ TD</u>				

Bit record				BOP	
Bit No.	<u>2</u>	Depth out		Test date	
Size	<u>1 1/4</u>	Depth in	<u>537</u>	Press	
Make	<u>HTC</u>	Ft. made	<u>1203</u>	Sidetrack	<input type="checkbox"/> Yes <input type="checkbox"/> No
Type	<u>J44C</u>	Hrs. drlg.	<u>42</u>	KOTMD	
Serial No.	<u>RETP</u>	WOB	<u>55M</u>	KOTVD	
No. & Size Jets	<u>3-12</u>	RPM	<u>70</u>	PBTMD	
IADC code	<u>627</u>	Condition		PBTVD	

BHA Hours 52 1/2 Wt. in mud 65M Min ID 2.25 Torque
 Details Same Str. wt Up 92M Down 89M Rotating 90M

Time breakdown (% hours)			
Drilling	<u>23 1/2</u>	Reaming	
Tripping		Hole opening	
Circ/cond		Service/repair rig	
Short trip		Well logging	
Test BOP's		Run casing	
		Cementing	
		Nipple up/down	
		Fishing	
		Lost circulation	
		Surveys	<u>4</u>
		Rig Move/Mobilization	
		Wait on orders	
		Wait on weather	
		Other	
		Total	<u>24</u>

Narrative (See back) Current TMD/TVD 1740 Current formation Anhy Current OPS Drlg Hole made 24 hours 685
drlg from 1055 to 1740 w/ 85 to 100% returns,
drlg w/ 100% returns last 10 hrs

Contractor Peterson Rig number 4 Drilling foreman HAWKINS

Sun-21195



Daily Drilling Report

Well name and number **Scoggin Draw Federal Comm. 8 #1** CSG **8 5/8" @ 1800'** Date **6-7-89**
 Days since spud **4** Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number **04195** Daily cost **26380** **11642** Mud **0** Turnover **2115**
 CSGPT Date

Mud Properties Type **FW** Wt. **8.4** Vis **28** PV YP Gels **1** APIWL HTHP PH **10.0**
 CHL **2100** Total hardness **460** O/W ratio ES % Oil % SD MBT #/BBL % Total Sld. **.6**
 % LGS % HGS #/BBL BEN #/BBL DS LCM #/BBL M. Cake **132**

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water: 2175 BFW		Pore press		SYS Vol	bbis SYS eff %
: SX@\$	: SX@\$	B/G gas		Shakers screen size	
: SX@\$	: SX@\$	Conn gas		D-Sander	hrs
: SX@\$	: SX@\$	Trip gas		D-Sifter	hrs
: SX@\$	: SX@\$	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics		Surveys (Mag. corr.)	
Pump (Make and Model)	EWCO W-600	Meas depth	1800
LS x SL x SPM	5 1/2 x 15 x 58	Angle	1 1/2°
Slow rate (SPM/PSI)	27 / 400	DIR	
GPM	303		
AV:OP	176		
ECD @ CS	@ TD		

Bit record			BOP			
Bit No.	2	3	Depth out	1800	Test date	6-6-89
Size	7 1/2		Depth in	1800	Press	2000#
Make	Keed		Ft. made	40	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	HP-54		Hrs. drlg.	45 1/2	KOTMD	
Senal No.	D 60826		WOB	55 M	KOTVD	
No. & Size Jets	3-10		RPM	70	PBTMD	
IADC code	627		Condition	6-6-I	PBTVD	

BHA	Hours	Wt. in mud	Min ID	Torque
	56 1/2	55 M	2.25	

Details **bit. blade stal, 6 1/4" DC, blade stab., 18-6 1/4" DCs**
605' Str. wt Up **68 M** Down **65 M** Rotating **66 M**

Time breakdown (1/4 hours)			
Drilling	4	Reaming	8 3/4
Tripping	2 1/2	Hole opening	5 1/4
Circ/cond	1	Service/repair rig	
Short trp		Well logging	
Test BOP's	1	Run casing	2 1/4
		Surveys	

Narrative (See back) Current TMO/TVD **1840'** Current formation **Anhy** Current OPS **Drlg** Hole made 24 hours **100'**
 drlg from 1740' to 1800', circ ± hr TOH LD 8" DCs, RU csq crew, Ran 4 cm⁺ 46 its 8 3/8" 24" k-55 STC csq, CS 1800', FC 1755', Western cm⁺ w/ 175 sks Pacesetter Lite + 1/4" /sk celloseal + 10# /sk gimonite + 425 sks Pacesetter Lite + 1/4" /sk celloseal, tail in w/ 475 sks Class C + 2% CaCl₂ + 1/4" /sk celloseal, PD 3:15 pm, FP 750-1000#, floats held, J.C. 3:15 pm, circ 3:0 sks cm⁺ to surf, WDC 6 hrs, cut off 8 3/8"

Sun-21195

Contractor _____ Rig number _____ Drilling foreman _____

over

CSG, NU bradenhead # BOP, test Blind rams to
2000# for 15 min, T1H w/ bit, drlg plug, float
equip. and 20' cmt, test pipe rams and casing to
2000# for 15 min, cont drlg cmt to 1800' and form.
from 1800' to 1840' MW 8.4# Survey: 1800' - 1 1/2"

Daily Drilling Report

Well name and number: Sargain DRAW T&D comm #1 CSG 8 7/8" @ 1200 Date 6-2-89
 Days since spud 5 Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number 02195 Daily cost T 0 I 10923 Mud 74 Turnkey 2209
 CSGPT Date

Mud Properties Type PW Wt. 2.4 Vis 28 PV YP Gels 1 APIWL HTHP PH 10
 CHL 7000 Total hardness 400 O/W ratio ES % Oil % SD MBT #/BBL % Total Sol. 4
 % LGS % HGS #/BBL BEN #/BBL OS LCM #/BBL M. Cake 132

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBSL Water: <u>205</u>		Pore press		SYS Vol	bbis SYS eff %
<u>CRUSTIC 2 SX@\$</u>	: SX@\$	B/G gas		Shakers screen size	
<u>Water: 7 SX@\$</u>	: SX@\$	Conn gas		D-Sander	hrs
<u>SX@\$</u>	: SX@\$	Trip gas		D-Sifter	hrs
<u>SX@\$</u>	: SX@\$	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Bante		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics		Surveys (Mag. corr.)	
Pump (Make and Model)	<u>EWCO W400</u>	Meas depth	<u>2295</u>
LS x SL x SPM	<u>5 1/2 x 15 x 52</u>	Angle	<u>1/2</u>
Slow rate (SPM/PSI)	<u>25 / 400</u>	DIR	
GPM	<u>303</u>		
AV:DP	<u>176</u>		
ECD @ CS	<u>370</u>		

Bit record				BOP	
Bit No.	<u>3</u>	Depth out		Test date	<u>6-6-89</u>
Size	<u>7 1/2</u>	Depth in	<u>1400</u>	Press	<u>2000</u>
Make	<u>Reed</u>	Ft. made	<u>740</u>	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	<u>HDSH</u>	Hrs. drig.	<u>23</u>	KOTMD	
Serial No.		WOB	<u>4571</u>	KOTVD	
No. & Size Jets		RPM	<u>70</u>	PBTMD	
IADC code		Condition		PBTVD	

BHA Hours 7 1/2 Wt. in mud 55000 Min ID 2 1/2 Torque
 Details CNAME Str. wt Up 87 M Down 82 M Rotating 85 M

Time breakdown (1/2 hours)

Drilling	Reaming	Cementing	Rig Move/Mobilization
<u>22</u>	Hole opening	Nipple up/down	Wait on orders
Tripping	Services/repair rig <u>1 1/2</u>	Fishing	Wait on weather
Circ/cond	Well logging	Lost circulation	Other
Short trip	Run casing	Surveys <u>1/2</u>	Total <u>22</u>
Test BOP's			Hole made 24 hours <u>700</u>

Narrative (See back) Current TMD/TYD 2540 Current formation ANHL Current OPS DRUG
DRILL FROM 1840 - 2540' NO PROBLEMS + NO LOGS

Contractor PATERSON Rig number 4 Drilling foreman HAWKINS



Daily Drilling Report

Well name and number **Scoggin Draw Federal Comm. B #1** CSG 8 5/8" @ 1800' Date **6-9-89**
 Days since spud **6** Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number **04195** Daily cost **0** I **13295** Mud **433** Turnkey **2642**
 CSGPT Date

Mud Properties Type **FW** Wt. **8.4** Vis **28** PV YP Gels **1** APIWL HTHP PH **10.0**
 CHL **1800** Total hardness **400** O/W ratio ES % Oil % SD MBT #/BBL % Total Slid. **.6**
 % LGS % HGS #/BBL BEN #/BBL DS LCM #/BBL M. Cake **1/32**

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbls SYS eff %
Gel : 12 SX@S	: SX@S	B3 gas		Shakers screen size	/
Paper : 7 SX@S	: SX@S	Conn gas		D-Sander	hrs
Surfact: 10 SX@S	: SX@S	Trip gas		D-Sifter	hrs
Dyna Sweep 2 SX@S	: SX@S	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics	#1	#2	Surveys (Mag. corr.)		
Pump (Make and Model)	EWCO W-600	EWCO W-400	Meas depth	Angle	DIR
LS x SL x SPM	5 1/2 x 1 1/2 x 5 1/8	5 x 1 1/4 x	2790'	1 1/2°	
Slow rate (SPM/PSI)	29 - 400		3289'	1°	
GPM 303	Press 1500	BHHP			
AV:DP 176	DC 320	JV			
ECD @ CS	@ TD.	Frac grad @ cs			

Bit record			BOP		
Bit No.	3	Depth out	Test date	6-7-89	
Size	7 1/8"	Depth in	Press	2000+	
Make	Reed	Ft. made	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Type	HP 54	Hrs. drig.	KOTMD		
Serial No.	D60826	WOB	KOTVD		
No. & Size Jets	3-10	RPM	PBTMD		
IADC code	627	Condition	PBTVD		

BHA Hours **10 1/2** Wt. in mud **55M** Min ID **2.25** Torque

Details **same** Str. wt Up **100M** Down **95M** Rotating **97M**

Time breakdown (1/4 hours)			
Drilling 23	Reaming	Cementing	Rig Move/Mobilization
Tripping	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys 1	Total 24

Narrative (See back) Current TMD/TVD **3350** Current formation **Dolo** Current OPS **Dolo** Hole made 24 hours **840**

drig from 2540 to 3380 w/ no prob. MW 8.4#
 Surveys: 2790' - 1 1/2°, 3289' - 1°

Contractor **Peterson** Rig number **4** Drilling foreman **Hawkins**



Daily Drilling Report

Well name and number Scorpion Draw Federal Com. B #1 CSG 8 3/4" @ 1800' Date 6-10-89

Days since spud 7 Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number 04195 Daily cost T 0 1 7760 Mud 22 2664

CSGPT Date _____
 Mud Properties Type FW Wt. 8.4 Vis 28 PV _____ YP _____ Gels 1 APIWL _____ HTHP _____ PH 10.0
 CHL 1900 Total hardness 750 O/W ratio _____ ES _____ % Oil _____ % SD _____ MBT _____ #/BBL _____ % Total Sol. .6
 % LGS _____ % HGS _____ #/BBL BEN _____ #/BBL OS _____ LCM _____ #/BBL _____ M. Cake _____ /32

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water: <u>0</u>		Pore press		SYS Vol	bbis SYS eff %
Paper: <u>4</u> SX@\$	: SX@\$	B3 gas		Shakers screen size	<u>1</u>
: SX@\$	: SX@\$	Conn gas		D-Sander	hrs
: SX@\$	: SX@\$	Trip gas		D-Sifter	hrs
: SX@\$	: SX@\$	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Berite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics	#1	#2	Surveys (Mag. corr. _____)		
Pump (Make and Model)	<u>EWCO W-600</u>	<u>EWCO W-400</u>	Meas depth	Angle	DIR
LS x SL x SPM	<u>5 1/2 x 15 x 58</u>	<u>5 x 14 x</u>	<u>3580'</u>	<u>1°</u>	
Slow rate (SPM/PSI)	<u>29 / 400</u>	<u>1</u>			
GPM <u>303</u>	Press <u>1500</u>	BHHP			
AV DP <u>176</u>	DC <u>320</u>	JV			
ECD @ CS	@ TD	Frac grad @ cs			

Bit record						BOP	
Bit No.	<u>3</u>	<u>4</u>	Depth out	<u>3580</u>		Test date	<u>6-7-89</u>
Size	<u>7 7/8</u>	<u>7 7/8</u>	Depth in	<u>1800</u>	<u>3580</u>	Press	<u>2000#</u>
Make	<u>Reed</u>	<u>STC</u>	Ft. made	<u>1780</u>	<u>293</u>	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	<u>HP 54</u>	<u>F-47H</u>	Hrs. drlg.	<u>33</u>	<u>8 1/2</u>	KOTMD	
Serial No.	<u>D 00826</u>	<u>KJ 1162</u>	WOB	<u>48M</u>	<u>48M</u>	KOTVD	
No. & Size Jets	<u>3-10</u>	<u>3-10</u>	RPM	<u>70</u>	<u>70</u>	PBTMD	
IADC code	<u>627</u>	<u>627</u>	Condition	<u>4-4-4C</u>		PBTVD	

BHA Hours 114 3/4 Wt. in mud 55M Min ID 2.25 Torque _____

Details bit BS, 6" DC, IRS, 2-6" DCs, IRS 15-6" DCs
(556') Str. wt Up 102M Down 97M Rotating 99M

Time breakdown (1/4 hours)			
Drilling <u>13 1/4</u>	Reaming <u>4</u>	Cementing	Rig Move/Mobilization
Tripping <u>6 1/4</u>	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig <u>1/4</u>	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys <u>1/4</u>	Total <u>24</u>

Narrative (See back) Current TMD/TVD 3873 Current formation Dolo Current OPS Trip for hole in DP Hole made 24 hours 493

drlg from 3380 to 3580', trip for new bit, TH ream 90' to btm, cont. drlg to 3873', lost pump press., pump soft line and port looking for hole in DP.
 MW 8.4# Survey: 3580' - 1°



Daily Drilling Report

Well name and number Scoggin Draw Federal Com. B #1 CSG 8 3/8" @ 1800' Date 6-11-89

Days since spud 8 Status A I Indicators: SD, LOG, ST, F, PROB

AFE number 04195 Daily cost T 0 I 8754 Mud 141 Turnover 2805

CSGPT Date

Mud Properties Type FW Wt. 8.4 Vis 28 PV YP Geis 1 APIWL HTHP PH 10.0

CHL 2000 Total hardness 600 O/W ratio ES % Oil % SD MBT #/BBL % Total Sol. 6

% LGS % HGS #/BBL BEN #/BBL DS LCM #/BBL M. Cake 132

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbls SYS eff %
EZ Mud: 2 SX@S	: SX@S	B/G gas		Shakers screen size	/
Dyna Sweep 1 SX@S	: SX@S	Conn gas		D-Sander	hrs
Paper: 6 SX@S	: SX@S	Trip gas		D-Sifter	hrs
Caustic: 2 SX@S	: SX@S	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Batts		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics	#1	#2	Surveys (Mag. corr. _____)		
Pump (Make and Model)	<u>EWCO W-600</u>	<u>EWCO W-400</u>	Meas depth	Angle	DIR
LS x SL x SPM	<u>5 1/2 x 15 x 58</u>	<u>5 x 14 x</u>	<u>4080'</u>	<u>1 3/4°</u>	
Slow rate (SPM/PSI)	<u>29, 400</u>	<u>1</u>			
GPM	<u>303</u>				
AV:DP	Press <u>1500</u>	BHHP			
ECD @ CS	DC <u>320</u>	JV			
	@ TD	Frac grad @ cs			

Bit record				BOP	
Bit No.	<u>4</u>	Depth out		Test date	<u>6-7-89</u>
Size	<u>7 1/8</u>	Depth in	<u>3580</u>	Press	<u>2000#</u>
Make	<u>STC</u>	Ft. made	<u>845</u>	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	<u>F-47H</u>	Hrs. drig.	<u>29 3/4</u>	KOTMD	
Serial No.	<u>KJ1162</u>	WOB	<u>40M</u>	KOTVD	
No. & Size Jets	<u>3-10</u>	RPM	<u>60</u>	PBTMD	
IADC code	<u>627</u>	Condition		PBTVD	

BHA	Hours <u>136 1/4</u>	Wt. in mud <u>55M</u>	Min ID <u>2.25"</u>	Torque
Details <u>same</u>				
	Str. wt Up <u>105M</u>	Down <u>102M</u>	Rotating <u>104M</u>	

Time breakdown (1/4 hours)			
Drilling <u>21 1/2</u>	Reaming	Cementing	Rig Move/Mobilization
Tripping <u>2</u>	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys <u>1/2</u>	Total <u>24</u>

Narrative (See back) Current TMD/TVD 4425' Current formation Lm Current OPS Drig Hole made 24 hours 552'

Found hole in OP at 3200', TIH, no fill data from 3873' to 4425' w/ no prob. 'MW 8.4# Surveys: 4080' - 1 3/4°

Contractor Peterson Rig number 4 Drilling foreman Hawkins



Daily Drilling Report

Well name and number Scoggin Draw Federal Com. R #1 CSG 8 5/8" @ 1800' Date 6-12-89

Days since spud 9 Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number 04195 Daily cost T 0 6638 Mud 141 Turnkey 2946
 CSGPT Date

Mud Properties Type FW WL 8.4 Vis 28 PV YP Gels 1 APIWL HTHP PH 10.0
 CHL 1800 Total hardness 600 O/W ratio ES % Oil % SD MBT #/BBL % Total Sol. .6
 % LGS % HGS #/BBL BEN #/BBL DS LCM #/BBL M. Cake 1/32

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbls SYS eff %
EC Mud: <u>2</u> SX@S qts	: SX@S	B/G gas		Shakers screen size	<u>1</u>
Dry sweep <u>1</u> SX@S	: SX@S	Conn gas		D-Sander	hrs
Paper: <u>6</u> SX@S	: SX@S	Trip gas		D-Sifter	hrs
Caustic: <u>2</u> SX@S	: SX@S	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics		#1	#2	Surveys (Mag. corr. _____)		
Pump (Make and Model)	<u>Ewco W-600</u>	<u>Ewco W-400</u>	Meas depth	Angle	DIR	
LS x SL x SPM	<u>5 1/2 x 15 x 58</u>	<u>5 x 14 x</u>	<u>4422'</u>	<u>1 3/4°</u>		
Slow rate (SPM/PSI)	<u>29 / 400</u>	<u>1</u>	<u>4577'</u>	<u>2 5/8°</u>		
GPM <u>303</u>	Press <u>1500</u>	BHHP	<u>4700'</u>	<u>2 3/4°</u>		
AV:DP <u>176</u>	DC <u>320</u>	JV				
ECD @ CS	@ TD	Frac grad @ cs				

Bit record				BOP	
Bit No.	<u>4</u>	Depth out		Test date	<u>6-7-89</u>
Size	<u>7 7/8</u>	Depth in	<u>3580</u>	Press	<u>2000#</u>
Make	<u>STC</u>	Ft. made	<u>1253</u>	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	<u>F-47H</u>	Hrs. drlg.	<u>52 1/2</u>	KOTMD	
Serial No.	<u>KJ 1162</u>	WOB	<u>40 M</u>	KOTVD	
No. & Size Jets	<u>3-10</u>	RPM	<u>60</u>	PBTMD	
IADC code	<u>627</u>	Condition		PBTVD	

BHA Hours 158 3/4 Wt. in mud 55 M Min ID 2.25 Torque
 Details same
 Str. wt Up 125 M Down 115 M Rotating 120 M

Time breakdown (% hours)			
Drilling <u>22 1/2</u>	Reaming	Cementing	Rig Move/Mobilization
Tripping	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys <u>1 1/2</u>	Total <u>24</u>

Narrative (See back) Current TMD/TVD 4833 Current formation Lm Current OPS Drig Hole made 24 hours 408'

drig from 4425 to 4833' w/ no prob. or fluid losses
MW 8.4#, Surveys: 4422' - 1 3/4°, 4577' - 2 5/8°, 4700' - 2 3/4°

Sun-21195

Contractor Peterson Rig number 4 Drilling foreman Hinkins

Well name and number **Scoggin Draw Federal Com. B #1** CSG **8 5/8" @ 1800'** Date **6-13-89**

Days since spud **10** Status A I Indicators: SD, LOG, ST, F, PROB

AFE number **0** Daily cost **T 0 I 6369** Mud **91** Turnkey **3037**

CSGPT Date

Mud Properties Type **FW** Wt. **8.4** Vis **28** PV YP Gels **1** APIWL HTHP PH **10.0**

CHL **2000** Total hardness **600** O/W ratio ES % Oil % SD MBT #/BBL % Total Sid. **.6**

% LGS % HGS #/BBL BEN #/BBL DS LCM #/BBL M. Cake **/32**

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbls SYS eff %
Paper : 6 SX@\$	: SX@\$	B/G gas		Shakers screen size	/
EZ Mud: 2 SX@\$	: SX@\$	Conn gas		D-Sander	hrs
Sweep : 5 SX@\$	: SX@\$	Trip gas		D-Sifter	hrs
Caustic: 5 SX@\$	: SX@\$	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics		#1	#2	Surveys (Mag. corr.)	
Pump (Make and Model)	EWCO W-600			Meas depth	Angle DIR
LS x SL x SPM	5 1/2 x 15 x 58			4824'	3 1/4°
Slow rate (SPM/PSI)	29, 400			4947'	4°
GPM 294	Press 1500	BHHP 4.87		5106'	4 3/4°
AV:DP 175	DC 277	JV 423			
ECD @ CS	@ TD	Frac grad @ cs			

Bit record				BOP	
Bit No.	4	Depth out		Test date	6-7-89
Size	7 7/8	Depth in	3580	Press	2000#
Make	STC	Ft. made	1637	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	F-47H	Hrs. drlg.	75#	KOTMD	
Serial No.	KH 1162	WOB	46M	KOTVD	
No. & Size Jets	3-10	RPM	60	PBTMD	
IADC code	627	Condition		PBTVD	

BHA Hours **181 3/4** Wt. in mud **55M** Min ID **2.25** Torque

Details **same**

Str. wt Up **132M** Down **120M** Rotating **125M**

Time breakdown (1/4 hours)			
Drilling 23	Reaming	Cementing	Rig Move/Mobilization
Tripping	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys	Total 24

Narrative (See back) Current TMD/TVD **5217** Current formation **Lm # Sh** Current OPS **Drlg** Hole made 24 hours **384**

drlg from 4833 to 5217' w/ no prob.

Contractor **Peterson** Rig number **4** Drilling foreman **Ken Sifford**



Daily Drilling Report

Well name and number SCOGAN DRAW FEDERAL COMM 'E' 4 CSG 8 7/8" @ 1800' Date 6-14-99

Days since spud 11 Status A I Indicators: SD, LOG, ST, F, PROB

AFE number 04195 Daily cost T 0 I 5221 Mud 867 Turnkey 3904

CSGPT Date

Mud Properties	Type <u>FW</u>	Wt. <u>4.4</u>	Vis <u>27</u>	PV	YP	Gels <u>1</u>	APIWL	HTHP	PH <u>10.5</u>
CHL <u>1400</u>	Total hardness <u>600</u>	O/W ratio	ES	% Oil	% SD	MBT	#/BBL	% Total Sol.	<u>.6</u>
% LGS	% HGS	#/BBL BEN	#/BBL DS	LCM	#/BBL	M. Cake			<u>132</u>

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbls SYS eff %
<u>PAPER : 6 SX@\$</u>	: SX@\$	BG gas		Shakers screen size	<u>1</u>
<u>EZE : 2 SX@\$</u>	: SX@\$	Conn gas		D-Sander	hrs
<u>CANISTOL : 1 SX@\$</u>	: SX@\$	Trip gas		D-Sifter	hrs
<u>DYNAS : 1/2 SX@\$</u>	: SX@\$	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics	#1	#2	Surveys (Mag. corr. _____)	
Pump (Make and Model)	<u>EWCO W-600</u>	<u>EWCO W-400</u>	Meas depth	Angle
LS x SL x SPM	<u>5 1/2 x 15 x 58</u>	<u>5 x 14 x</u>	<u>5230</u>	<u>5°</u>
Slow rate (SPM/PSI)	<u>29 1 400</u>	<u>1</u>	<u>5325</u>	<u>5°</u>
GPM	Press <u>1500</u>	BHHP <u>4.97</u>	<u>5450</u>	<u>5°</u>
AV:DP <u>175</u>	DC <u>277</u>	JV <u>423</u>		
ECD @ CS	@ TD	Frac grad @ CS		

Bit record				BOP	
Bit No.	<u>4</u>	Depth out		Test date	<u>6-7-99</u>
Size	<u>7 7/8</u>	Depth in	<u>3580</u>	Press	<u>2000*</u>
Make	<u>STL</u>	Ft. made	<u>1924</u>	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	<u>F 47H</u>	Hrs. drlg.	<u>98</u>	KOTMD	
Serial No.	<u>K14 116Z</u>	WOB	<u>46 M</u>	KOTVD	
No. & Size Jets	<u>3-10</u>	RPM	<u>60</u>	PBTMD	
IADC code	<u>627</u>	Condition		PBTVD	

BHA Hours 204 1/2 Wt. in mud 55M Min ID 2 1/4" Torque

Details SAME

Str. wt Up 142 M Down 135M Rotating 138M

Time breakdown (1/4 hours)			
Drilling <u>22 3/4</u>	Reaming	Cementing	Rig Move/Mobilization
Tripping	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys <u>1 1/4</u>	Total <u>24</u>

Narrative (See back) Current TMD/TVD 5504 Current formation LM + 6H Current OPS DELL Hole made 24 hours 287

DRILLED FROM 5217 - 5504 W 100% RETURNS + NO PROBLEMS,
SURVEYS: 5230 - 5°, 5325 - 5°, 5450 - 5°

Contractor PETTERSON Rig number 4 Drilling foreman SIFORD

Well name and number **Scoggin Draw Federal Com. B #1** CSG **8 5/8" @ 1800'** Date **6-15-89**
 Days since spud **12** Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number **04195** Daily cost **0** I **4959** Mud **102** Turnkey **4006**
 CSGPT Date

Mud Properties Type **FW** Wt. **8.4** Vis **28** PV YP Gels **1** APIWL HTHP PH **10.5**
 CHL **1700** Total hardness **540** O/W ratio ES % Oil % SD MBT #/BBL % Total Sid. **4**
 % LGS % HGS #/BBL BEN #/BBL DS LCM #/BBL M. Cake **/32**

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbls SYS eff %
PAPER : 4 SX@\$	SX@\$	BG gas		Shakers screen size	1
CAUSTIC : 1 SX@\$	SX@\$	Conn gas		D-Sander	hrs
SX@\$	SX@\$	Trip gas		D-Sifter	hrs
SX@\$	SX@\$	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics		#1	#2	Surveys (Mag. corr. _____)		
Pump (Make and Model)	EWCO W-600	EWCO W-400		Meas depth	Angle	DIR
LS x SL x SPM	5 1/2 x 15 x 58	5 x 14 x		5497	4 1/2	
Slow rate (SPM/PSI)	29 1 350					
GPM 294	Press 1500	BHHP				
AV:OP 172	DC 277	JV				
ECD @ CS	@ TD	Frac grad @ cs				

Bit record						BOP		
Bit No.	4	5	Depth out	5524		Test date	6-14-89	
Size	7 7/8	7 7/8	Depth in	3580	5524	Press	3000#	
Make	STC	STC	Ft. made	1944	200	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Type	F-47H	F47H	Hrs. drig.	100	12 3/4	KOTMD		
Serial No.	KH 1162	123276	WOB	46 M	50 M	KOTVD		
No. & Size Jets	3-10	10-10-11	RPM	60	60	PBTMD		
IADC code	627	637	Condition	T 2 2 2 1/2" 0		PBTVD		

BHA Hours **21 1/4** Wt in mud **58,000** Min ID **2 1/4"** Torque
 Details **BIT, BS, 1-6" DC, IRS, 2-6" DC'S, IRC, 20-6" DC'S, KEYSAT WIPER 70S.65'**
 Str. wt Up **145 M** Down **138 M** Rotating **142 M**

Time breakdown (1/4 hours)			
Drilling	14 3/4	Reaming	
Tripping	6 1/4	Hole opening	
Circ/cond		Service/repair rig	
Short trip		Well logging	
Test BOP's	3	Run casing	
Narrative (See back)	Current TMD/TVD 5724	Current formation LM 4-14	Current OPS DELG
			Hole made 24 hours 20

DROPPED FROM 5504 - 5524, TRIED FOR BIT TEST BOP'S, CHOKE MANIFOLD + FLOOR VALVES TO 3000 PSI, TEST ANNULAR TO 1500#, TEST REQUIRED BY BLM ON CHART, NO ONSITE WITNESSES, TH, WASH 30' TO BTM NO FILL, DROPPED FROM 5524 - 5724, NO PROBLEMS DRUG, LAST SURVEY 5497 - 4 1/2° PR @ REPORT TIME 15 FPH

Contractor **Peterson** Rig number **4** Drilling foreman **Ken Sifford**

Well name and number **Scoggin Draw Federal Com B #1** | CSG **8 5/8" @ 1800'** | Date **6-16-89**
 Days since spud **13** | Status A I | Indicators: SD, LOG, ST, F, PROB
 AFE number **04195** | Daily cost **T 0** | **10:22** | Mud **22** | Summary **11039**
 CSGPT Date

Mud Properties | Type **FW** | Wt. **5.11** | Vis **77** | PV | YP | Gels **1** | APIWL **116** | HTHP | PH **10**
 CHL **1700** | Total hardness **510** | O/W ratio | ES | % Oil | % SD | MBT | #/BBL | % Total Sid.
 % LGS | % HGS | #/BBL BEN | #/BBL DS | LCM | M. Cake | #/BBL | **132**

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbis SYS eff %
Water: 6 SX@5		B/G gas		Shakers screen size	1
: SX@5		Conn gas		D-Sander	hrs
: SX@5		Trip gas		D-Sifter	hrs
: SX@5		Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics		Surveys (Mag. corr.)	
Pump (Make and Model)	EWCO W-600	Meas depth	Angle
LS x SL x SPM	52 x 15 x 53	3767	4 1/2
Slow rate (SPM/PSI)	29 1400	6245	2
GPM	295	BHHP	
AV:DP	175	JV	
ECD @ CS	@ TP	Frac grad @ cs	

Bit record			BOP	
Bit No.	5	Depth out	Test date	6-14-89
Size	7 7/8	Depth in	Press	3000 #
Make	STC	Ft. made	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	F-47H	Hrs. drig.	KOTMD	
Serial No.	LZ 3276	WOB	KOTVD	
No. & Size Jets	10-10-11	RPM	PBTMD	
IADC code	637	Condition	PBTVD	

BHA Hours **242 1/4** | Wt. in mud **58,000** | Min ID **2 1/2** | Torque
 Details **same 705.6'** | Str. wt Up **160 M** | Down **145 M** | Rotating **152 M**

Time breakdown (% hours)			
Drilling 23	Reaming	Cementing	Rig Move/Mobilization
Tripping	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys 1	Total 24

Narrative (See back) | Current TMD/TVD **6321** | Current formation **LM + 24** | Current OPS **DRL** | Hole made 24 hours **640**

Drilling from 5771 - 6321 157 min problems: 12 1/2 min
Last circulation 6245 - 2 1/2 min

Contractor **Peterson** | Rig number **4** | Drilling foreman **Ken Sifford**



Daily Drilling Report

Well name and number **Scoggin Draw Federal Com. B #1** CSG **8 5/8" @ 1800'** Date **6-17-89**

Days since spud **14** Status A I Indicators: SD, LOG, ST, F, PROB

AFE number **04195** Daily cost **1 0 1 7912** Mud **110** Turnkey **4149**

CSGPT Date

Mud Properties Type **FW** Wt. **8.4** Vis **27** PV YP Gels **1** APIWL HTHP PH **10**

CHL **1200** Total hardness **480** O/W ratio ES % Oil % SD MBT #/BBL % Total Slid. **6**

% LGS % HGS #/BBL BEN #/BBL OS LCM #/BBL M. Cake **132**

Materials used last 24 hrs.

BBLs. Water:	Materials	Units	Cost
Water	Water	5	SX@\$
Caustic	Caustic	3	SX@\$
			SX@\$
			SX@\$

Mud Log Data

Pore press
B/G gas
Conn gas
Trip gas
Max gas
Shale density
Lithology

Solids Control Equipment

SYS Vol	bbbls	SYS eff	%
Shakers screen size			
D-Sander			hrs
D-Sifter			hrs
Mud cleaner			hrs
Screen size			
Centrifuge #1			hrs
Centrifuge #2			hrs

Inventory

Bante
Water
Fuel

Hydraulics

	#1	#2	Surveys (Mag. corr.)	Angle	DIR
Pump (Make and Model)	EWCO W-600	EWCO W-400	Meas depth		
LS x SL x SPM	5 1/2 x 15 x 58	5 x 14 x	6745	3/4	
Slow rate (SPM/PSI)	20 1 400	1			
GPM	295	1500	BHP		
AV:DP	175	277	JV		
ECD @ CS	@ TD	385	Frac grad @ cs		

Bit record

Bit No.	Size	Make	Type	Serial No.	No. & Size Jets	IADC code	Depth out	Depth in	Ft. made	Hrs. drig.	WOB	RPM	Condition
5	7 1/2	STC	F-47H	LZ 3276	10-10-11	637		5524	1325	59 1/4	50-55M	60	

BOP

Test date	6-14-89
Press	3000#
Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
KOTMD	
KOTVD	
PBTMD	
PBTVD	

BHA Hours **265 3/4** Wt. in mud **58,000** Min ID **2 1/4"** Torque

Details **SAME 705.6'**

Str. wt Up **170M** Down **155M** Rotating **160M**

Time breakdown (% hours)

Drilling 23 1/2	Reaming	Cementing	Rig Move/Mobilization
Tripping	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair ng	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys 1/2	Total 24

Narrative (See back) Current TMD/TVD **6247** Current formation **SH + LM** Current OPS **DELL** Hole made 24 hours **483**

DRILLING FROM 6244 - 6247 .57 NO PROBLEMS & NO LOSS-33

LAST 24 HOURS 6705 - 2 1/4"

Contractor **Peterson** Rig number **4** Drilling foreman **Sifford**



Daily Drilling Report

Well name and number CONRAD DRAW FEDERAL COLONY #1 CSG 2 3/8" @ 1800' Date 6-18-89

Days since spud 15 Status A I Indicators: SD, LOG, ST, F, PROB

AFE number 04145 Daily cost T 0 I 8203 Mud 377 Formkey 4526

CSGPT Date

Mud Properties Type FW Wt. 8.4 Vis 28 PV YP Gels 1 APIWL HTHP PH 11.5

CHL 1400 Total hardness 440 O/W ratio ES % Oil % SD MBT #/BBL % Total Sid. .6

% LGS % HGS #/BBL BEN #/BBL OS LCM #/BBL M. Cake 132

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbls SYS eff %
<u>DAPAC : 6 SX@\$</u>	<u>: SX@\$</u>	BG gas		Shakers screen size	<u>1</u>
<u>EX MUD : 1 SX@\$</u>	<u>: SX@\$</u>	Conn gas		D-Sander	hrs
<u>CAMP : 7 SX@\$</u>	<u>: SX@\$</u>	Trip gas		D-Sifter	hrs
<u>SWCO : 1 SX@\$</u>	<u>: SX@\$</u>	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Banta		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics		Surveys (Mag. corr. _____)	
Pump (Make and Model)	<u>EWCO W600</u>	Meas depth	<u>7237</u>
LS x SL x SPM	<u>5 1/2 x 15 x 58</u>	Angle	<u>3/4</u>
Slow rate (SPM/PSI)	<u>25 1000</u>	DIR	
GPM <u>295</u>	Press <u>1100</u>		
AV:DP <u>1-5</u>	DC <u>277</u>		
ECD @ CS <u>@ TD</u>			

Bit record				BOP	
Bit No.	<u>5</u>	Depth out		Test date	<u>6-14-89</u>
Size	<u>7 7/8</u>	Depth in	<u>5524</u>	Press	<u>3000</u>
Make	<u>STZ</u>	Ft. made	<u>1216</u>	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	<u>E17 H</u>	Hrs. drlg.	<u>82 3/4</u>	KOTMD	
Serial No.	<u>L7 3276</u>	WOB	<u>50M</u>	KOTVD	
No. & Size Jets	<u>10-10-11</u>	RPM	<u>60</u>	PBTMD	
IADC code	<u>637</u>	Condition		PBTVD	

BHA Hours 29 1/4 Wt. in mud 58 M Min ID 2 1/4" Torque

Details SAME

Str. wt Up 180 M Down 155 M Rotating 165 M

Time breakdown (1/4 hours)			
Drilling <u>23 1/2</u>	Reaming	Cementing	Rig Move/Mobilization
Tripping	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys <u>1/2</u>	Total <u>24</u>

Narrative (See back) Current TMD/TVD 7340 Current formation LM Current OPS 5266 Hole made 24 hours 193

DRILLING FROM 5524 - 7340 W/ NO LOSS + NO PROBLEMS, SURVEY:
7237 - 3/4 3000

Sun-21195

Contractor PETERSON Rig number 24 Drilling foreman SITFIELD



Daily Drilling Report

Well name and number **SCORPION DRAW F-ED COMM. B-1** CSG **878 @ 1800** Date **6-19-89**
 Days since spud **16** Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number **04195** Daily cost **0** **7712** Mud **371** Turnkey **4997**
 CSGPT Date

Mud Properties Type **FW** WL **3.4** Vis **27** PV YP Gels **1** APIWL HTHP PH **11**
 CHL **1800** Total hardness **400** O/W ratio ES % Oil % SD MBT #/BBL **16** % Total Slid.
 % LGS % HGS #/BBL BEN #/BBL DS LCM #/BBL M. Cake **1/32**

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs. Water:		Pore press		SYS Vol	bbls SYS eff %
PAPER : 5 SX@\$	: SX@\$	BG gas		Shakers screen size	1
FLUID : 1 SX@\$	: SX@\$	Conn gas		D-Sander	hrs
CMC/TC : 7 SX@\$	: SX@\$	Trip gas		D-Filter	hrs
D. Sweep : 1 SX@\$	: SX@\$	Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics	#1	#2	Surveys (Mag. corr.)		
Pump (Make and Model)	W-60		Meas depth	Angle	DIR
LS x SL x SPM	5 1/2 x 15 x 58	x x	7530	4 1/4	
Slow rate (SPM/PSI)	28 1 400	. 1			
GPM 295	Press 1200	BHHP			
AV:DP 175	DC 277	JV			
ECD @ CS	@ TD	Frac grad @ cs			

Bit record						BOP	
Bit No.	5	6	Depth out	7530		Test date	6-14-89
Size	7 7/8	7 7/8	Depth in	5524	7530	Press	3000
Make	STC	HTC	Ft. made	2006	270	Sidetrack	<input type="checkbox"/> Yes <input type="checkbox"/> No
Type	F47H	ATJ44C	Hrs. drlg.	90 1/4	9 1/2	KOTMD	
Serial No.	L23776	C9345	WOB	50-55	44	KOTVD	
No. & Size Jets	1070-11	10-11-11	RPM	60	52	PBTMD	
IADC code	637	627	Condition	T8BL440		PBTVD	

BHA Hours **306 1/4** WL in mud **58.000** Min ID **2 1/4"** Torque
 Details **BIT, BS, 1-6" DC, IBS, 2-6" DC'S, IBS, 20-6" DC'S, RT TOOL, (705.61')**
 Str. wt Up **185 M** Down **165 M** Rotating **175 M**

Time breakdown (1/4 hours)			
Drilling 17	Reaming 1 1/2	Cementing	Rig Move/Mobilization
Tripping 5 1/2	Hole opening	Nipple up/down	Wait on orders
Circ/cond	Service/repair rig	Fishing	Wait on weather
Short trip	Well logging	Lost circulation	Other
Test BOP's	Run casing	Surveys	Total 24
Narrative (See back)	Current TMD/TVD 7400	Current formation LM + SD	Current OPS DRLLG
			Hole made 24 hours 460

DRILLED FROM 7340 - 7530, TRIP FOR BIT, REAMED 60' TO BITM NO
 FTL, DRILLED 7530 - 7734, LOST 100% RETURNS, MEX + PUMP!
 20 SX PLUG IT, REACHED 100% RETURNS, CONT DRLLG
 FROM 7730 - 7800 W/ 100% RETURNS, NO OTHER PROBLEMS
 LAST SURVEY : 7530 - 4 1/4 DEG

Contractor **PETERSON** Rig number **4** Drilling foreman **SIFFORD**

Sun-21195



Daily Drilling Report

Well name and number: SADGAIN DEANW FILL COMM, EMI CSG 878 @ 1800 Date 6-20-89
 Days since spud 17 Status A I Indicators: SD, LOG, ST, F, PROB
 AFE number 01111 Daily cost T 13,594 Mud 2537 Turnkey 7434
 CSGPT Date

Mud Properties: Type 2 POLY LSND Wt. 8.5 Vis 31 PV 2 YP 3 Gels 0 1 1 APIWL 36 HTHP PH 11
 CHL 1700 Total hardness 20 O/W ratio ES % Oil MBT #/BBL % Total Slid. 1.5
 % LGS % HGS #/BBL BEN 7.5 #/BBL DS 10 #/BBL / 850 ppm 'K' LCM TR #/BBL M. Cake 1 132

Materials used last 24 hrs.		Mud Log Data		Solids Control Equipment	
BBLs Water: <u>425 BBL</u>		Pore press		SYS Vol	bbls SYS eff %
ERMUD: <u>4</u> SX@\$	KOH: <u>4</u> SX@\$	BG gas	<u>5</u>	Shakers screen size	<u>60' 60</u>
GEL: <u>92</u> SX@\$		Conn gas	<u>20</u>	D-Sander	hrs
PLU: <u>31</u> SX@\$		Trip gas		D-Sifter	hrs
KCAF3: <u>2</u> SX@\$		Max gas		Mud cleaner	hrs
Inventory		Shale density		Screen size	
Barite		Lithology		Centrifuge #1	hrs
Water				Centrifuge #2	hrs
Fuel					

Hydraulics		Surveys (Mag. corr.)	
Pump (Make and Model)	#1 <u>EMCO W-200</u> #2 <u>EMCO W-400</u>	Meas depth	Angle
LS x SL x SPM	<u>5 1/2 x 1 1/2 x 5B</u> <u>5 x 1 1/4 x 5B</u>	<u>8030</u>	<u>4 3/4</u>
Slow rate (SPM/PSI)	<u>25 / 400</u>		
GPM	Press <u>1500</u> BHHP <u>3.5</u>		
AV:DP <u>173</u>	DC <u>278</u> JV <u>341</u>		
ECD @ CS	@ TD	Frac grad @ cs	

Bit record			BOP	
Bit No.	<u>6</u>	Depth out	Test date	<u>6-14-89</u>
Size	<u>7 1/8</u>	Depth in	Press	<u>3000</u>
Make	<u>HIZ</u>	Ft. made	Sidetrack	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Type	<u>AT-1110</u>	Hrs. drlg.	KOTMD	
Serial No.	<u>69345</u>	WOB	KOTVD	
No. & Size Jets	<u>10-41-4</u>	RPM	PBTMD	
IADC code	<u>677</u>	Condition	PBTVD	

BHA Hours 329 3/4 Wt. in mud 58 M Min ID 2 1/4 Torque

Details SAME (705.61)

Str. wt Up 205 M Down 175 M Rotating 189 M

Time breakdown (% hours)			
Drilling	<u>23 1/2</u>	Reaming	
Tripping		Hole opening	
Circ/cond		Service/repair ng	
Short trip		Well logging	
Test BOP's		Run casing	
		Cementing	
		Nipple up/down	
		Fishing	
		Lost circulation	
		Surveys	<u>1/2</u>
		Rig Move/Mobilization	
		Wait on orders	
		Wait on weather	
		Other	
		Total	<u>24</u>

Narrative (See back) Current TMD/TVD 2470 Current formation LM + SS Current OPS D.L.L. Hole made 24 hours 670

Drilling from 7200 - 8470' mud up @ 8000' lost 30 BBL'S @ 8220' + 60 BBL'S @ 8300' mud logging on @ 8200' last survey: 8030' - 4 3/4" NO PROBLEMS PR 25 FPH

Contractor ... Rig number 1 Drilling foreman STFORD

SCOGGIN DRAW FEDERAL COMM 'B' #1

22-18-27

06/25/89

TMD: 9790 TVD: PBTMD: PBTVD:
9790/LM, SH & COAL/ WASH TO BTM/130/ DRILLED FROM 9660 TO 9790' W/NO PROBLEMS
& SLIGHT SEEPAGE/ TRIP FOR NEW BIT, BIT #7 GRADED OUT T8 B4 & IN GAUGE AFTER
27 HRS/ NOW WASHING TO BTM/ SURVEY: 9790', 2-1/4 DEG/ BG 25 UTS, CG25 UTS/
MW 8.8 PPG/

06/26/89

TMD: 10050 TVD: PBTMD: PBTVD:
10050/SH & LM/CIRC & COND/260/ FIN WASHING 130' TO BTM, NO FILL/ DRILLED
FROM 9790 TO 10050'/ TD @ 4:00 AM 6/26/89/ NOW CIRC'G FOR LOGS/ DRLG BREAK:
9954-9970', 5-1/2 MPF TO 2 MPF, BACK TO 6 MPF/ LOST APPROX 250 BBLs MUD @
9970'/ BGG INCRSD FROM 20 UTS TO 100 UTS, BACK TO 20 UTS/ MW 8.8 PPG/

06/27/89

TMD: 10050 TVD: PBTMD: PBTVD:
10050/SH & LM/CIRC FOR DST/O/ CIRC FOR LOGS, MADE 10 STD SHORT TRIP, HAD
85,000# DRAG ON 2ND STD OFF BTM, 5' FILL/ CIRC BTMS UP, SLMOOH NO CORR/
SCHLUM RAN DIL-SFL-GR FROM 10038-5000', RAN CNL-FDT-GR-CAL FROM 10036 TO
SURF/ TIH W/RERUN BIT #8, WASH 30' TO BTM, HAD 16' FILL/ NOW CIRC FOR DST
#1, NO INC IN GAS UTS ON BTMS UP/ MW 8.8 PPG/

06/28/89

TMD: 10050 TVD: PBTMD: PBTVD:
10050/SH & LM/TIH W/BIT/O/ CIRC & COND HOLE FOR DST/ POH, HAD 85,000# DRAG
OFF BTM/ PU TEST TOOLS, TIH FOR DST, TOOLS TAKING WT @ 9505', SET DOWN 50,000
PULL TOOLS FREE W/60,000# ABOVE STRING WT, UNABLE TO WORK TOOLS DEEPER/ POH
W/DST TOOLS, NOW TIH W/BIT/ MW 8.7 PPG/ LOST 180 BBLs DRLG MUD WHILE TIH W/
TEST TOOLS/

06/29/89

TMD: 10050 TVD: PBTMD: PBTVD:
10050/SH & LM/PU DST TOOLS/O/ TIH W/BIT TO 1800', BUILD VOLUME/ FIH, TAG @
9767', WASH & REAM 283' TO BTM, CIRC & COND HOLE, RECOVERED LARGE AMTS OF
SHALE & LCM, CIRC CLN, MADE 10 STD SHORT TRIP, HAD 65,000# DRAG ON 1ST 2 TO
3 STDS/ TIH, HAD 5' FILL, CIRC & COND HOLE, RAISE VIS TO 56/ TOH TO PU DST
TOOLS/ NOW PU TOOLS/ MW 8.8 PPG/

06/30/89

TMD: 10050 TVD: PBTMD: PBTVD:
10050/LM & SH/POH/O/ FIN PU DST TOOLS/ TIH, ADD 1000' WTR CUSHION, HAD 16'
FILL/ SET PKRS & OPEN TOOLS, LOST PKR SEAT IMMED/ RECYCLED TOOLS AND RESET
PKRS, LOST PKR SEAT/ TOH, LD DST TOOLS, TIH W/OE DP, TAG @ 10030', 20' FILL/
CIRC BTMS UP/ RU WESTERN MIX & SPOT 120 SX CLASS H + .5% CF-14 + 5#/SK GIL-
SONITE FROM 10030 UP/ LD, 4 JTS DP/ NOW POH W/DP STANDING BACK/ PREP TO TIH
W/BIT AND DRESS OFF CMT PLUG/ MW 8.8 PPG/

SCOGGIN DRAW FEDERAL COMM '8' #1

07/01/89

TMD: 10050 TVD: PBTMD: PBTVD:
 10,050/LM & SH/PU DST TOOLS/O/FIN POH W/OE DP, TIH W/BIT, TAG TOP OF CMT
 AT 9760', DRESS OFF CMT PLUG TO 9780', SET 50,000# ON CMT PLUG HELD OK,
 CIRC & COND MUD, BUILD VOLUME, MADE 10 STD SHORT TRIP, WAIT 1 HR LOWER TO
 BTM W/NO DRAG OR FILL, POH W BIT, NOW PU DST TOOLS, MW 8.8 PPG

07/02/89

TMD: 10050 TVD: PBTMD: PBTVD:
 10,050/LM & SH/TIH/O/FIN PU DST TOOLS, TIH TO 1000', ADD 1000' OF WTR
 CUSHION, FIN TIH FOR DST, SET PKRS/DST #1 9600-9780, MORROW, HALLIBURTON,
 1000' WTR CUSHION, BHC 3/4", SC 1/4", 10 MIN IF, 30 MIN ISI, 60 MIN FF,
 180 MIN FSI, IF: OPEN W/WEAK BLOW INCREASING TO 1-1/2 OZ. IN 10 MIN, ISI:
 BLOW DIED IN 30 MIN, FF: OPEN W/WEAK BLOW INCREASING TO 3 PSI IN 30 MIN,
 AND STAYED AT 3 PSI FOR REMAINING 30 MIN, FSI: PRESS WENT FROM 3 PSI TO 0
 PSI IN 1 HR AND STAYED DEAD THE REMAINING 2 HRS, NO GAS TO SURF., JARRED
 ON PKRS TO 100,000# OVER WT. FOR 30 MIN, AND JARRED PKRS FREE, PKRS
 DRAGGING MOST OF THE WAY OUT OF THE HOLE, POH, HAD NO ADDITIONAL RECOVERY,
 JUST 1000' OF WTR CUSHION IN DP, LD DST TOOLS, SAMPLER PRESS 1700 PSI,
REC. TR CC MUD. 0 CC WTR. 0 CC OIL. 12.6 CF GAS, BHT 148 DEG F, IHP 4506 PSI,
IF 563 TO 563 PSI, ISI 1211 PSI, FF 563 PSI TO 563 PSI, FSI 1985 PSI, FHP
 4506 PSI, TIH W/ BIT, BHA & 1 STD DP TO 700', WELL GASSING, CIRC & LOAD HOLE
W/MUD, APPARENTLY WHILE POH W/DST TOOLS SWABBED IN SOME GAS AND WHEN TIH
W/BIT HOLE TOOK SOME FLUID, TIH TO 1800', CIRC OUT GAS CUT MUD, TIH W/BIT
NOW AT 8000', LOST APPROX 200 BBLS MUD WHILE TIH, MW 8.8 PPG

07/03/89

TMD: 10050 TVD: PBTMD: PBTVD:
 10,050/LM & SH/CIRC & WOC/O/FIN TIH W/BIT, WASH 50' TO BTM W/NO FILL, CIRC
 AND COND HOLD AND WOO, RECEIVED ORDERS TO P&A, TOH LDDCS, TIH W/OE DP TO
 9550', CIRC BTMS UP, WESTERN MIX & SPOT 125 SX CLASS 'H' CMT FROM
 9550' TO 9300', PU TO 9000', CIRC & WOC, WILL TAG CMT PLUG AFTER 4 HRS
 WOC, AS PER BLM SPEC. MW 8.8 PPG

07/04/89

*** FINAL REPORT ***

TMD: 10050 TVD: PBTMD: PBTVD:
 10050/LM & SH/RLSE RIG/O/ CIRC & WOC 4 HRS, LWR DP & TAG CMT PLUG @ 9333'/
 POH, LDDP TO 8816'/ WESTERN MIX & SPOT 50 SX CLASS H CMT PLUG FROM 8816 TO
 8662'/ POH, LDDP TO 6934'/ WESTERN SPOT 100 SX CLASS H CMT PLUG FROM 6934
 TO 6585'/ POH, LDDP TO 1850'/ WESTERN MIX & SPOT 130 SX CLASS C CMT PLUG
 FROM 1850 TO 1367'/ PU TO 1000', CIRC & WOC 4 HRS, LWR DP, TAG CMT PLUG @
 1519'/ POH, WESTERN SPOT 25 SX CLASS C CMT PLUG @ SURFACE/ ND BOP/ CUT OFF
 WH & 8-5/8" CSG/ WELD ON STEEL PLATE & DRY HOLE MARKER, JET PITS/ RLSE RIG
12:00 MIDNIGHT 7/04/89/ WELL P&A/ MW 8.8 PPG/

SCOGGIN DRAW FEDERAL COMM 'B' #1

07/01/89

TMD: 10050 TVD: PBTMD: PBTVD:
 10,050/LM & SH/PU DST TOOLS/O/FIN POH W/OE DP, TIH W/BIT, TAG TOP OF CMT
 AT 9760', DRESS OFF CMT PLUG TO 9780', SET 50,000# ON CMT PLUG HELD OK,
 CIRC & COND MUD, BUILD VOLUME, MADE 10 STD SHORT TRIP, WAIT 1 HR LOWER TO
 BTM W/NO DRAG OR FILL, POH W BIT, NOW PU DST TOOLS, MW 8.8 PPG

07/02/89

TMD: 10050 TVD: PBTMD: PBTVD:
 10,050/LM & SH/TIH/O/FIN PU DST TOOLS, TIH TO 1000', ADD 1000' OF WTR
 CUSHION, FIN TIH FOR DST, SET PKRS/DST #1 9600-9780, MORROW, HALLIBURTON,
 1000' WTR CUSHION, BHC 3/4", SC 1/4", 10 MIN IF, 30 MIN ISI, 60 MIN FF,
 180 MIN FSI, IF: OPEN W/WEAK BLOW INCREASING TO 1-1/2 OZ. IN 10 MIN, ISI:
 BLOW DIED IN 30 MIN, FF: OPEN W/WEAK BLOW INCREASING TO 3 PSI IN 30 MIN,
 AND STAYED AT 3 PSI FOR REMAINING 30 MIN, FSI: PRESS WENT FROM 3 PSI TO 0
 PSI IN 1 HR AND STAYED DEAD THE REMAINING 2 HRS, NO GAS TO SURF., JARRED
 ON PKRS TO 100,000# OVER WT. FOR 30 MIN, AND JARRED PKRS FREE, PKRS
 DRAGGING MOST OF THE WAY OUT OF THE HOLE, POH, HAD NO ADDITIONAL RECOVERY,
 JUST 1000' OF WTR CUSHION IN DP, LD DST TOOLS, SAMPLER PRESS 1700 PSI,
REC. TR CC MUD 0 CC WTR 0 CC OIL 12.6 CC GAS, BHT 148 DEG F, IHP 4506 PSI,
 IF 563 TO 563 PSI, ISI 1211 PSI, FF 563 PSI TO 563 PSI, FSI 1985 PSI, FHP
 4506 PSI, TIH W/ BIT, BHA & 1 STD DP TO 700', WELL GASSING, CIRC & LOAD HOLE
 W/MUD, APPARENTLY WHILE POH W/DST TOOLS SWABBED IN SOME GAS AND WHEN TIH
 W/BIT HOLE TOOK SOME FLUID, TIH TO 1800', CIRC OUT GAS CUT MUD, TIH W/BIT
NOW AT 8000', LOST APPROX 200 BBLs MUD WHILE TIH, MW 8.8 PPG

07/03/89

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 10,050/LM & SH/CIRC & WOC/O/FIN TIH W/BIT, WASH 50' TO BTM W/NO FILL, CIRC
 AND COND HOLD AND WOO, RECEIVED ORDERS TO P&A, TOH LDDCS, TIH W/OE DP TO
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 WOC, AS PER BLM SPEC. MW 8.8 PPG

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 TO 6585'/ POH, LDDP TO 1850'/ WESTERN MIX & SPOT 130 SX CLASS C CMT PLUG
 FROM 1850 TO 1367'/ PU TO 1000', CIRC & WOC 4 HRS, LWR DP, TAG CMT PLUG @
 1519'/ POH, WESTERN SPOT 25 SX CLASS C CMT PLUG @ SURFACE/ ND BOP/ CUT OFF
 WH & 8-5/8" CSG/ WELD ON STEEL PLATE & DRY HOLE MARKER, JET PITS/ RLSE RIG
12:00 MIDNIGHT 7/04/89/ WELL P&A/ MW 8.8 PPG/

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ASSIGNMENT OF OPERATING RIGHTS

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned, JOHN H. TRIGG and wife, PAULINE V. TRIGG, Assignor, for and in consideration of the sum of TEN DOLLARS, cash in hand paid, the receipt and sufficiency of which is hereby acknowledged, do hereby transfer, sell, convey and assign unto SINCLAIR OIL CORPORATION, Assignee, an undivided 50% interest in and to the exclusive right and privilege of operating, testing and developing the premises for oil, gas, casinghead gas and other hydrocarbon minerals and in and to all the rights and privileges granted to Lessee under the terms thereof, and in the event of discovery and production of such minerals, the ownership of production therefrom, covered by the following described oil and gas lease:

Serial Number: LC 060122
Dated: April 1, 1948
Lessor: United States of America
Lessee: John Tedrowe Bonner
Land Covered: (Among other lands not included herein) the minerals at the depth and strata in land located in Eddy County, New Mexico, and described as:

Township 18 South, Range 27 East, N.M.P.M.

N/2 of Section 27

containing 320 acres, more or less, down to and including the depth of 10,035 feet from the surface.

Overriding Royalty: 6.25%

together with a like interest in all personal property thereon or pertinent thereto or used or obtained in connection therewith and subject, however, to a like proportionate part of the basic royalty and subject to a like proportionate part of the above mentioned overriding royalty.

The above described oil and gas lease is subject to the Operating Agreement covering the above described land, by and between John H. Trigg and wife, Pauline V. Trigg and Sinclair Oil Corporation.

Assignor shall promptly furnish to Assignee copies of all notices or other communications received from the Department of the Interior or any representative or official thereof pertaining to said oil and gas lease and shall upon request of Assignee make application for any extension or renewal of said oil and gas lease to the lands covered by this agreement where such renewal or extension is allowed or permitted by law or regulation, and upon request of Assignee, make application for any drilling, rental, royalty or other relief with respect to the lands covered by this assignment which to Assignee may be deemed proper and Assignee shall pay or reimburse Assignor for Assignee's proportionate part of all expenses in connection therewith, insofar as the same cover and affect the lands covered by this assignment. Assignor hereby

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does give and grant to Assignee full power and authority to do and perform every act and thing, not otherwise expressly provided for herein, necessary or required to be done or performed by Assignor in connection with said oil and gas lease insofar as same covers and affects the lands covered by this assignment.

In the event that Assignor shall desire to surrender or relinquish said lease insofar as it covers those depths and strata and any mineral or minerals in the lands first above described and retained by Assignor, or any part thereof, Assignor shall execute and deliver to Assignee a proper assignment of said oil and gas lease insofar as it covers the aforementioned premises, or such portion thereof as Assignor may desire to surrender or relinquish. Assignee agrees to accept such assignment, and immediately file the same for approval along with necessary proof of its qualifications to hold a Federal lease in accordance with the regulations of the Department of the Interior, and to furnish Assignor with a copy of the qualification papers so filed. After approval of said assignment by the Department of the Interior, Assignor shall be relieved of their duty to pay rentals and/or minimum royalties as hereinafter provided, which are apportionable to the land covered by such assignment; and thereafter the premises so assigned to Assignee shall be free and clear of the terms of this assignment.

Assignor shall pay all rentals and/or minimum royalties which may become due and payable under the terms of said oil and gas lease hereinabove described with respect to the land covered hereby, and Assignee, in proportion to its ownership, shall reimburse Assignor for one-half of all such rentals and/or minimum royalties paid; provided, however, that Assignor shall not be liable for inadvertent failure to pay such rentals and/or minimum royalties.

All of the parties hereto shall be entitled to any benefits or credits or minimum royalty payments, as provided for in said lease, on account of the production of oil, gas, casinghead gas and other hydrocarbon minerals upon any part of the land described in said lease whether the same be on account of the production of said products from the land retained by Assignor and excepted from the operation of this assignment or upon the land, or any part thereof, covered by this assignment.

EXECUTED as of March 7, 1967.



 John H. Trigg



 Pauline V. Trigg

ASSIGNOR

Effective March 4, 1969, Sinclair Oil Corporation, a New York corporation, was merged into Atlantic Richfield Company, a Pennsylvania corporation, and all interests of the merged company in the within assignment and any antecedent agreements by operation of law vested in, and all obligations imposed on the merged company by the within assignment and any antecedent agreements were assumed by Atlantic Richfield Company. For this reason the within assignment is being executed by Atlantic Richfield Company, this 2nd day of March, 1969.

ATLANTIC RICHFIELD COMPANY

By 

 Its Attorney-in-Fact

ASSIGNEE

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STATE OF NEW MEXICO
COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 7th day of March, 1969, by JOHN H. TRIGG and wife, PAULINE V. TRIGG.



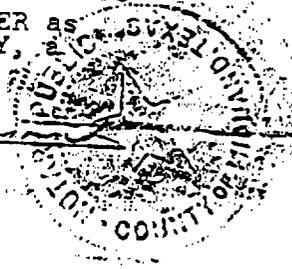
My Commission Expires:

August 21, 1971

Travis Ferris
Notary Public

THE STATE OF TEXAS
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 21st day of March, 1969, by C. S. TINKLER as attorney-in-fact in behalf of ATLANTIC RICHFIELD COMPANY, a Pennsylvania corporation.



My commission expires
June 1, 1969.

Helen C. L...
Notary Public

STATE OF NEW MEXICO, County of Eddy, as: I hereby certify that this instrument was filed for record on the 14 day of Aug, 1969 at 11:00 o'clock A.M. and duly recorded in book 68, page 0704 of the Records of Trine.

Midred Branch, County Clerk

By Christina Campbell Deputy

447

NO. 11-39,068 MAY 15 PM 6:43

CHARLES E. NEARBURG, d/b/a Cathy Trigg § IN THE DISTRICT COURT
NEARBURG EXPLORATION COMPANY, §

PLAINTIFF, §

vs. §

JOHN H. TRIGG AND PAULINE V. §
TRIGG, AS TRUSTEES OF THE §
TRIGG FAMILY TRUST, YATES §
PETROLEUM CORPORATION, §
YATES DRILLING COMPANY, §
ABO PETROLEUM CORPORATION, §
MYCO INDUSTRIES, INC., §
H.M. BETTIS, INC., TURNCO §
INC., L.E. OPPERMAN, BETTIS §
BROTHERS, INC., M. CRAIG §
CLARK AND DAVID CROMWELL, §

OF MIDLAND COUNTY, TEXAS

DEFENDANTS. §

12 JUDICIAL DISTRICT

ORIGINAL PETITION OF CHARLES E. NEARBURG d/b/a
NEARBURG EXPLORATION COMPANY

TO THE HONORABLE JUDGE OF SAID COURT:

Charles E. Nearburg d/b/a Nearburg Exploration Company ("Nearburg") files this his Original Petition against John H. Trigg and Pauline V. Trigg, as Trustees of the Trigg Family Trust, Yates Petroleum Corporation, Yates Drilling Company, ABO Petroleum Corporation, MYCO Industries, Inc., H.M. Bettis, Inc., Turnco Inc., L.E. Opperman, Bettis Brothers, Inc., M. Craig Clark and David Cromwell and respectfully shows the following:

1. Nearburg is an individual residing in Dallas County, Texas.

2. **John H. Trigg** and **Pauline V. Trigg** are individuals residing in Chavez County, New Mexico upon whom process may be served by registered mail, return receipt requested, at P.O. Box 520, Roswell, New Mexico 88201.

3. **Yates Petroleum Corporation** is a corporation authorized to conduct business in the State of Texas, upon whom process may be served through its registered agent for service, Donald Logan, 201 Wall Towers, Midland, Texas 79701.

4. **Yates Drilling Company** is corporation upon whom process may be served by serving its registered agent for service, S. P. Yates, 105 South 4th, Artesia, New Mexico 88210.

5. **ABO Petroleum Corporation** is a corporation upon whom process may be served by serving its registered agent for service, John A. Yates, 105 South 4th, Artesia, New Mexico 88201.

6. **MYCO Industries, Inc.** is a corporation authorized to conduct business in the State of Texas upon whom process may be served through its registered agent for service, Tom Dyches, 306 West Wall, Suite 140, Midland, Texas 79701.

7. **H.M. Bettis, Inc.** is a corporation authorized to conduct business in the State of Texas upon whom process may be served through its registered agent for service, H.M. Bettis, 505 5th Street, Graham, Texas 26046.

8. **Turnco Inc.** is a corporation authorized to conduct business in the State of Texas upon whom process may be served

through its registered agent for service, H.M. Bettis, 613 3rd Street, Graham, Texas.

9. **L.E. Opperman** is an individual residing in Midland County upon whom process may be served at 500 West Texas, Midland, Texas 79701.

10. **Bettis Brothers, Inc.** is a corporation authorized to conduct business in the State of Texas upon whom process may be served through its registered agent for service, Harry M. Bettis, Jr., 500 West Texas #830, Midland, Texas 79701.

11. **M. Craig Clark** is an individual residing in Midland County upon whom process may be served at 310 West Texas Avenue, Suite 714, Midland, Texas 79701.

12. **David Cromwell** is an individual residing in Midland County upon whom process may be served at 2819 Shandon, Midland, Texas 79705.

13. This Court has jurisdiction of the subject matter and parties involved in this dispute. Venue is proper in Midland County because this suit is based on a contract which was made and performed, in whole or in part, in Midland County. In the alternative, venue is proper in Midland County because one or more of the **Defendants** herein are residents of Midland County.

FACTUAL STATEMENT

14. **The Trigg Family Trust** (the "Trigg Trust") is a record owner of an oil and gas lease located in Eddy County, New Mexico.

Said lease is more particularly described as Lease No. NM LC-060122, covering among other lands the N/2 of Section 27, T-18-5, R-27-E, Eddy County, New Mexico, (the "Lease"). John H. Trigg and Pauline V. Trigg (the "Triggs") (Predecessors-in-interest in the Lease to the Trigg Trust) executed a Farmout Agreement with Sinclair Oil & Gas Corporation ("Sinclair") dated November 4, 1966, a true copy of which is attached hereto as Exhibit "A" (the "Farmout Agreement"). The Farmout Agreement provided that Sinclair would be assigned a fifty percent (50%) interest in the "operating rights" of the Lease upon its completion of a commercially producing oil and gas well on the Lease. Sinclair did, in fact, complete a commercially producing oil and gas well on the Lease, which became known as the Chalk AKH Federal #2 well (the "AKH #2"). Sinclair was assigned a fifty percent (50%) working interest in the Lease, insofar as it covers the N/2 of Section 27, T-18-5, R-27-E, Eddy County, New Mexico, effective March 26, 1969, pursuant to the terms of the Farmout Agreement. A true copy of said Assignment, which is duly recorded in Vol. 68, p. 704 of the Miscellaneous Records of Eddy County, New Mexico, is attached hereto as Exhibit "B". The Assignment was executed for Sinclair by a representative of Atlantic Richfield Company ("ARCO") which merged with Sinclair and acquired all of its interests, effective March 4, 1969.

15. The Triggs and Sinclair (ARCO) executed an operating agreement (the "Operating Agreement") covering the Lease contemporaneously with the Assignment evidenced in Exhibit "B". A

true copy of the Operating Agreement is attached hereto as Exhibit "C". Under its terms, Sinclair (ARCO) was designated as operator of the Lease and the Triggs were designated as non-operators. The Operating Agreement was expressly made subject to the terms and conditions of the Farmout Agreement.

16. ARCO operated the AKH #2 for approximately twelve (12) years before it was plugged and abandoned. Prior to the plugging and abandonment of the AKH #2 other wells were drilled on other tracts encompassing the Lease which were commercially producing oil and gas wells. Said wells have produced, and continue to produce, oil and gas in commercial quantities thus perpetuating the Lease.

17. By Assignment dated November 21, 1992, ARCO assigned all of its fifty percent (50%) interest in the Lease to Nearburg. A true copy of said Assignment, which is duly recorded in Vol. 100, p. 949 of the "Eddy County records," Eddy County, New Mexico, is attached hereto as Exhibit "D". As transferee of ARCO, Nearburg became operator of the Lease pursuant to the Operating Agreement.

18. Defendants Yates Drilling Company, ABO Petroleum Corporation, MYCO Industries, Inc., H.M. Bettis, Inc., Bettis Brothers, Inc., Turnco Inc., L.E. Opperman, M. Craig Clark and David Cromwell are all purported beneficial interest owners in the Trigg Trust's fifty percent (50%) record interest in the Lease. Attached hereto as Exhibit "E" is a schedule of the purported beneficial interest owners and their respective percentages of ownership.

CAUSE OF ACTION

19. One or more of the **Defendants** named herein (the "**Defendants**") dispute the validity of the Operating Agreement and deny that **Nearburg** is the lawful operator of the Lease. A genuine controversy has arisen and now exists between **Nearburg** and the **Defendants** regarding the validity of the Operating Agreement and the identity of the lawful operator of the Lease. This dispute concerns all persons who purport to own an interest in the Lease, whether of record or beneficially, and has necessitated that all of the **Defendants** be joined in this suit.

20. **Nearburg** seeks a declaratory judgment pursuant to the Uniform Declaratory Judgments Act, Civil Practice and Remedies Code Section 37.001, et. seq., decreeing (i) that the Operating Agreement is effective as between **Nearburg** and the **Defendants**, and (ii) that **Nearburg** is the lawful operator of the Lease pursuant to his acquisition of the operating rights in the Lease from ARCO (Exhibit "A") and pursuant to the terms and conditions of the Operating Agreement.

21. A declaratory judgment will terminate the uncertainty and controversy giving rise to this dispute as to the validity of the Operating Agreement and the identity of the lawful operator of the Lease.

22. **Nearburg** prays for such reasonable and necessary costs and attorneys' fees (both trial and appellate) for the prosecution

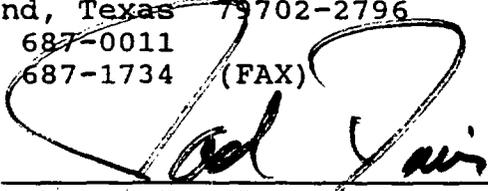
of this action as the Court finds just and equitable, pursuant to Texas Civil Practice and Remedies Code § 37.009.

23. All conditions precedent to **Nearburg's** right to the relief requested herein have been performed or have occurred.

WHEREFORE, **Nearburg** prays that the **Defendants** be cited to appear and answer herein; that the Court enter declaratory judgment that the Operating Agreement covering the Lease is effective as between **Nearburg** and the **Defendants** and that **Nearburg** is the lawful operator of the Lease as pleaded in paragraph 6 above; that **Nearburg** be granted just and equitable attorneys' fees (both trial and appellate) as pleaded above; that **Nearburg** be granted costs of suit; and that **Nearburg** be granted such other and further relief, at law or in equity, to which he may be shown lawfully entitled.

Respectfully submitted,

KEMP, SMITH, DUNCAN & HAMMOND, P.C.
400 W. Illinois, Suite 1400 (79701)
P.O. Drawer 2796
Midland, Texas 79702-2796
(915) 687-0011
(915) 687-1734 (FAX)

By: 

John A. "Jad" Davis, Jr.
State Bar No. 05511400
J. Randy Turner
State Bar No. 20321500

Attorneys for PLAINTIFF CHARLES E.
NEARBURG d/b/a NEARBURG EXPLORATION
COMPANY

PLAINTIFFS
EXHIBIT
A

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FAIRMOUT AGREEMENT

THIS AGREEMENT, made and entered into this 4th day of November, 1966, by and between JOHN H. TRIGG and PAULINE V. TRIGG, his wife, whose address is Post Office Box 520, Roswell, New Mexico, hereinafter referred to as "Trigg", and SINCLAIR OIL & GAS COMPANY, whose address is Post Office Box 1470, Midland, Texas, hereinafter referred to as "Sinclair";

W I T N E S S E T H:

WHEREAS, Trigg is the owner and holder of that certain Oil and Gas Lease from the United States of America to J. T. Bonner as Lessee, dated April 1, 1948, bearing Serial Number LC-060122, insofar as said lease covers:

Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico

Section 22: S4
Section 27: N4, NE&SW4, NW&SE4

Containing 760.00 acres, more or less, hereinafter referred to as "Said Land"; and

WHEREAS, Trigg's interest in said lease covering Said Land is or will be subject to an overriding royalty interest of 6.25% of all oil and gas produced, saved and marketed from the Said Land which is or will be owned by the children of Trigg, (hereinafter called "Children's Override"), and;

WHEREAS, Sinclair desires to acquire and Trigg desires to farmout to Sinclair certain interests in and under the above described lease insofar as it covers Said Land, upon the terms and conditions hereinafter set forth:

NOW THEREFORE, for and in consideration of the premises and mutual covenants herein contained the parties hereto agree as follows:

1. Sinclair agrees to commence on or before December ³¹, 1966, the drilling of a test well for oil and gas, hereinafter referred to as the "Initial Test Well", at a location in the SW&NW4 of Section 27, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and to drill and complete such well on or before ninety (90) days from date of commencement, with due diligence and in a good and workmanlike manner, at the sole cost, risk and expense of Sinclair, to a depth of 9,000 feet from the surface of

EXHIBIT A

the ground or to a depth sufficient to adequately test the Cisco formation of Pennsylvanian age, whichever is the lesser depth, all in the opinion of Trigg's geological department.

2. Should Sinclair timely commence and complete as a commercial producer or plug and abandon as a dry hole the Initial Test Well as provided in Paragraph 1 hereof, then Sinclair shall have the option, but not the obligation, for a period of six (6) months from the date of completion of said Initial Test Well to commence the drilling or deepening of a test well for oil and gas, hereinafter referred to as the "Option Well", at a location of Sinclair's choice on Said Land, and to drill and complete said Option Well with due diligence and in a good and workmanlike manner, at the sole cost, risk and expense of Sinclair, to a depth sufficient to adequately test the Morrow formation of Pennsylvanian age, or to a depth sufficient to adequately test the Devonian formation, all in the opinion of Trigg's geological department, said Option Well to be drilled and completed within ninety (90) days of commencement.

3. (a) Should Sinclair complete the Initial Test Well, as provided in Paragraph 1 hereof, as a well capable of producing oil and/or gas in commercial quantities, Trigg agrees to convey to Sinclair an undivided one-half (1/2) interest in the operating rights from the surface of the ground down to and including one hundred (100) feet below the deepest depth drilled, in, to and under Said Land, subject to its proportionate part of the Children's Override.

(b) Should Sinclair drill and complete the Option Well, as provided in Paragraph 2 hereof, as a well capable of producing oil and/or gas in commercial quantities, Trigg agrees to convey to Sinclair an undivided one-half (1/2) interest in the operating rights down to and including one hundred (100) feet below the deepest depth drilled, in, to and under Said Land, subject to its proportionate part of the Children's Override, provided however, should Sinclair have earned the rights provided in (a) of this Paragraph 3, then Trigg shall convey an undivided one-half (1/2) interest in, to and under Said Lands from the depth of the rights conveyed under (a) of this Paragraph 3, down to and including one hundred (100) feet below the deepest depth drilled in the Option Well.

4. After completion of the Initial Test Well, whether as a producer or dry hole, Sinclair, at its election, shall either (a) conduct continuous drilling operations on the remainder of Said Land with not more than one hundred twenty (120) days elapsing between the completion of a well, whether as a producer or dry hole, and the commencement of actual drilling of the next succeeding well until Sinclair shall have drilled one well to each standard spacing or proration unit fixed by any special field rules promulgated by the New Mexico Oil Conservation Commission, or in the absence of such rules, one well to each 160 acre governmental quarter section in Said Land; each such additional well to be drilled and completed within ninety (90) days from commencement thereof, or (b) surrender and release to Trigg all of Said Land except each tract as defined in (a) of this Paragraph 4, upon which a producing well has been completed, warranting same to be free and clear of all liens, obligations or encumbrances suffered by Sinclair. All other provisions applicable to the Initial Test Well shall be equally applicable to each additional well. Failure of Sinclair to conduct continuous drilling operations as herein provided shall not preclude Sinclair from exercising the option granted under Paragraph 2 to drill the Option Well.

5. Should any well required or permitted under this Farmout Agreement be lost or junked through no negligence or carelessness of Sinclair, or its agents or employees, or if in the drilling of such wells, granite or other practically impenetrable substances or condition is encountered rendering further drilling impractical according to the standards of the immediate area or field, then and in either of such events, and within thirty (30) days from the date such well is lost or junked or abandoned on encountering such practically impenetrable substance or condition, Sinclair may, at its election and without penalty, commence the drilling of a substitute well at a location of Sinclair's choice on the same quarter-quarter section of Said Land, provided, however, such location shall conform to and comply with the rules and regulations of the New Mexico Oil Conservation Commission, and such substitute well, in order to qualify as a substitute well, shall be drilled and completed in the same manner as herein specified for the well so lost, junked or abandoned, and as to all of which the decision of Trigg's Geological

Department shall be conclusive. Should Sinclair timely commence and diligently complete such a substitute well pursuant to the terms of this paragraph, then in such event it shall be considered for all purposes hereof that the well for which it is a substitute was commenced, drilled and completed within the time, to the depth, and in the manner provided therefor.

6. The parties hereto agree that the location of the Initial Test Well, as provided in Paragraph 1 hereof, has been selected by Sinclair to provide Trigg with a carried fifty (50%) per cent working interest in said Initial Test Well completed into the tanks free of all cost and expense to Trigg; should the New Mexico Oil Conservation Commission establish special field rules providing for 640 acre spacing or proration units, Sinclair and Trigg's working interest in the Initial Test Well would be reduced proportionately; in such event, at Sinclair's sole cost and expense, Sinclair agrees to carry Trigg in the drilling of a subsequent well on said land in Section 22, to the extent of the difference between Trigg's working interest in the Initial Test Well and fifty (50%) per cent. If Sinclair elects not to drill such additional well within the time specified in Paragraph 4(a), the provisions of Paragraph 4(b) hereof will apply.

7. It is agreed between the parties hereto that upon conveyance of the operating rights earned by the performance of the obligations set forth herein all subsequent operations on said land will be conducted in accordance with the terms of the form of Joint Operating Agreement attached hereto and marked Exhibit "A"; and that at such time as Sinclair shall have earned its interest in said land all parties hereto shall properly execute said Joint Operating Agreement.

8. Trigg will make a bona fide effort (with no penalty or liability for oversight in this connection) to pay all rentals or minimum royalty becoming due after the date of this Farmout Agreement under the terms of the above described lease, insofar as it covers said land; and Sinclair shall reimburse Trigg for one-half (1/2) of such rentals or minimum royalty within thirty (30) days after receipt of Trigg's invoice therefor.

9. Sinclair agrees to keep Trigg's leasehold interest free from liens, encumbrances and claims created by, through or under Sinclair and

that Sinclair, its contractor or subcontractor shall carry insurance with satisfactory companies and of sufficient coverage to insure against the risks specified in Paragraph 26 of Exhibit "A" attached hereto.

10. Sinclair shall allow the representatives and duly authorized agents of Trigg to have access to Said Land, as well as the derrick floor of any well or wells drilled pursuant to this Farmout Agreement, at any and all times during the drilling, completing, reworking and/or operating of any such well or wells, and shall furnish Trigg with any and all information available pertaining to the drilling, completing, reworking and/or operation of any such well, including but not limited to:

(a) One copy of all reports pertaining to the drilling of any such well filed by Sinclair with any governmental authority, such reports to be delivered to Trigg at the same time such reports are filed with such governmental authority;

(b) Copies of daily drilling reports showing the status, progress and changes in formation encountered in the drilling of any such well, and complete results of directional electric, crooked or straight hole surveys, core analyses and any and all other tests or surveys made in connection with such well;

(c) A full set of sample cuttings from any such well, to be delivered to the New Mexico Oil Scouts Association, Inc., 115 North Coleman, Hobbs, New Mexico, no later than fifteen (15) days after the completion or plugging of such well;

(d) Dual Induction-Laterolog and Gamma-Ray-Sonic logs or equivalent logs shall be made and two prints and one reproducible sepic copy thereof shall be furnished Trigg;

(e) In the event a showing of oil or gas is encountered at any depth or upon encountering a prospective oil or gas zone at any depth in such well, Sinclair shall give Trigg reasonable notice thereof in sufficient time to have a representative present when such zone is tested or cored, and if, in Trigg's opinion it is justified, any showing of oil or gas shall be adequately tested in a prudent manner in accordance with good oil field practices;

(f) All notices herein required shall be given to Trigg or any of his employees at Post Office Box 520, Roswell, New Mexico, telephone number 623-3140 if given during normal working hours or if given on weekends or after regular working hours to Mr. G. E. Harrington, Geologist, at Roswell, New Mexico, telephone number 623-3415.

11. In connection with the performance of work under this agreement, Sinclair agrees to comply with all of the provisions of Section 301 (1) to (7), inclusive, of Executive Order 10925 (28 F. R. 6485), which are hereby incorporated by reference in this agreement.

12. It is understood that this agreement and the obligations hereunder are personal and not assignable by Sinclair without Trigg's expressed consent in writing and that said obligations are several and not joint and nothing herein contained shall constitute or be construed to constitute a partnership, either general or mining, as between Sinclair and Trigg.

13. (a) It is understood that if Sinclair fails to comply with the terms and provisions of this contract with respect to the commencement, drilling and completion of the wells herein provided for, Trigg, in addition to any other relief to which it may be entitled, may demand surrender and release of the interest transferred herein of all of said Land except each tract as defined in (a) of Paragraph 4 hereof, upon which a producing well has been completed, and Sinclair shall thereupon execute and deliver to Trigg an appropriate recordable instrument warranting the interest so surrendered and released to be free and clear of all liens, obligations or encumbrances suffered by Sinclair.

(b) Upon breach of any of the terms and conditions hereof by Sinclair, (other than failure to comply with respect to commencement, drilling and completion of the wells as herein provided), Trigg shall notify Sinclair in writing alleging specifically the respects in which Trigg considers Sinclair has failed to comply, and Sinclair shall have thirty (30) days after the mailing of such notice by Trigg within which to remedy such default so alleged by Trigg. In the event Sinclair has not cured said default within such time, Trigg may at its option, terminate this agreement whereby any rights hereunder, will revert to Trigg, except as to each tract as defined in (a) of Paragraph 4 hereof upon which a producing well has been completed.

The terms of this agreement shall bind the parties hereto and shall inure to the benefit of their respective heirs, devisees, successors and assigns.

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

John H. Trigg
John H. Trigg

Pauline V. Trigg
Pauline V. Trigg

SINCLAIR OIL & GAS COMPANY

By R. M. Koddish

APPROV
SUBSTANCE
FORM
RM

STATE OF NEW MEXICO I
I ss.
COUNTY OF CRAVES I

The foregoing instrument was acknowledged before me this 9th day of November, 1966, by JOHN R. TRIGG and PAULINE V. TRIGG, his wife.

L. Lucille Nichols
Notary Public

My Commission Expires:
December 19, 1967

STATE OF TEXAS I
I ss.
COUNTY OF MIDLAND I

The foregoing instrument was acknowledged before me this 16th day of November, 1966, by R. M. KODDISH, Vice President of Sinclair Oil & Gas Company, a Main corporation, on behalf of said corporation.

Barbara C. Tuttle
Notary Public

My Commission Expires:
January 1, 1967

EXHIBIT "A"
TO FARMOUT AGREEMENT BY AND BETWEEN
JOHN H. TRIGG and PAULINE V. TRIGG and SINCLAIR OIL & GAS COMPANY

MODEL FORM OPERATING AGREEMENT—1956
F336—Federal Lands

OPERATING AGREEMENT

DATED

_____, 19____.

FOR UNIT AREA IN TOWNSHIP _____, RANGE _____, N.M.P.M. _____.

_____ EDDY _____ COUNTY, STATE OF _____ NEW MEXICO _____.

Published and for Sale by
ROSS-MARTIN CO.

Box 800
Tulsa, Oklahoma

Form 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this _____ day of _____, 19____, between

SINCLAIR OIL & GAS COMPANY

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include 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".
- (6) 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 Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. ~~TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS~~

~~A. Title Examination:~~

~~Each party other than Operator shall promptly submit to Operator abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this contract. All of these abstracts and title records shall be examined for the benefit of all parties by Operator's attorneys.~~

~~Operator shall promptly submit abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this agreement, to _____ for examination by the latter's attorney for the benefit of all parties.~~

~~All title examinations shall be made without charge. Each examining attorney shall prepare a complete title report on each separate tract based upon the abstract record and title papers submitted to him. Each title report shall contain a list of fee owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, a report upon mortgages, taxes, pending suits, and judgments, and unreleased oil and gas leases, and a list of requirements, if any, upon which the examiner's approval of title to the lease or oil and gas interest is contingent. The title report shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term (which will be satisfactory if it has a primary term expiring not sooner than _____), amount of royalty, status of delay rental payments, and unusual drilling~~

~~obligations and of excess royalty, oil payments and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, and the parties shall proceed to their performance as they are hereinafter stated.

B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". ^{Section 2} All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing,* and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing* and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand -----Dollars (\$ 5,000.00) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$2,500.00

* See Section 30(c) for additional provision.

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of 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 on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) ^{or a holiday} after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, 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, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 24, and 200% 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.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. 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; if there is a credit balance it shall be paid to such Non-Consenting Party.

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 operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned 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 schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, 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 Unit Area is producing, unless such well conforms to ~~the rules established by the governmental agency having jurisdiction.~~ ^{specific rules established} ~~by the governmental agency having jurisdiction.~~

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. 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.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers 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 and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. 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 and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first ~~obtaining~~ obtaining such other party's written consent

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole 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 shall, upon request, furnish each of the other parties with copies of all 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 Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 13 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvageable 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 then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its 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. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, 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.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Each party shall pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Paragraph 22 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party desire to sell all or any part of its interests under this contract or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

19. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit 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 Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly with assumption of obligations hereunder in writing by assignee, subject to this agreement, and shall be made without prejudice to the rights 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 may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

20. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

21. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is 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 them liable as partners.

22. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit 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 unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the 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 section 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 section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

23. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

24. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit 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 ~~execute~~ ^{render} an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

25. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be returned for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation 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. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with 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".

26. INSURANCE

(a) Operator shall at all times during the term of this agreement carry insurance to protect the parties hereto as set forth in Exhibit "D" hereto attached and made a part hereof, and no other insurance for the benefit of the parties in connection with operations under this agreement shall be carried by Operator, and no change in the insurance set forth in Exhibit "D" shall be made unless agreed to in writing.

(b) Operator shall require all contractors performing work under this agreement to carry insurance as set forth in Exhibit "E" attached hereto and made a part hereof.

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

27. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

28. 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

29. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. 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.

30. OTHER CONDITIONS, IF ANY, ARE:

(a) No well shall be drilled in the Unit Area until after title to the drillsite lease has been examined by an attorney approved by all parties participating in the cost of the well, and the title has been approved by said examining attorney and the title has been accepted by all parties participating in the costs. All costs incurred in connection with examining titles shall be charged to the joint account of the parties hereto.

(b) This Operating Agreement is subject to all the terms and provisions of that certain Farnout Agreement between John R. Trigg, et ux, and Sinclair Oil & Gas Company, dated November 4, 1966, which by reference is incorporated herein for all purposes.

(c) In spite of any provision to the contrary appearing in Section 11 hereof, consent to the drilling of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operators. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday or Sunday or legal holidays) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all of the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

SINCLAIR OIL & GAS COMPANY

ATTEST:

Assistant Secretary

By _____
Vice President

OPERATOR

ATTEST:

John H. Trigg

ATTEST:

Pauline V. Trigg

EXHIBIT "C"

Attached to and made a part of Operating Agreement between
Sinclair Oil & Gas Company, as Operator, and John H.
Trigg, et ux, as Non-Operator, covering land in
Eddy County, New Mexico

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.
"Operator" shall mean the party designated to conduct the Joint Operations.
"Non-Operators" shall mean the nonoperating parties, whether one or more.
"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.
"Parties" shall mean Operator and Non-Operators.
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.
2. **Conflict with Agreement**

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.
3. **Collective Action by Non-Operators**

Where an agreement or other action of Non-Operators is expressly required under this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.
4. **Statements and Billings**

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:
A. Statement in detail of all charges and credits to the Joint Account.
B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.
5. **Payment and Advances by Non-Operators**

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~six percent (6%) per annum~~ ^{eight (8%) per cent per annum} until paid.
6. **Adjustments**

Payment of any such bills shall not prejudice the right of any Non-Operators 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 the Joint Property as provided for in Section VII.
7. **Audits**

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder 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 adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.
2. **Labor**
 - A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.
 - B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
 - D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. **Employee Benefits**
Operator's current cost 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; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
4. **Material**
Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.
5. **Transportation**
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:
 - A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
 - 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 or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
 - C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. **Services**
 - A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
 - B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 8 of Section IV.
7. **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 any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **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.
10. **Insurance Premiums**
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. **Other Expenditures**
Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- Paragraph 4. (Combined fixed rate)

1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)		All Wells Over Ten
	Each Well	First Five	Next Five		

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 this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. Operator's Fully Owned Warehouse Operating and Maintenance (Describe fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates
Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

Well Depth	WELL BASIS (RATE PER WELL PER MONTH)			
	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
0' - 4,000'	\$ 425	\$ 85	\$ 75	\$ 65
4,000' - 8,000'	550	105	95	85
8,000' - 12,000'	650	125	115	105
Below 12,000'	750	140	130	120

Said fixed rate (rates) shall not include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates
The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 3 or Paragraph 4 of this Section III:
- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. The status of wells shall be as follows:
- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
 - (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
 - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
 - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
 - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
 - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
- C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
- D. The well rates shall be adjusted on the first day of April of 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 preceding calendar year 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. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

6. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases
Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.
2. Material furnished from Operator's Warehouse or Other Properties
- A. New Material (Condition "A")
- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
 - (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
 - (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.
- B. Used Material (Condition "B" and "C")
- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
 - (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
 - (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

PREMIUM PRICES

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that at least ten days prior notice in writing is furnished to Non-Operator of the proposed action to be taken by Operator in obtaining or supplying the material and/or equipment called for under the provisions of this paragraph, whereupon Non-Operator shall have the right by so electing and notifying Operator within such ten days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, appropriate adjustments of accounts between Operator and Non-Operator shall be made. Operator agrees to acquire the necessary short supplies and equipment required to conduct operations upon the jointly owned premises and to charge the joint account therefor herein provided unless Non-Operator elects to supply all or part of same within the specified period of time.

against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

- B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.
C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

1. **Material Purchased by the Operator or Non-Operators**
Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.
2. **Division in Kind**
Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.
3. **Sales to Outsiders**
Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**
New price as used in this Section VI shall be the price specified for New Material in Section IV.
2. **New Material**
New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).
3. **Good Used Material**
Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:
 - A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
 - B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.
4. **Other Used Material**
Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:
 - A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
 - B. Is serviceable for original function but not suitable for reconditioning.
5. **Bad-Order Material**
Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.
6. **Junk Material**
Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.
7. **Temporarily Used Material**
When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

1. **Periodic Inventories, Notice and Representation**
At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. 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, who shall in that event furnish Non-Operators with a copy thereof.
2. **Reconciliation and Adjustment of Inventories**
Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.
3. **Special Inventories**
Special inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

ASSIGNMENT OF OPERATING RIGHTS

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned, JOHN H. TRIGG and wife, PAULINE V. TRIGG, Assignor, for and in consideration of the sum of TEN DOLLARS, cash in hand paid, the receipt and sufficiency of which is hereby acknowledged, do hereby transfer, sell, convey and assign unto SINCLAIR OIL CORPORATION, Assignee, an undivided 50% interest in and to the exclusive right and privilege of operating, testing and developing the premises for oil, gas, casinghead gas and other hydrocarbon minerals and in and to all the rights and privileges granted to Lessees under the terms thereof, and in the event of discovery and production of such minerals, the ownership of production therefrom, covered by the following described oil and gas lease:

Serial Number:	LC 060122
Dated:	April 1, 1948
Lessor:	United States of America
Lessee:	John Tedrowe Bonner
Land Covered:	(Among other lands not included herein) the minerals at the depth and strata in land located in Eddy County, New Mexico, and described as:

Township 18 South, Range 27 East, N.M.P.M.

N/2 of Section 27

containing 320 acres, more or less, down to and including the depth of 10,035 feet from the surface.

Overriding Royalty: 6.25%

together with a like interest in all personal property thereon or pertinent thereto or used or obtained in connection therewith and subject, however, to a like proportionate part of the basic royalty and subject to a like proportionate part of the above mentioned overriding royalty.

The above described oil and gas lease is subject to the Operating Agreement covering the above described land, by and between John H. Trigg and wife, Pauline V. Trigg and Sinclair Oil Corporation.

Assignor shall promptly furnish to Assignee copies of all notices or other communications received from the Department of the Interior or any representative or official thereof pertaining to said oil and gas lease and shall upon request of Assignee make application for any extension or renewal of said oil and gas lease to the lands covered by this agreement where such renewal or extension is allowed or permitted by law or regulation, and upon request of Assignee, make application for any drilling, rental, royalty or other relief with respect to the lands covered by this assignment which to Assignee may be deemed proper and Assignee shall pay or reimburse Assignor for Assignee's proportionate part of all expenses in connection therewith, insofar as the same cover and affect the lands covered by this assignment. Assignor hereby

does give and grant to Assignee full power and authority to do and perform every act and thing, not otherwise expressly provided for herein, necessary or required to be done or performed by Assignor in connection with said oil and gas lease insofar as same covers and affects the lands covered by this assignment.

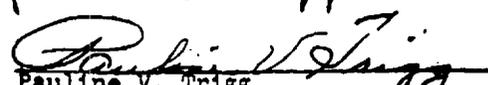
In the event that Assignor shall desire to surrender or relinquish said lease insofar as it covers those depths and strata and any mineral or minerals in the lands first above described and retained by Assignor, or any part thereof, Assignor shall execute and deliver to Assignee a proper assignment of said oil and gas lease insofar as it covers the aforementioned premises, or such portion thereof as Assignor may desire to surrender or relinquish. Assignee agrees to accept such assignment, and immediately file the same for approval along with necessary proof of its qualifications to hold a Federal lease in accordance with the regulations of the Department of the Interior, and to furnish Assignor with a copy of the qualification papers so filed. After approval of said assignment by the Department of the Interior, Assignor shall be relieved of their duty to pay rentals and/or minimum royalties as hereinafter provided, which are apportionable to the land covered by such assignment; and thereafter the premises so assigned to Assignee shall be free and clear of the terms of this assignment.

Assignor shall pay all rentals and/or minimum royalties which may become due and payable under the terms of said oil and gas lease hereinabove described with respect to the land covered hereby, and Assignee, in proportion to its ownership, shall reimburse Assignor for one-half of all such rentals and/or minimum royalties paid; provided, however, that Assignor shall not be liable for inadvertent failure to pay such rentals and/or minimum royalties.

All of the parties hereto shall be entitled to any benefits or credits on minimum royalty payments, as provided for in said lease, on account of the production of oil, gas, casinghead gas and other hydrocarbon minerals upon any part of the land described in said lease whether the same be on account of the production of said products from the land retained by Assignor and excepted from the operation of this assignment or upon the land, or any part thereof, covered by this assignment.

EXECUTED as of March 7, 1967.

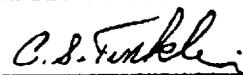

John H. Trigg


Pauline V. Trigg

ASSIGNOR

Effective March 4, 1969, Sinclair Oil Corporation, a New York corporation, was merged into Atlantic Richfield Company, a Pennsylvania corporation, and all interests of the merged company in the within assignment and any antecedent agreements by operation of law vested in, and all obligations imposed on the merged company by the within assignment and any antecedent agreements were assumed by Atlantic Richfield Company. For this reason the within assignment is being executed by Atlantic Richfield Company, this 26th day of March, 1969.

ATLANTIC RICHFIELD COMPANY

By 
Its Attorney-in-Fact

ASSIGNEE

STATE OF NEW MEXICO }

COUNTY OF CHAVES }

The foregoing instrument was acknowledged before me this
7th day of March, 1969, by JOHN H. TRIGG and
wife, PAULINE V. TRIGG.



My Commission Expires:

October 21, 1971

Maxine Ferrin
Notary Public

THE STATE OF TEXAS }

COUNTY OF MIDLAND }

The foregoing instrument was acknowledged before me this
26th day of March, 1969, by C. S. TINKLER as
attorney-in-fact in behalf of ATLANTIC RICHFIELD COMPANY,
Pennsylvania corporation.



My commission expires
June 1, 1969.

Helen C. Lawson
Notary Public



ILLEGIBLE

A.A.P.L. FORM 610
MODEL FORM OPERATING AGREEMENT—1956
~~XXXX~~ Federal Lands

OPERATING AGREEMENT

DATED

_____, 1969

EFFECTIVE AS OF MARCH 7, 1967

FOR UNIT AREA IN TOWNSHIP. 18 South, RANGE 27 East, N.M.P.M.

EDDY COUNTY, STATE OF NEW MEXICO

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
ROSS-MARTIN COMPANY, BOX 800, TULSA 74101

OPERATING AGREEMENT
EFFECTIVE AS OF MARCH 7, 1967

THIS AGREEMENT, entered into this _____ day of _____, 1969, between
SINCLAIR OIL CORPORATION

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include 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".
- (6) 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 Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

~~Each party other than Operator shall promptly submit to Operator abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this contract. All of these abstracts and title records shall be examined for the benefit of all parties by Operator's attorneys.~~

~~Operator shall promptly submit abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this agreement, to _____ for examination by the latter's attorney for the benefit of all parties.~~

~~All title examinations shall be made without charge. Each examining attorney shall prepare a complete title report on each separate tract based upon the abstract record and title papers submitted to him. Each title report shall contain a list of fee owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, a report upon mortgages, taxes, pending suits, and judgments, and unleased oil and gas leases, and a list of requirements, if any, upon which the examiner's approval of title to the lease or oil and gas interest is contingent. The title report shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term (which will be satisfactory if it has a primary term expiring not sooner than _____), amount of royalty, status of delay rental payments, and unusual drilling~~

~~obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

~~All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, and the parties shall proceed to their performance as they are hereinafter stated.~~

B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". ^{Section 2.} All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (1/8) royalty, the party contributing that lease shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

Sinclair Oil Corporation shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit 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 from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas in the following location:

NONE

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

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

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

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs 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 at the rate of ~~eight (8) percent~~ ^{eight (8) percent} per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 13 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand----- Dollars (\$ 5,000.00) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 2,500.00

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of 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 on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday, ~~or a holiday~~) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, 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, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 200% 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.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. 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; if there is a credit balance it shall be paid to such Non-Consenting Party.

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 operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned 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 schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, 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 Unit Area is producing, unless such well conforms to the ^{spacing rules established} ~~spacing rules established~~ by the governmental agency having jurisdiction.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. 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.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers 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 and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. 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 and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first ~~obtaining such other party's written consent.~~ obtaining such other party's written consent.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole 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 shall, upon request, furnish each of the other parties with copies of all 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 Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation 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 then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its 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. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, 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.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Each party shall pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 23 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

18. ~~PREFERENTIAL RIGHT TO PURCHASE~~

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

19. SELECTION OF NEW OPERATOR

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

20. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit 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 Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly with assumption of obligations hereunder in writing by assignee, subject to this agreement, and shall be made without prejudice to the rights 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 may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 8 is 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 them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit 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 unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the 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 section 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 section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignees in the proportions that the interest of each bears to the interest of all parties assignees.

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

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit 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} ~~execute~~ an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

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. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation 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. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with 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".

27. INSURANCE

(a) Operator shall at all times during the term of this agreement carry insurance to protect the parties hereto as set forth in Exhibit "D" hereto attached and made a part hereof, and no other insurance for the benefit of the parties in connection with operations under this agreement shall be carried by Operator, and no change in the insurance set forth in Exhibit "D" shall be made unless agreed to in writing.

(b) Operator shall require all contractors performing work under this agreement to carry insurance as set forth in Exhibit "E" attached hereto and made a part hereof.

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

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. 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.

31. OTHER CONDITIONS, IF ANY, ARE:

(a) No well shall be drilled in the Unit Area until after title to the drillsite lease has been examined by an attorney approved by all parties participating in the cost of the well, and the title has been approved by said examining attorney and the title has been accepted by all parties participating in the costs. All costs incurred in connection with examining titles shall be charged to the joint account of the parties hereto.

(b) This Operating Agreement is subject to all the terms and provisions of that certain Farmout Agreement between John H. Trigg, et ux., and Sinclair Oil & Gas Company (now Sinclair Oil Corporation), dated November 4, 1966, which by reference is incorporated herein for all purposes.

(c) In spite of any provisions to the contrary appearing in Section 11 hereof, consent to the drilling of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operators. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturdays or Sundays or legal holidays) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all of the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

Effective March 4, 1969, Sinclair Oil Corporation, a New York corporation, was merged into Atlantic Richfield Company, a Pennsylvania corporation, and all interests of the merged company in the within operating agreement and any antecedent agreements by operation of law vested in, and all obligations imposed on the merged company by the within operating agreement and any antecedent agreements were assumed by Atlantic Richfield Company. For this reason the within operating agreement is being executed by Atlantic Richfield Company this 26th day of March, 1969.

ATLANTIC RICHFIELD COMPANY

By C. S. Tinkler
C. S. Tinkler
Its Attorney-in-Fact

ATTEST:

John H. Trigg
John H. Trigg

ATTEST:

Pauline V. Trigg
Pauline V. Trigg

New Mexico
ACKNOWLEDGMENT

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ }
COUNTY OF _____ } ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by

My commission expires: _____ Notary Public

(PERSONAL ACKNOWLEDGMENT)

STATE OF NEW MEXICO }
COUNTY OF CHAVES } ss:

The foregoing instrument was acknowledged before me this 7th day of March, 1969, by
JOHN H. TRIGG and PAULINE V. TRIGG, his wife,

My commission expires: Oct 24, 1971 Maryann Ferris
Notary Public

(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ }
COUNTY OF _____ } ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by

My commission expires: _____ Notary Public

(ACKNOWLEDGMENT BY ATTORNEY)

STATE OF TEXAS }
COUNTY OF MIDLAND } ss:

The foregoing instrument was acknowledged before me this 26th day of March, 1969, by
C. S. TINKLER as attorney-in-fact in behalf of
ATLANTIC RICHFIELD COMPANY, a Pennsylvania corporation.

My commission expires: June 1, 1969 Robert C. Lawrence
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF TEXAS }
COUNTY OF MIDLAND } ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by
F. H. Rheas, Vice President of SINCLAIR OIL CORPORATION
(NAME) (TITLE) (CORPORATION)
New York corporation, on behalf of said corporation.

My commission expires: _____ Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ }
COUNTY OF _____ } ss:

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by
_____, _____ of _____
(NAME) (TITLE) (CORPORATION)
_____ corporation, on behalf of said corporation.

My commission expires: _____ Notary Public

EXHIBIT "A"

TO OPERATING AGREEMENT BY AND BETWEEN
SINCLAIR OIL CORPORATION, AS OPERATOR
AND JOHN H. TRIGG, ET UX., AS NON-
OPERATORS, COVERING LANDS IN EDDY
COUNTY, NEW MEXICO

1. A. Lands Subject to Contract:

The S $\frac{1}{2}$ of Section 22 and the N $\frac{1}{2}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ and the N $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 27, both in Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

B. Restrictions, if any, as to Formations or Depths:

100 feet below the total depth drilled in the initial test well or optional test well to be drilled by Sinclair Oil Corporation, pursuant to farmout agreement dated November 4, 1966, between John H. Trigg, et ux., and Sinclair Oil Corporation on the subject acreage.

2. Percentage or Fractional Interest of Parties Under Agreement:

Sinclair Oil Corporation	50%
John H. Trigg	50%

3. Leasehold Interest of the Parties:

Oil and Gas Lease from the United States of America to J. T. Bonner, lessee of record, dated April 1, 1948, Serial Number LC-060122, covering, among other lands, the S $\frac{1}{2}$ Section 22 and N $\frac{1}{2}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ and N $\frac{1}{2}$ SE $\frac{1}{4}$ Section 27, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

4. Addresses of Parties to Whom Notices Should be Sent:

*Sinclair Oil Corporation
P. O. Box 1470
Midland, Texas 79701

John H. Trigg
P. O. Box 520
Roswell, New Mexico

*All accounting statements and billings should be mailed to Sinclair Oil Corporation, P. O. Box 521, Tulsa, Oklahoma 74102, Attention: Accounting Department. All other notices should be mailed to the Midland Office.

EXHIBIT "C"

Attached to and made a part of Operating Agreement covering
lands in Eddy County, New Mexico

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.
 "Operator" shall mean the party designated to conduct the Joint Operations.
 "Non-Operators" shall mean the nonoperating parties, whether one or more.
 "Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.
 "Parties" shall mean Operator and Non-Operators.
 "Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
 "Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.
2. **Conflict with Agreement**
 In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.
3. **Collective Action by Non-Operators**
 Where an agreement or other action of Non-Operators is expressly required under this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.
4. **Statements and Billings**
 Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:
 - A. Statement in detail of all charges and credits to the Joint Account.
 - B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
 - C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.
5. **Payment and Advances by Non-Operators**
 Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~six percent~~ ^{eight (8%) percent} per annum until paid.
6. **Adjustments**
 Payment of any such bills shall not prejudice the right of any Non-Operators 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 the Joint Property as provided for in Section VII.
7. **Audits**
 A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder 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 adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**
 Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.
2. **Labor**
 - A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.
 - B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
 - D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. Employee Benefits

Operator's current cost 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; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

4. Material

Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
- 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 or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
- C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.

6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 8 of Section IV.

7. 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 any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. Legal Expense

All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims: provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. 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.

10. Insurance Premiums

Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

11. Other Expenditures

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

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section I, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- Paragraph 4. (Combined fixed rate)

District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's _____ office located at or near _____ (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 3 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)	
	Each Well	First Five	Next Five	All Wells Over Ten
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or others before or involving governmental agencies shall be considered as included in the overhead rates provided for in Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators direct charge to the Joint Account.

3. Operator's Fully Owned Warehouse Operating and Maintenance Expense
(To be fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten	
0.1 - 4,000'	\$ 425	\$ 85	\$ 75	\$ 65	
4,000' - 8,000'	550	105	95	85	
8,000' - 12,000'	650	125	115	105	
Below 12,000'	750	140	130	120	

Said fixed rate (s) (shall not) include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
- (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
- (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
- (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.

C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.

D. The well rates shall be adjusted on the first day of April of 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 preceding calendar year 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. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities.

6. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

3. PREMIUM PRICES

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that at least ten days prior notice in writing is furnished to Non-Operator of the proposed action to be taken by Operator in obtaining or supplying the material and/or equipment called for under the provisions of this paragraph, whereupon Non-Operator shall have the right by so electing and notifying Operator within such ten days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, appropriate adjustments of accounts between Operator and Non-Operator shall be made. Operator agrees to acquire the necessary short supplies and equipment required to conduct operations upon the jointly owned premises and to charge the joint account therefor as herein provided unless Non-Operator elects to supply all or part of same within the specified period of time.

3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
- B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

- A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
- B. Is serviceable for original function but not suitable for reconditioning.

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. 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, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

INSURANCE

EXHIBIT D — Operator shall at all times during the term of this Agreement carry insurance to protect the parties hereto as follows:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

(2) Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident and \$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$25,000 for loss of or damage to property in any one accident.

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section III, Paragraph 5 of the Accounting Procedure.

EXHIBIT E — Operator shall require all contractors performing work under this Agreement to carry the following insurance:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

(2) Comprehensive general public liability insurance with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident and \$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$25,000 for loss of or damage to property in any one accident.



ILLEGIBLE

ASSIGNMENT OF OIL AND GAS LEASE

STATE OF NEW MEXICO) (
COUNTY OF EDDY) (

For a good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Atlantic Richfield Company, whose address is 600 North Marienfeld, Midland, Texas 79701, (hereinafter referred to as "Assignor") does hereby sell, assign, transfer and convey unto Charles E. Nearburg, D/B/A Nearburg Exploration Company, whose address is 3300 North Avenue "A", Building 8, Suite 100, Midland, Texas 79705 (hereinafter referred to as "Assignee"), all of assignor's right, title and interest in and to the Oil and Gas Lease set forth below (hereinafter referred to as "Said Lease"), insofar and only insofar as said lease covers the lands described below from the surface of the earth to 10,035'.

Lease No.: NM LC-060122
Lessor: Bureau of Land Management
Date: April 1, 1948
Description: Insofar and only insofar as said lease covers the North Half (N/2) of Section 27, T-18-S, R-27-E, Eddy County, New Mexico

TO HAVE AND TO HOLD the interest assigned in and to said lease unto assignee, its successors and assigns; however, this assignment is made without warranty of title express or implied on the part of assignee.

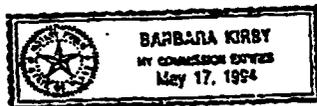
Executed this 21 day of NOVEMBER, 1991.

ATLANTIC RICHFIELD COMPANY

BY: [Signature]
its: Attorney-in-Fact

STATE OF TEXAS) (
COUNTY OF MIDLAND) (

This instrument was acknowledged before me this 21st day of November, 1991, by T. L. HOLLAND, Attorney-in-Fact of ATLANTIC RICHFIELD COMPANY, a Delaware Corporation.



[Signature]
Notary Public

Nearburg Exploration
1 Petro Bldg 8 Ste 100
3300 N "A" St
Midland Tx 79705

RECEPTION
9112524

STATE OF NEW MEXICO, County of Eddy, ss. I hereby certify that this instrument was filed for record on the 6 day of December, A.D. 19 91 at 1:42 o'clock P. M., and duly recorded in BOOK 110 PAGE 949 of the Eddy County Records.
By [Signature] Deputy
KAREN DAVIS, County Clerk

PLAINTIFF'S
EXHIBIT
5

ILLEGIBLE

Yates Petroleum Corporation	10.50000%
Yates Drilling Company	5.25000
ABO Petroleum Corporation	5.25000
MYCO Industries, Inc.	5.25000
H.M. Bettis, Inc.	2.91375
Turnco Inc.	2.91375
L.E. Opperman	1.16550
Bettis Brothers, Inc.	10.50700
M. Craig Clark	3.12500
David Cromwell	<u>3.12500</u>
	50.00000%

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

~~XXXX~~ Federal Lands

OPERATING AGREEMENT

DATED

_____, 1969,

EFFECTIVE AS OF MARCH 7, 1967

FOR UNIT AREA IN TOWNSHIP. 18 South, RANGE 27 East, N.M.P.M.,

EDDY COUNTY, STATE OF NEW MEXICO.

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
ROSS-MARTIN COMPANY, BOX 800, TULSA 74101

OPERATING AGREEMENT
EFFECTIVE AS OF MARCH 7, 1967

THIS AGREEMENT, entered into this _____ day of _____, 1969, between

SINCLAIR OIL CORPORATION

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include 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".
- (6) 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 Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. ~~TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS~~

~~A. Title Examination:~~

~~Each party other than Operator shall promptly submit to Operator abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this contract. All of these abstracts and title records shall be examined for the benefit of all parties by Operator's attorneys.~~

Operator shall promptly submit abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this agreement, to _____ for examination by the latter's attorney for the benefit of all parties.

All title examinations shall be made without charge. Each examining attorney shall prepare a complete title report on each separate tract based upon the abstract record and title papers submitted to him. Each title report shall contain a list of fee owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, a report upon mortgages, taxes, pending suits, and judgments, and unleased oil and gas leases, and a list of requirements, if any, upon which the examiner's approval of title to the lease or oil and gas interest is contingent. The title report shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term (which will be satisfactory if it has a primary term expiring not sooner than _____), amount of royalty, status of delay rental payments, and unusual drilling

~~obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

~~All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, and the parties shall proceed to their performance as they are hereinafter stated.~~

B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". ^{Section 2.} All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (1/8) royalty, the party contributing that lease shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

Sinclair Oil Corporation shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit 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 from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas in the following location:

NONE

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

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

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

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs 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 at the rate of ~~eight (8%) percent~~ ^{eight (8%) percent} per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing*and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand----- Dollars (\$ 5,000.00) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 2,500.00.

*See Section 31(c) for additional provision.

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of 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 on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday, ^{or a holiday}) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, 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, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 200% 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.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. 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; if there is a credit balance it shall be paid to such Non-Consenting Party.

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 operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned 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 schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, 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 Unit Area is producing, unless such well conforms to the ^{spacing rules established} ~~spacing rules established~~ ~~by the governmental agency having jurisdiction.~~ by the governmental agency having jurisdiction.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. 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.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers 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 and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. 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 and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first ~~obtaining~~ obtaining such other party's written consent.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole 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 shall, upon request, furnish each of the other parties with copies of all 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 Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation 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 then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its 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. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, 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.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Each party shall pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 23 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

18. ~~PREFERENTIAL RIGHT TO PURCHASE~~

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

19. SELECTION OF NEW OPERATOR

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

20. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit 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 Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly with assumption of obligations hereunder in writing by assignee, subject to this agreement, and shall be made without prejudice to the rights 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 may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is 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 them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit 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 unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the 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 section 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 section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit 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} ~~execute~~ an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 781(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

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. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation 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. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with 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".

27. INSURANCE

(a) Operator shall at all times during the term of this agreement carry insurance to protect the parties hereto as set forth in Exhibit "D" hereto attached and made a part hereof, and no other insurance for the benefit of the parties in connection with operations under this agreement shall be carried by Operator, and no change in the insurance set forth in Exhibit "D" shall be made unless agreed to in writing.

(b) Operator shall require all contractors performing work under this agreement to carry insurance as set forth in Exhibit "E" attached hereto and made a part hereof.

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

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. 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.

31. OTHER CONDITIONS, IF ANY, ARE:

(a) No well shall be drilled in the Unit Area until after title to the drillsite lease has been examined by an attorney approved by all parties participating in the cost of the well, and the title has been approved by said examining attorney and the title has been accepted by all parties participating in the costs. All costs incurred in connection with examining titles shall be charged to the joint account of the parties hereto.

(b) This Operating Agreement is subject to all the terms and provisions of that certain Farmout Agreement between John H. Trigg, et ux., and Sinclair Oil & Gas Company (now Sinclair Oil Corporation), dated November 4, 1966, which by reference is incorporated herein for all purposes.

(c) In spite of any provisions to the contrary appearing in Section 11 hereof, consent to the drilling of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operators. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturdays or Sundays or legal holidays) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all of the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

Effective March 4, 1969, Sinclair Oil Corporation, a New York corporation, was merged into Atlantic Richfield Company, a Pennsylvania corporation, and all interests of the merged company in the within operating agreement and any antecedent agreements by operation of law vested in, and all obligations imposed on the merged company by the within operating agreement and any antecedent agreements were assumed by Atlantic Richfield Company. For this reason the within operating agreement is being executed by Atlantic Richfield Company this 26th day of March, 1969.

ATLANTIC RICHFIELD COMPANY

By C. S. Tinkler
C. S. Tinkler
Its Attorney-in-Fact

a
gm
Int

ATTEST:

John H. Trigg
John H. Trigg

ATTEST:

Pauline V. Trigg
Pauline V. Trigg

New Mexico
ACKNOWLEDGMENT

(PERSONAL ACKNOWLEDGMENT)

STATE OF }
COUNTY OF } ss:

The foregoing instrument was acknowledged before me this.....day of....., 19....., by

My commission expires:..... Notary Public

(PERSONAL ACKNOWLEDGMENT)

STATE OF NEW MEXICO }
COUNTY OF CHAVES } ss:

The foregoing instrument was acknowledged before me this 7th day of March, 1969, by
JOHN H. TRIGG and PAULINE V. TRIGG, his wife,

My commission expires: Oct 21, 1971 Maxine Ferris
Notary Public

(PERSONAL ACKNOWLEDGMENT)

STATE OF }
COUNTY OF } ss:

The foregoing instrument was acknowledged before me this.....day of....., 19....., by

My commission expires:..... Notary Public

(ACKNOWLEDGMENT BY ATTORNEY)

STATE OF TEXAS }
COUNTY OF MIDLAND } ss:

The foregoing instrument was acknowledged before me this 9th day of March, 1969, by
C. S. TINKLER as attorney-in-fact in behalf of
ATLANTIC RICHFIELD COMPANY, a Pennsylvania corporation.

My commission expires: June 1, 1969 Robert C. Lawrence
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF TEXAS }
COUNTY OF MIDLAND } ss:

The foregoing instrument was acknowledged before me this.....day of....., 19....., by
F. H. Rhee, Vice President of SINCLAIR OIL CORPORATION,
(NAME) (TITLE) (CORPORATION)
a New York corporation, on behalf of said corporation.

My commission expires:..... Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF }
COUNTY OF } ss:

The foregoing instrument was acknowledged before me this.....day of....., 19....., by
..... of
(NAME) (TITLE) (CORPORATION)
..... corporation, on behalf of said corporation.

My commission expires:..... Notary Public

EXHIBIT "A"

TO OPERATING AGREEMENT BY AND BETWEEN
SINCLAIR OIL CORPORATION, AS OPERATOR
AND JOHN H. TRIGG, ET UX., AS NON-
OPERATORS, COVERING LANDS IN EDDY
COUNTY, NEW MEXICO

1. A. Lands Subject to Contract:

The S $\frac{1}{2}$ of Section 22 and the N $\frac{1}{2}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ and the N $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 27, both in Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

B. Restrictions, if any, as to Formations or Depths:

100 feet below the total depth drilled in the initial test well or optional test well to be drilled by Sinclair Oil Corporation, pursuant to farmout agreement dated November 4, 1966, between John H. Trigg, et ux., and Sinclair Oil Corporation on the subject acreage.

2. Percentage or Fractional Interest of Parties Under Agreement:

Sinclair Oil Corporation	50%
John H. Trigg	50%

3. Leasehold Interest of the Parties:

Oil and Gas Lease from the United States of America to J. T. Bonner, lessee of record, dated April 1, 1948, Serial Number LC-060122, covering, among other lands, the S $\frac{1}{2}$ Section 22 and N $\frac{1}{2}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ and N $\frac{1}{2}$ SE $\frac{1}{4}$ Section 27, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

4. Addresses of Parties to Whom Notices Should be Sent:

*Sinclair Oil Corporation
P. O. Box 1470
Midland, Texas 79701

John H. Trigg
P. O. Box 520
Roswell, New Mexico

*All accounting statements and billings should be mailed to Sinclair Oil Corporation, P. O. Box 521, Tulsa, Oklahoma 74102, Attention: Accounting Department. All other notices should be mailed to the Midland Office.

EXHIBIT "C"

Attached to and made a part of Operating Agreement covering
lands in Eddy County, New Mexico

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.

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

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

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

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

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

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

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:

A. Statement in detail of all charges and credits to the Joint Account.

B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~six percent~~ eight (8%) percent per annum until paid.

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators 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 the Joint Property as provided for in Section VII.

7. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder 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 adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. **Employee Benefits**
Operator's current cost 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; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
4. **Material**
Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.
5. **Transportation**
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:
 - A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
 - 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 or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
 - C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. **Services**
 - A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
 - B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **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 any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **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.
10. **Insurance Premiums**
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. **Other Expenditures**
Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- Paragraph 4. (Combined fixed rate)

District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's office located at or near (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
.....
.....
.....

cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or other matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. Operator's Fully Owned Warehouse Operating and Maintenance Expense
(Describe fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)		All Wells Over Ten
	Each Well	First Five	Next Five		
01 - 4,000'	\$ 425	\$ 85	\$ 75		\$ 65
4,000' - 8,000'	550	105	95		85
8,000' - 12,000'	650	125	115		105
Below 12,000'	750	140	130		120

Said fixed rate ~~(shall)~~ (shall not) include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. The status of wells shall be as follows:
 - (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
 - (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
 - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
 - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
 - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
 - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
- C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
- D. The well rates shall be adjusted on the first day of April of 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 preceding calendar year 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. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities

6. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

subject to the further provisions of this Section IV. Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

3. PREMIUM PRICES

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that at least ten days prior notice in writing is furnished to Non-Operator of the proposed action to be taken by Operator in obtaining or supplying the material and/or equipment called for under the provisions of this paragraph, whereupon Non-Operator shall have the right by so electing and notifying Operator within such ten days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, -at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, appropriate adjustments of accounts between Operator and Non-Operator shall be made. Operator agrees to acquire the necessary short supplies and equipment required to conduct operations upon the jointly owned premises and to charge the joint account therefor as herein provided unless Non-Operator elects to supply all or part of same within the specified period of time.

3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
- B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

- A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
- B. Is serviceable for original function but not suitable for reconditioning.

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. 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, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

INSURANCE

EXHIBIT D — Operator shall at all times during the term of this Agreement carry insurance to protect the parties hereto as follows:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

(2) Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident and \$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$25,000 for loss of or damage to property in any one accident.

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section III, Paragraph 5 of the Accounting Procedure.

EXHIBIT E — Operator shall require all contractors performing work under this Agreement to carry the following insurance:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

(2) Comprehensive general public liability insurance with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident and \$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$25,000 for loss of or damage to property in any one accident.



IN REPLY REFER TO:

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
DIVISION OF LANDS & MINERALS
PROGRAM MANAGEMENT & LAND OFFICE
P. O. Box 1449
Santa Fe, New Mexico 87501

LC 060122
Oil & Gas
4.10a

September 4, 1969

DECISION

Lessee: :
John H. Trigg :
Operator: : Oil & Gas
Atlantic Richfield Company :
(successor in interest :
to Sinclair Oil Company :

Assignment of Operating Rights Approved

Approval is hereby granted to an assignment dated March 7, 1967 by and between the captioned parties, affecting oil and gas lease LC 060122. Acknowledgment of the instrument was made by the lessee on March 7, 1969; therefore, the 90-day requirement in which to file the assignment is hereby waived.

The assignment conveys to the operator an undivided 50% interest in the operating rights as to the N $\frac{1}{2}$ Sec. 27, T. 18 S., R. 27 E., NMPM, from the surface down to and including the depth of 10,035 feet.

The operator is maintaining a nationwide bond and the lessee a statewide bond.

/s/ Marie D. Larragoite

Marie D. Larragoite
For Chief, Branch of Oil & Gas

Orig: Operator
cc: Lessee ✓
O&G Supv. (2) Roswell

ASSIGNMENT OF OPERATING RIGHTS

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned, JOHN H. TRIGG and wife, PAULINE V. TRIGG, Assignor, for and in consideration of the sum of TEN DOLLARS, cash in hand paid, the receipt and sufficiency of which is hereby acknowledged, do hereby transfer, sell, convey and assign unto SINCLAIR OIL CORPORATION, Assignee, an undivided 50% interest in and to the exclusive right and privilege of operating, testing and developing the premises for oil, gas, casinghead gas and other hydrocarbon minerals and in and to all the rights and privileges granted to Lessee under the terms thereof, and in the event of discovery and production of such minerals, the ownership of production therefrom, covered by the following described oil and gas lease:

Serial Number: LC 060122
Dated: April 1, 1948
Lessor: United States of America
Lessee: John Tedrowe Bonner
Land Covered: (Among other lands not included herein) the minerals at the depth and strata in land located in Eddy County, New Mexico, and described as:

Township 18 South, Range 27 East, N.M.P.M.

N/2 of Section 27

containing 320 acres, more or less, down to and including the depth of 10,035 feet from the surface.

Overriding Royalty: 6.25%

together with a like interest in all personal property thereon or pertinent thereto or used or obtained in connection therewith and subject, however, to a like proportionate part of the basic royalty and subject to a like proportionate part of the above mentioned overriding royalty.

The above described oil and gas lease is subject to the Operating Agreement covering the above described land, by and between John H. Trigg and wife, Pauline V. Trigg and Sinclair Oil Corporation.

Assignor shall promptly furnish to Assignee copies of all notices or other communications received from the Department of the Interior or any representative or official thereof pertaining to said oil and gas lease and shall upon request of Assignee make application for any extension or renewal of said oil and gas lease to the lands covered by this agreement where such renewal or extension is allowed or permitted by law or regulation, and upon request of Assignee, make application for any drilling, rental, royalty or other relief with respect to the lands covered by this assignment which to Assignee may be deemed proper and Assignee shall pay or reimburse Assignor for Assignee's proportionate part of all expenses in connection therewith, insofar as the same cover and affect the lands covered by this assignment. Assignor hereby

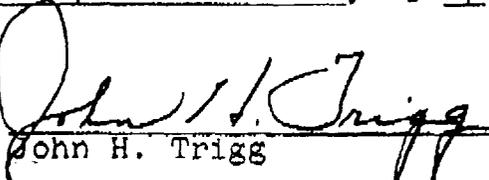
does give and grant to Assignee full power and authority to do and perform every act and thing, not otherwise expressly provided for herein, necessary or required to be done or performed by Assignor in connection with said oil and gas lease insofar as same covers and affects the lands covered by this assignment.

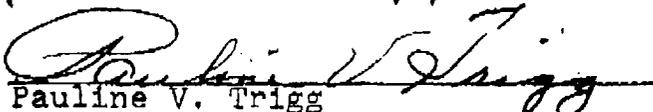
In the event that Assignor shall desire to surrender or relinquish said lease insofar as it covers those depths and strata and any mineral or minerals in the lands first above described and retained by Assignor, or any part thereof, Assignor shall execute and deliver to Assignee a proper assignment of said oil and gas lease insofar as it covers the aforementioned premises, or such portion thereof as Assignor may desire to surrender or relinquish. Assignee agrees to accept such assignment, and immediately file the same for approval along with necessary proof of its qualifications to hold a Federal lease in accordance with the regulations of the Department of the Interior, and to furnish Assignor with a copy of the qualification papers so filed. After approval of said assignment by the Department of the Interior, Assignor shall be relieved of their duty to pay rentals and/or minimum royalties as hereinafter provided, which are apportionable to the land covered by such assignment; and thereafter the premises so assigned to Assignee shall be free and clear of the terms of this assignment.

Assignor shall pay all rentals and/or minimum royalties which may become due and payable under the terms of said oil and gas lease hereinabove described with respect to the land covered hereby, and Assignee, in proportion to its ownership, shall reimburse Assignor for one-half of all such rentals and/or minimum royalties paid; provided, however, that Assignor shall not be liable for inadvertent failure to pay such rentals and/or minimum royalties.

All of the parties hereto shall be entitled to any benefits or credits on minimum royalty payments, as provided for in said lease, on account of the production of oil, gas, casinghead gas and other hydrocarbon minerals upon any part of the land described in said lease whether the same be on account of the production of said products from the land retained by Assignor and excepted from the operation of this assignment or upon the land, or any part thereof, covered by this assignment.

EXECUTED as of March 7, 1967.


John H. Trigg


Pauline V. Trigg

ASSIGNOR

Effective March 4, 1969, Sinclair Oil Corporation, a New York corporation, was merged into Atlantic Richfield Company, a Pennsylvania corporation, and all interests of the merged company in the within assignment and any antecedent agreements by operation of law vested in, and all obligations imposed on the merged company by the within assignment and any antecedent agreements were assumed by Atlantic Richfield Company. For this reason the within assignment is being executed by Atlantic Richfield Company, this 26th day of March, 1969.

ATLANTIC RICHFIELD COMPANY

By 
Its Attorney-in-Fact

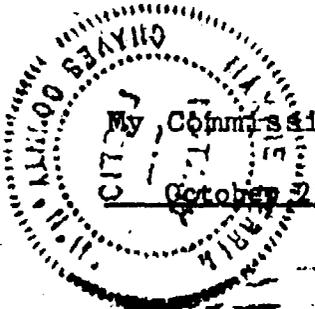
ASSIGNEE

SEARCHED
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MAR 10 1969
FBI - MEMPHIS

STATE OF NEW MEXICO }

COUNTY OF CHAVES }

The foregoing instrument was acknowledged before me this 7th day of March, 1969, by JOHN H. TRIGG and wife, PAULINE V. TRIGG.



My Commission Expires:

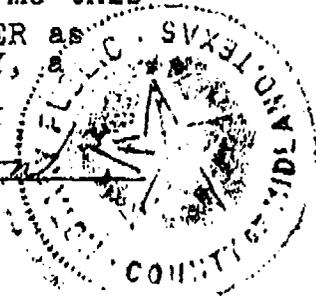
October 21, 1971

Margaret Ferrin
Notary Public

THE STATE OF TEXAS }

COUNTY OF MIDLAND }

The foregoing instrument was acknowledged before me this 26th day of March, 1969, by C. S. TINKLER as attorney-in-fact in behalf of ATLANTIC RICHFIELD COMPANY, a Pennsylvania corporation.



John C. Lawton
Notary Public

My commission expires
June 1, 1969.

FARMOUT AGREEMENT

THIS AGREEMENT, made and entered into this 4th day of November, 1966, by and between JOHN H. TRIGG and PAULINE V. TRIGG, his wife, whose address is Post Office Box 520, Roswell, New Mexico, hereinafter referred to as "Trigg", and SINCLAIR OIL & GAS COMPANY, whose address is Post Office Box 1470, Midland, Texas, hereinafter referred to as "Sinclair";

W I T N E S S E T H:

WHEREAS, Trigg is the owner and holder of that certain Oil and Gas Lease from the United States of America to J. T. Bonner as Lessee, dated April 1, 1948, bearing Serial Number LC-060122, insofar as said lease covers: Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico

Section 22: S $\frac{1}{4}$
Section 27: N $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{4}$ SE $\frac{1}{4}$

Containing 760.00 acres, more or less, hereinafter referred to as "Said Land"; and

WHEREAS, Trigg's interest in said lease covering Said Land is or will be subject to an overriding royalty interest of 6.25% of all oil and gas produced, saved and marketed from the Said Land which is or will be owned by the children of Trigg, (hereinafter called "Children's Override"), and;

WHEREAS, Sinclair desires to acquire and Trigg desires to farmout to Sinclair certain interests in and under the above described lease insofar as it covers Said Land, upon the terms and conditions hereinafter set forth:

NOW THEREFORE, for and in consideration of the premises and mutual covenants herein contained the parties hereto agree as follows:

1. Sinclair agrees to commence on or before December ³¹, 1966, the drilling of a test well for oil and gas, hereinafter referred to as the "Initial Test Well", at a location in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 27, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and to drill and complete such well on or before ninety (90) days from date of commencement, with due diligence and in a good and workmanlike manner, at the sole cost, risk and expense of Sinclair, to a depth of 9,000 feet from the surface of

the ground or to a depth sufficient to adequately test the Cisco formation of Pennsylvanian age, whichever is the lesser depth, all in the opinion of Trigg's geological department.

2. Should Sinclair timely commence and complete as a commercial producer or plug and abandon as a dry hole the Initial Test Well as provided in Paragraph 1 hereof, then Sinclair shall have the option, but not the obligation, for a period of six (6) months from the date of completion of said Initial Test Well to commence the drilling or deepening of a test well for oil and gas, hereinafter referred to as the "Option Well", at a location of Sinclair's choice on said Land, and to drill and complete said Option Well with due diligence and in a good and workmanlike manner, at the sole cost, risk and expense of Sinclair, to a depth sufficient to adequately test the Morrow formation of Pennsylvanian age, or to a depth sufficient to adequately test the Devonian formation, all in the opinion of Trigg's geological department, said Option Well to be drilled and completed within ninety (90) days of commencement.

3. (a) Should Sinclair complete the Initial Test Well, as provided in Paragraph 1 hereof, as a well capable of producing oil and/or gas in commercial quantities, Trigg agrees to convey to Sinclair an undivided one-half (1/2) interest in the operating rights from the surface of the ground down to and including one hundred (100) feet below the deepest depth drilled, in, to and under said Land, subject to its proportionate part of the Children's Override.

(b) Should Sinclair drill and complete the Option Well, as provided in Paragraph 2 hereof, as a well capable of producing oil and/or gas in commercial quantities, Trigg agrees to convey to Sinclair an undivided one-half (1/2) interest in the operating rights down to and including one hundred (100) feet below the deepest depth drilled, in, to and under said Land, subject to its proportionate part of the Children's Override, provided however, should Sinclair have earned the rights provided in (a) of this Paragraph 3, then Trigg shall convey an undivided one-half (1/2) interest in, to and under said Lands from the depth of the rights conveyed under (a) of this Paragraph 3, down to and including one hundred (100) feet below the deepest depth drilled in the Option Well.

4. After completion of the Initial Test Well, whether as a producer or dry hole, Sinclair, at its election, shall either (a) conduct continuous drilling operations on the remainder of Said Land with not more than one hundred twenty (120) days elapsing between the completion of a well, whether as a producer or dry hole, and the commencement of actual drilling of the next succeeding well until Sinclair shall have drilled one well to each standard spacing or proration unit fixed by any special field rules promulgated by the New Mexico Oil Conservation Commission, or in the absence of such rules, one well to each 160 acre governmental quarter section in Said Land; each such additional well to be drilled and completed within ninety (90) days from commencement thereof, or (b) surrender and release to Trigg all of Said Land except each tract as defined in (a) of this Paragraph 4, upon which a producing well has been completed, warranting same to be free and clear of all liens, obligations or encumbrances suffered by Sinclair. All other provisions applicable to the Initial Test Well shall be equally applicable to each additional well. Failure of Sinclair to conduct continuous drilling operations as herein provided shall not preclude Sinclair from exercising the option granted under Paragraph 2 to drill the Option Well.

5. Should any well required or permitted under this Permit Agreement be lost or junked through no negligence or carelessness of Sinclair, or its agents or employees, or if in the drilling of such wells, granite or other practically impenetrable substance or condition is encountered rendering further drilling impractical according to the standards of the immediate area or field, then and in either of such events, and within thirty (30) days from the date such well is lost or junked or abandoned on encountering such practically impenetrable substance or condition, Sinclair may, at its election and without penalty, commence the drilling of a substitute well at a location of Sinclair's choice on the same quarter-quarter section of Said Land, provided, however, such location shall conform to and comply with the rules and regulations of the New Mexico Oil Conservation Commission, and such substitute well, in order to qualify as a substitute well, shall be drilled and completed in the same manner as herein specified for the well so lost, junked or abandoned, and as to all of which the decision of Trigg's Geological

Department shall be conclusive. Should Sinclair timely commence and diligently complete such a substitute well pursuant to the terms of this paragraph, then in such event it shall be considered for all purposes hereof that the well for which it is a substitute was commenced, drilled and completed within the time, to the depth, and in the manner provided therefor.

6. The parties hereto agree that the location of the Initial Test Well, as provided in Paragraph 1 hereof, has been selected by Sinclair to provide Trigg with a carried fifty (50%) per cent working interest in said Initial Test Well completed into the tanks free of all cost and expense to Trigg; should the New Mexico Oil Conservation Commission establish special field rules providing for 640 acre spacing or proration units, Sinclair and Trigg's working interest in the Initial Test Well would be reduced proportionately; in such event, at Sinclair's sole cost and expense, Sinclair agrees to carry Trigg in the drilling of a subsequent well on Said Land in Section 22, to the extent of the difference between Trigg's working interest in the Initial Test Well and fifty (50%) per cent. If Sinclair elects not to drill such additional well within the time specified in Paragraph 4(a), the provisions of Paragraph 4(b) hereof will apply.

7. It is agreed between the parties hereto that upon conveyance of the operating rights earned by the performance of the obligations set forth herein all subsequent operations on Said Land will be conducted in accordance with the terms of the form of Joint Operating Agreement attached hereto and marked Exhibit "A"; and that at such time as Sinclair shall have earned its interest in Said Land all parties hereto shall properly execute said Joint Operating Agreement.

8. Trigg will make a bona fide effort (with no penalty or liability for oversight in this connection) to pay all rentals or minimum royalty becoming due after the date of this Farmout Agreement under the terms of the above described lease, insofar as it covers Said Land; and Sinclair shall reimburse Trigg for one-half (1/2) of such rentals or minimum royalty within thirty (30) days after receipt of Trigg's invoice therefor.

9. Sinclair agrees to keep Trigg's leasehold interest free from liens, encumbrances and claims created by, through or under Sinclair and

that Sinclair, its contractor or subcontractor shall carry insurance with satisfactory companies and of sufficient coverage to insure against the risks specified in Paragraph 26 of Exhibit "A" attached hereto.

10. Sinclair shall allow the representatives and duly authorized agents of Trigg to have access to Said Land, as well as the derrick floor of any well or wells drilled pursuant to this Farmout Agreement, at any and all times during the drilling, completing, reworking and/or operating of any such well or wells, and shall furnish Trigg with any and all information available pertaining to the drilling, completing, reworking and/or operation of any such well, including but not limited to;

(a) One copy of all reports pertaining to the drilling of any such well filed by Sinclair with any governmental authority, such reports to be delivered to Trigg at the same time such reports are filed with such governmental authority;

(b) Copies of daily drilling reports showing the status, progress and changes in formation encountered in the drilling of any such well, and complete results of directional electric, crooked or straight hole surveys, core analyses and any and all other tests or surveys made in connection with such well;

(c) A full set of sample cuttings from any such well, to be delivered to the New Mexico Oil Scouts Association, Inc., 115 North Coleman, Hobbs, New Mexico, no later than fifteen (15) days after the completion or plugging of such well;

(d) Dual Induction-Laterolog and Gamma-Ray-Sonic logs or equivalent logs shall be made and two prints and one reproducible sepic copy thereof shall be furnished Trigg;

(e) In the event a showing of oil or gas is encountered at any depth or upon encountering a prospective oil or gas zone at any depth in such well, Sinclair shall give Trigg reasonable notice thereof in sufficient time to have a representative present when such zone is tested or cored, and if, in Trigg's opinion it is justified, any showing of oil or gas shall be adequately tested in a prudent manner in accordance with good oil field practices;

(2) All notices herein required shall be given to Trigg or any of his employees at Post Office Box 520, Roswell, New Mexico, telephone number 623-3140 if given during normal working hours or if given on weekends or after regular working hours to Mr. G. E. Harrington, Geologist, at Roswell, New Mexico, telephone number 623-3415.

11. In connection with the performance of work under this agreement, Sinclair agrees to comply with all of the provisions of Section 301 (1) to (7), inclusive, of Executive Order 10925 (28 F. R. 6485), which are hereby incorporated by reference in this agreement.

12. It is understood that this agreement and the obligations hereunder are personal and not assignable by Sinclair without Trigg's expressed consent in writing and that said obligations are several and not joint and nothing herein contained shall constitute or be construed to constitute a partnership, either general or mining, as between Sinclair and Trigg.

13. (a) It is understood that if Sinclair fails to comply with the terms and provisions of this contract with respect to the commencement, drilling and completion of the wells herein provided for, Trigg, in addition to any other relief to which it may be entitled, may demand surrender and release of the interest transferred herein of all of Said Land except each tract as defined in (a) of Paragraph 4 hereof, upon which a producing well has been completed, and Sinclair shall thereupon execute and deliver to Trigg an appropriate recordable instrument warranting the interest so surrendered and released to be free and clear of all liens, obligations or encumbrances suffered by Sinclair.

(b) Upon breach of any of the terms and conditions hereof by Sinclair, (other than failure to comply with respect to commencement, drilling and completion of the wells as herein provided), Trigg shall notify Sinclair in writing alleging specifically the respects in which Trigg considers Sinclair has failed to comply, and Sinclair shall have thirty (30) days after the mailing of such notice by Trigg within which to remedy such default so alleged by Trigg. In the event Sinclair has not cured said default within such time, Trigg may at its option, terminate this agreement whereby any rights hereunder, will revert to Trigg, except as to each tract as defined in (a) of Paragraph 4 hereof upon which a producing well has been completed.

The terms of this agreement shall bind the parties hereto and shall inure to the benefit of their respective heirs, devisees, successors and assigns.

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

John H. Trigg
John H. Trigg
Pauline V. Trigg
Pauline V. Trigg

SINCLAIR OIL & GAS COMPANY

By *R. M. Kobdich*

APPROVED	
FOR: SUBSTANCE	<i>JK</i>
	<i>RW</i>
	<i>Jub</i>

STATE OF NEW MEXICO
 ss.
COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 9th day of November, 1966, by JOHN H. TRIGG and PAULINE V. TRIGG, his wife.

L. Lucille Nichols
Notary Public

My Commission Expires:
November 19, 1967

STATE OF TEXAS
 ss.
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 16th day of November, 1966, by R. M. KOBDISH, Vice President of Sinclair Oil & Gas Company, a Main corporation, on behalf of said corporation.

Barbara C. Tuttle
Notary Public

My Commission Expires:
January 1, 1967

EXHIBIT "A"
TO FARMOUT AGREEMENT BY AND BETWEEN
JOHN H. TRIGG and PAULINE V. TRIGG and SINCLAIR OIL & GAS COMPANY

MODEL FORM OPERATING AGREEMENT—1956

~~NOT~~ Federal Lands

OPERATING AGREEMENT

DATED

_____, 19____,

FOR UNIT AREA IN TOWNSHIP 18 South, RANGE 27 East, N.M.P.M.,

EDDY COUNTY, STATE OF NEW MEXICO.

Published and for Sale by
ROSS-MARTIN CO.

Box 800
Tulsa, Oklahoma

Form 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this _____ day of _____, 19____, between

SINCLAIR OIL & GAS COMPANY

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include 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".
- (6) 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 Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. ~~TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS~~

~~A. Title Examination~~

~~Each party other than Operator shall promptly submit to Operator abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this contract. All of these abstracts and title records shall be examined for the benefit of all parties by Operator's attorneys.~~

Operator shall promptly submit abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this agreement, to _____ for examination by the latter's attorney for the benefit of all parties.

All title examinations shall be made without charge. Each examining attorney shall prepare a complete title report on each separate tract based upon the abstract record and title papers submitted to him. Each title report shall contain a list of fee owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, a report upon mortgages, taxes, pending suits, and judgments, and unreleased oil and gas leases, and a list of requirements, if any, upon which the examiner's approval of title to the lease or oil and gas interest is contingent. The title report shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term (which will be satisfactory if it has a primary term expiring not sooner than _____), amount of royalty, status of delay rental payments, and unusual drilling

~~obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

~~All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, and the parties shall proceed to their performance as they are hereinafter stated.~~

B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". ^{Section 2} All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (1/8) royalty, the party contributing that lease shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

Sinclair Oil & Gas Company shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit 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 from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas in the following location:

NONE

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

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

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

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs 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 at the rate of ^{eight (8%)} ~~six (6%)~~ per cent annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing,*and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing*and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand -----Dollars (\$ 5,000.00) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 2,500.00.

* See Section 30(c) for additional provision.

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of 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 on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) ^{or a holiday} after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, 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, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 24, and 200% 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.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. 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; if there is a credit balance it shall be paid to such Non-Consenting Party.

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 operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned 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 schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, 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 Unit Area is producing, unless such well conforms to ^{spacing rules established} ~~the rules established~~ by the governmental agency having jurisdiction.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. 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.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers 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 and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. 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 and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first ~~obtaining~~ obtaining such other party's written consent.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole 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 shall, upon request, furnish each of the other parties with copies of all 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 Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation 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 then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its 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. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, 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.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Each party shall pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Paragraph 22 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

19. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit 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 Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly with assumption of obligations hereunder in writing by assignee, subject to this agreement, and shall be made without prejudice to the rights 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 may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

20. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

21. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is 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 them liable as partners.

22. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit 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 unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the 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 section 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 section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

23. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

24. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit 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 ~~make~~ ^{render} an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

25. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be returned for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation 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. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with 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".

26. INSURANCE

(a) Operator shall at all times during the term of this agreement carry insurance to protect the parties hereto as set forth in Exhibit "D" hereto attached and made a part hereof, and no other insurance for the benefit of the parties in connection with operations under this agreement shall be carried by Operator, and no change in the insurance set forth in Exhibit "D" shall be made unless agreed to in writing.

(b) Operator shall require all contractors performing work under this agreement to carry insurance as set forth in Exhibit "E" attached hereto and made a part hereof.

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

27. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

28. 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

29. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. 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.

30. OTHER CONDITIONS, IF ANY, ARE:

(a) No well shall be drilled in the Unit Area until after title to the drillsite lease has been examined by an attorney approved by all parties participating in the cost of the well, and the title has been approved by said examining attorney and the title has been accepted by all parties participating in the costs. All costs incurred in connection with examining titles shall be charged to the joint account of the parties hereto.

(b) This Operating Agreement is subject to all the terms and provisions of that certain Farmout Agreement between John H. Trigg, et ux, and Sinclair Oil & Gas Company, dated November 4, 1966, which by reference is incorporated herein for all purposes.

(c) In spite of any provision to the contrary appearing in Section 11 hereof, consent to the drilling of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operators. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday or Sunday or legal holidays) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all of the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

SINCLAIR OIL & GAS COMPANY

ATTEST:

By _____
Vice President

Assistant Secretary

OPERATOR

ATTEST:

John H. Trigg

ATTEST:

Pauline V. Trigg

EXHIBIT " C "

Attached to and made a part of.....Operating Agreement between.....
.....Sinclair Oil & Gas Company, as Operator, and John H.....
.....Trigg, et ux, as Non-Operator, covering land in.....
.....Eddy County, New Mexico.....

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.

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

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

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

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

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

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

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C.....below:

A. Statement in detail of all charges and credits to the Joint Account.

B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~six percent (6%) per annum~~ **eight (8%) per cent per annum** until paid.

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators 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 the Joint Property as provided for in Section VII.

7. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder 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 adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. **Employee Benefits**
Operator's current cost 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; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
4. **Material**
Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.
5. **Transportation**
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:
 - A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
 - 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 or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
 - C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. **Services**
 - A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
 - B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **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 any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **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.
10. **Insurance Premiums**
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. **Other Expenditures**
Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- Paragraph 4. (Combined fixed rate)

1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's office located at or near (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten

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 this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. **Operator's Fully Owned Warehouse Operating and Maintenance Expense**
(Describe fully the agreed procedure to be followed by the Operator)

4. **Combined Fixed Rates**
Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)	
	Each Well	First Five	Next Five	All Wells Over Ten
0' - 4,000'	\$ 425	\$ 85	\$ 75	\$ 65
4,000' - 8,000'	550	105	95	85
8,000' - 12,000'	650	125	115	105
Below 12,000'	750	140	130	120

Said fixed rate ~~(shall)~~ (shall not) include salaries and expenses of production foremen.

5. **Application of Administrative Overhead or Combined Fixed Rates**

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
- (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
- (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
- (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.

C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.

D. The well rates shall be adjusted on the first day of April of 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 preceding calendar year 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. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

6. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. **Purchases**

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. **Material furnished from Operator's Warehouse or Other Properties**

A. **New Material (Condition "A")**

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. **Used Material (Condition "B" and "C")**

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

PREMIUM PRICES

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that at least ten days prior notice in writing is furnished to Non-Operator of the proposed action to be taken by Operator in obtaining or supplying the material and/or equipment called for under the provisions of this paragraph, whereupon Non-Operator shall have the right by so electing and notifying Operator within such ten days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, appropriate adjustments of accounts between Operator and Non-Operator shall be made. Operator agrees to acquire the necessary short supplies and equipment required to conduct operations upon the jointly owned premises and to charge the joint account therefor as herein provided unless Non-Operator elects to supply all or part of same within the specified period of time.

against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

1. Material Purchased by the Operator or Non-Operators

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or

B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

B. Is serviceable for original function but not suitable for reconditioning.

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. 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, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

INSURANCE

EXHIBIT D — Operator shall at all times during the term of this Agreement carry insurance to protect the parties hereto as follows:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

(2) Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident and \$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$25,000 for loss of or damage to property in any one accident.

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section III, Paragraph 5 of the Accounting Procedure.

EXHIBIT E — Operator shall require all contractors performing work under this Agreement to carry the following insurance:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

(2) Comprehensive general public liability insurance with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$100,000 for loss of or damage to property in any one accident and \$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than: \$100,000 applicable to bodily injury, sickness or death of any one person and \$100,000 for more than one person in any one accident, and \$25,000 for loss of or damage to property in any one accident.

DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

OMB NO. 1004-0034
Expires: August 31, 1989

TRANSFER OF OPERATING RIGHTS (SUBLEASE) IN A
LEASE FOR OIL AND GAS OR GEOTHERMAL RESOURCES

Lease Serial No.
NM LC-060122

Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.)
Act for Acquired Lands of 1947 (30 U.S.C. 351-359)
Geothermal Steam Act of 1970 (30 U.S.C. 1001-1025)
Department of the Interior Appropriations Act, Fiscal Year 1981 (42 U.S.C. 6508)

Type or print plainly in ink and sign in ink.

PART A: TRANSFER

Transferee (Sublessee)* Charles E. Nearburg D/B/A Nearburg Exploration Company
Street P. O. Box 823085
City, State, ZIP Code Dallas, Texas 75382-3085

more than one transferee, check here and list the name(s) and address(es) of all additional transferees on the reverse of this form or on a separate attached sheet of paper.

transfer is for: (Check one) Oil and Gas Lease, or Geothermal Lease

interest conveyed: (Check one or both, as appropriate) Operating Rights (sublease) Overriding Royalty, payment out of production or other similar interests or payments

This transfer (sublease) conveys the following interest:

Land Description	Percent of Interest			Percent of Overriding Royalty or Similar Interest	
	Owned	Conveyed	Retained	Reserved	Previously reserved or conveyed
	b	c	d	e	f
Township-18-South, Range-27-East Section 27: North Half (N/2) Sibley County, New Mexico Limited in depth to 10,035'	50%	50%	0%	0%	3.125%

FOR BLM USE ONLY—DO NOT WRITE BELOW THIS LINE

THE UNITED STATES OF AMERICA

transfer is approved solely for administrative purposes. Approval does not warrant that either party to this transfer holds legal or equitable title to this lease.

transfer approved effective _____

PART B: CERTIFICATION AND REQUEST FOR APPROVAL

1. The transferor certifies as owner of an interest in the above designated lease that he/she hereby transfers to the above transferee(s) the rights specified above.
2. Transferee certifies as follows: (a) Transferee is a citizen of the United States; an association of such citizens; a municipality; or a corporation organized under the laws of the United States or of any State or territory thereof. For the transfer of NPR-A leases, transferee is a citizen, national, or resident alien of the United States or associations of such citizens, nationals, resident aliens or private, public or municipal corporations. (b) Transferee is not considered a minor under the laws of the State in which the lands covered by this transfer are located; (c) Transferee's chargeable interests, direct and indirect, in either public domain or acquired lands, do not exceed 200,000 acres in oil and gas options or 246,080 in oil and gas leases in the same State, or 300,000 acres in leases and 200,000 acres in options in each leasing District in Alaska, if this is an oil and gas lease issued in accordance with the Mineral Leasing Act of 1920 or 51,200 acres in any one state if this is a geothermal lease; and (d) All parties holding an interest in the transfer are otherwise in compliance with the regulations (43 CFR Group 3100 or 3200) and the authorizing Acts. (e) Transferee is in compliance with reclamation requirements for all Federal oil and gas lease holdings as required by sec. 17(g) of the Mineral Leasing Act; and (f) Transferee is not in violation of sec. 41 of the Mineral Leasing Act.
3. Transferee's signature to this assignment constitutes acceptance of all applicable terms, conditions, stipulations and restrictions pertaining to the lease described herein. Applicable terms and conditions include, but are not limited to, an obligation to conduct all operations on the leasehold in accordance with the terms and conditions of the lease, to condition all wells for proper abandonment, to restore the leased lands upon completion of any operations as described in the lease, and to furnish and maintain such bond as may be required by the lessor pursuant to regulations 43 CFR 3104, 3134, or 3206.

For geothermal transfers, an overriding royalty may not be less than one-fourth (1/4) of one percent of the value of output, nor greater than 50 percent of the rate of royalty due to the United States when this transfer is added to all previously created overriding royalties (43 CFR 3241).

I certify that the statements made herein by me are true, complete, and correct to the best of my knowledge and belief and are made in good faith.

Executed this 21st day of October, 19 91

Executed this 28th day of October, 19 91

Name of Transferor Atlantic Richfield Company
Please type or print

CHARLES E. NEARBURG D/B/A
NEARBURG EXPLORATION COMPANY

Transferor _____
or BY: _____ (Signature)

Transferee _____
or _____ (Signature)

Attorney-in-fact T. L. Holland (Signature)

Attorney-in-fact Robert G. Shelton (Signature)

P. O. Box 1610
(Transferor's Address)

ROBERT G. SHELTON

Midland, TX 79702
(City) (State) (Zip Code)

ASSIGNMENT OF OIL AND GAS LEASE

STATE OF NEW MEXICO) (
COUNTY OF EDDY) (

For a good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Atlantic Richfield Company, whose address is 600 North Marienfeld, Midland, Texas 79701, (hereinafter referred to as "Assignor") does hereby sell, assign, transfer and convey unto Charles E. Nearburg, D/B/A Nearburg Exploration Company, whose address is 3300 North Avenue "A", Building 8, Suite 100, Midland, Texas 79705 (hereinafter referred to as "Assignee"), all of assignor's right, title and interest in and to the Oil and Gas Lease set forth below (hereinafter referred to as "Said Lease"), insofar and only insofar as said lease covers the lands described below from the surface of the earth to 10,035'.

Lease No.: NM LC-060122
Lessor: Bureau of Land Management
Date: April 1, 1948
Description: Insofar and only insofar as said lease covers the North Half (N/2) of Section 27, T-18-S, R-27-E, Eddy County, New Mexico

TO HAVE AND TO HOLD the interest assigned in and to said lease unto assignee, its successors and assigns; however, this assignment is made without warranty of title express or implied on the part of assignee.

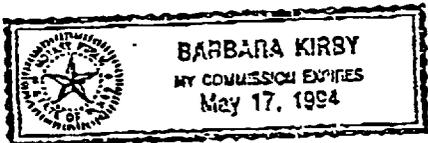
Executed this 21 day of NOVEMBER, 1991.

ATLANTIC RICHFIELD COMPANY

BY: [Signature]
its: Attorney-in-Fact

STATE OF TEXAS) (
COUNTY OF MIDLAND) (

This instrument was acknowledged before me this 21st day of November, 1991, by T. L. HOLLAND, Attorney-in-Fact of ATLANTIC RICHFIELD COMPANY, a Delaware Corporation.



[Signature]
Notary Public

NEARBURG Exploration
1 Petro Bldg 8, Ste 100
3300 N. A. St
Midland Tx 79705

RECEPTION
9112524

STATE OF NEW MEXICO, County of Eddy, ss. I hereby certify that this instrument was filed for record on the 6 day of December, A.D. 19 91 at 1:42 o'clock P. M., and duly recorded in BOOK 110 PAGE 949 of the Eddy County Records.
KAREN DAVIS, County Clerk By [Signature] Deputy