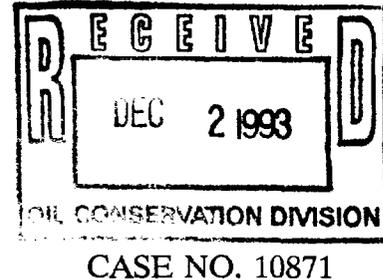


BEFORE THE  
OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION  
OF SANTA FE ENERGY OPERATING  
PARTNERS, L.P., FOR COMPULSORY  
POOLING, TO SHUT IN A PRODUCING  
WELL, AND FOR A NON-STANDARD  
SPACING AND PRORATION UNIT,  
EDDY COUNTY, NEW MEXICO.



*MOTION TO DISMISS*

---

COMES NOW YATES PETROLEUM CORPORATION ("Yates"), through its undersigned attorneys, and hereby moves to dismiss the above-styled application of Santa Fe Energy Operating Partners, L.P., ("Santa Fe") and in support of its motion states:

**BACKGROUND:**

1. Yates is the owner of 50% of the working interest in the W/2 of Section 10, Township 20 South, Range 24 East, NMPM, Eddy County, New Mexico, which Santa Fe seeks to pool with this application.

2. Yates operates the Ocotillo "ACI" Federal Well No. 1 ("Ocotillo Well No. 1") located 660 feet from the North and East lines of Section 10, to which is dedicated a standard 160-acre spacing and proration unit in the North Dagger Draw-Upper Pennsylvanian Pool comprised of the NE/4 of said Section 10. Yates also operates the Ocotillo "ACI" Federal Com Well No. 2 ("Ocotillo Well No. 2") located 660 feet from the South and East lines of Section 10, to which Yates proposes to dedicate a standard 320-acre

spacing and proration unit in the South Dagger Draw-Upper Pennsylvanian Pool comprised of the S/2 of said section.

3. Offsetting Section 10 to the West, Yates operates its Judith "AIJ" Federal Well No. 1 ("Judith Well"), located at a standard location 660 feet from the South and East lines of Section 9, Township 20 South, Range 24 East, NMPM, Eddy County, New Mexico to which is dedicated a standard 320-acre spacing unit in the South Dagger Draw-Upper Pennsylvanian Pool comprised of the E/2 of said section.

4. By letter dated September 10, 1993, Exhibit A to this motion, Santa Fe proposed to Yates the drilling of a well to test the Cisco Canyon formation at a location 990 feet from the South and West lines of Section 10.

5. Yates responded by letter dated September 20, 1993, Exhibit B to this motion, in which it proposed drilling the Ocotillo Well No. 2 in the SE/4 of Section 10 with a standard spacing unit dedicated to the well comprised of the S/2 of Section 10. Attached to the letter were:

- a. an AFE for this well which set out the party's ownership percentages for a S/2 unit;
- b. a copy of a title opinion which covered, among other lands, the SW/4 of Section 10;
- c. an approved application for permit to drill the Ocotillo Well No. 2 with attached acreage dedication plat showing the S/2 of said section as this well's dedicated spacing and proration unit; and
- d. an operating agreement for this well identifying the Contract Area as

the S/2 of Section 10.

6. On October 20, 1993, Paul Baker, Division Production Manager for Santa Fe, signed the Yates AFE, Exhibit C to this motion, and, pursuant to this Authority for Expenditure, Yates drilled the Ocotillo Well No. 2 which was logged on November 21, 1993.

7. With no further negotiations between the parties, on October 26, 1993 Santa Fe filed its application with the Oil Conservation Division seeking an order pooling the W/2 of Section 10 for a well on the same acreage Yates proposed to dedicate to the Ocotillo Well No. 2.

8. Santa Fe has refused to execute the Joint Operating Agreement for the S/2 of Section 10 or to execute a Communitization Agreement covering this acreage.

## **ARGUMENT**

### **POINT I**

#### **SANTA FE IS NOT ENTITLED TO AN ORDER COMPULSORY POOLING THE WEST HALF OF SECTION 10.**

The Oil Conservation Division is authorized to pool the oil and gas interests in a spacing unit under certain conditions when the owners of those interests have not agreed to pool their interests and voluntarily develop their lands as a unit. N.M.Stat. Ann. § 70-2-17(C). In this case, Santa Fe and Yates have agreed to develop their lands in the S/2 of Section 10 as a unit by the execution of an AFE for the Ocotillo Well No. 2.

An AFE is a contract whereby the owners of working interest in a tract agree to pay their share of the costs of drilling a well. This is a form widely used in the industry and, as noted by the United States District Court for the District of Colorado in *M & T, Inc. v. Fuel*

**MOTION TO DISMISS,**

**Page 3**

*Resources Development Co.*, 518 F.Supp. 285 (D.Colo. 1981):

execution of the AFE by the nonoperating owners of working interests in the underlying leaseholds is a written manifestation of their consent to participate in the well .... In the oil and gas industry, it is understood and accepted that when one signs an AFE, he is committed to his proportionate share of the necessary costs in drilling to the objective specified in the AFE.

In this case, there can be no dispute that by executing the AFE for the Ocotillo Well No. 2, Santa Fe agreed to pay its proportionate share of the costs of drilling the well. There also can be no doubt about what that share was. The AFE set out Santa Fe's share as 58.334375% of the costs which is Santa Fe's interest under the S/2 of Section 10. Under the southeast quarter of this Section, Santa Fe's interest is 66.6%.

There was no misunderstanding as to what was covered by Santa Fe's agreement with Yates. The AFE was transmitted with a letter which identified the S/2 spacing unit. An approved permit to drill was provided with an attached acreage dedication plat showing a S/2 spacing unit. The enclosed Joint Operating Agreement identified the Contract Area as the S/2. Even the name of the well told Santa Fe that the Ocotillo "ACI" Federal Com No. 2 was to be drilled on a S/2 communitized tract.

However, after Yates drilled the Ocotillo Well No. 2, Santa Fe decided to change its agreement for development of the S/2 of Section 10, reduce Yates' interest in the well it had drilled and ask the OCD to help it break its agreement with Yates.

The AFE created enforceable obligations between Yates and Santa Fe. Yates has performed its obligations and Santa Fe cannot change the contract or relieve itself of its obligations under this AFE by now refusing to sign a Joint Operating Agreement. In *GHK*

*Co. v. Janco Investments, Inc.*, 748 P.2d 45, (Okla.App. 1987) the Oklahoma Court of Appeals enforced the obligations of a nonoperating working interest owner to perform under an AFE even though it had not executed the Joint Operating Agreement.

In this case, Santa Fe has agreed to pay its share of the well costs for a well to which the S/2 of Section 10 is to be dedicated. They have voluntarily agreed to develop these lands as a standard spacing and proration unit and, therefore, Santa Fe may not now invoke the pooling power of the OCD to form a West half unit in the South Dagger Draw-Upper Pennsylvanian Pool.

## **POINT II**

### **CORRELATIVE RIGHTS WOULD BE IMPAIRED BY SHUTTING IN THE YATES JUDITH AIJ FEDERAL WELL NO. 1.**

"Correlative rights" are defined by the New Mexico Oil and Gas Act as:

"the opportunity afforded, so far as it is practicable to do so, to the owner of each property in a pool to produce without waste his just and equitable share of oil or gas or both in the pool, being an amount ... substantially in the proportion that the quantity of recoverable oil or gas or both under the property bears to the total recoverable oil or gas or both in the pool ..." (emphasis added). N.M.Stat. Ann. § 70-2-33(H).

Santa Fe has been the lessee of mineral interests in the W/2 of Section 10 since August 1, 1989. Since that time it has had the opportunity to develop the oil and gas under this acreage but has not done so. Until it drills a well and converts its interest in these minerals to recoverable reserves it has nothing for the OCD to protect. It has what it has always had -- the opportunity to develop and it can point to nothing in statute or contract which has ever limited that right in the W/2 of Section 10.

Its failure to act does not create a basis for an order shutting in Yates' Judith Well. Yates availed itself of the opportunity afforded by the Oil and Gas Act to produce oil and gas from this pool by drilling this well. By so doing, Yates converted its mineral rights into recoverable reserves which under New Mexico law it is entitled to produce.

On these facts, Santa Fe's application to shut in Yates' Judith AIJ Federal Well No. 1 should be dismissed.

### **POINT III**

#### **SANTA FE IS NOT ENTITLED TO THE CREATION OF A NON-STANDARD SPACING OR PRORATION UNIT IN THE SOUTHEAST QUARTER OF SECTION 10.**

Santa Fe and Yates entered an agreement for the drilling of the Ocotillo Well No. 2 as discussed in Point I of this Memorandum. Now, after the well has been drilled, Santa Fe attempts to frustrate the purpose of that agreement by changing the size of the spacing and proration unit dedicated to the well.

Reducing the size of the spacing unit dedicated to this well reduces Yates' interest in production from the well from 42% to 33%. Having drilled the well in reliance on its agreement with Santa Fe for development of this acreage with a standard spacing unit comprised of the S/2 of this section, Yates' correlative rights are measured by its proportionate share of the recoverable reserves from this 320-acre spacing unit. That share is 42% of the production from this well pursuant to OCD spacing rules and under its contract with Santa Fe. To change the spacing unit and thereby reduce Yates' interest in the Ocotillo Well No. 2 impairs the correlative rights of Yates.

Santa Fe's application for the creation of a nonstandard spacing unit comprising the

SE/4 of Section 10 should be dismissed.

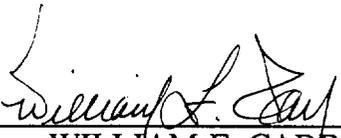
**CONCLUSION**

Having agreed to develop the S/2 of Section 10 by signing an AFE for the Ocotillo "ACI" Federal Com Well No. 2, Santa Fe may not now invoke the New Mexico pooling statutes to break its agreement and achieve a different result. Its requests for an Order shutting in the Yates Judith AIJ Federal Well No. 1 and creating a nonstandard spacing or proration unit in the SE/4 of this section are not authorized by the Oil and Gas Act for they would impair the correlative rights of Yates who, unlike Santa Fe, has availed itself of the opportunity to produce the reserves under this pool.

The application of Santa Fe Energy Operating Partners, L.P., must be dismissed.

Respectfully submitted,

CAMPBELL, CARR, BERGE  
& SHERIDAN, P.A.

By: 

WILLIAM F. CARR

Post Office Box 2208

Santa Fe, New Mexico 87504

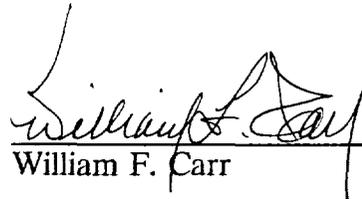
Telephone: (505) 988-4421

ATTORNEYS FOR YATES PETROLEUM  
CORPORATION

**CERTIFICATE OF SERVICE**

I hereby certify that on this 2<sup>nd</sup> day of December, 1993, I have caused to be hand-delivered a copy of our Motion to Dismiss in the above-captioned case to:

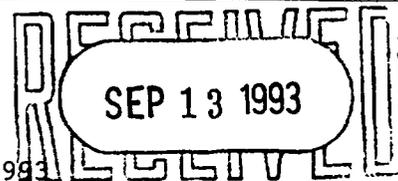
James G. Bruce, Esq.  
Hinkle, Cox, Eaton, Coffield & Hensley  
218 Montezuma Street  
Santa Fe, New Mexico 87501

  
\_\_\_\_\_  
William F. Carr



# Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company  
Managing General Partner



September 10, 1993

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attn: Robert Bullock

Re: Daggar Draw Prospect  
Daggar Draw "10" Federal No. 31  
990' FSL & 990' FWL  
Section 10, T20S, R24E  
Eddy County, New Mexico

Gentlemen:

Santa Fe Energy Operating Partners, L. P. hereby proposes the drilling of the Daggar Draw "10" Federal No. 31 well at a legal location of 990' FSL & 990' FWL in Section 10, T20S, R24E, Eddy County, New Mexico which is to be drilled to a depth sufficient to test the Cisco Canyon formation.

Enclosed are two (2) copies of Santa Fe's well cost estimate. Please return one original to my attention.

Should you have any questions, please contact me at (915) 686-6630.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company  
Managing General Partner

By: *Sam Green*  
Gary Green, Division Landman

GG/kt  
2 Encls

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

Exhibit A

*sent to g201. 9-14-93*

## SANTA FE ENERGY OPERATING PARTNERS, L.P.

## GENERALIZED WELL COST ESTIMATE

NAME: Dagger Draw "10" Federal No.31

LOC: 990' FSL &amp; FWL, Sec.10-20S-24E, Eddy County, New Mexico

DESC: Drill and Complete A 7,950' Cisco/ Canyon Oil Well



ACCOUNT	DESCRIPTION OF COSTS		DRY HOLE	PRODUCER
501-000	<b>TANGIBLE WELL COSTS</b>			
-41	CONDUCTOR CSG		3,000	3,000
-41	SURFACE CSG			
-41	PROTECTION CSG	9 5/8" 36.0 ppf K-55 ST&C @ 1,200'	14,400	14,400
-41	INTERMEDIATE CSG			
-41	PROD CSG	7" 23.0 & 26.0 K-55 & L-80 LT&C @ 7,950'		100,800
-41	PROD LINER			
-42	TUBING	2-7/8" 6.5 ppf K-55 8-rd EUE @ 7,950'		20,160
-43	WELLHEAD		2,000	8,000
-44	PMPG UNIT			
-45	PRIME MOVER			
-50	OTHER DWN HOLE EQUIP			2,500
-50	RODS			
-50	SUBSURFACE PMPS	Sub Pump		75,000
-55	CSG EQUIP		1,500	5,000
-55	ELECTRICAL			8,000
-55	MISC. TANGIBLES			1,000
-55	ROD EQUIP			
-55	TUBING EQUIP			2,000
	<b>TOTAL TANGIBLE COSTS</b>		<b>20,900</b>	<b>239,860</b>
541-000	<b>LEASE FACILITY COSTS</b>			
-50	FLOW LINES			6,000
-50	LABOR			10,000
-50	OTHER PROD EQUIP			20,000
-50	TANK FACILITIES			18,000
	<b>TOTAL LEASE FACILITY COSTS</b>		<b>0</b>	<b>54,000</b>
511-000	<b>INTANGIBLE WELL COSTS</b>			
-21	LOCATION		15,000	15,000
-22	FENCING		1,000	3,000
-26	WTR & FUEL FOR RIG		30,000	30,000
-31	CONTRACTOR MOVING EXP			
-32	CONT FOOTAGE OR TURNKEY	\$15/ft X 7950'	119,250	119,250
-32	CONTRACTOR DAY WORK	2 days X \$4500/day	9,000	9,000
-33	DRLG FLUID & ADDITIVES		15,000	15,000
-34	BITS & REAMERS			
-36	CORING & CORE ANALYSES			
-37	CEMENT		15,000	40,000
-39	INSPECTION & TSTG OF TANG		3,000	8,000
-41	DIRECTIONAL DRLG SURVEYS			
-42	DRILLING EQUIP RENTAL		8,000	8,000
-43	OPEN HOLE LOGGING	CNL/LDT/DLL/MSFL	20,000	20,000
-44	DRILL STEM TSTG			
-45	MUD LOGGING		5,000	5,000
-51	TRANSPORTATION		4,000	10,000
-52	COMPLETION UNIT	\$1200/day X 10 days		12,000
-53	COMPLETION TOOL RENTAL			4,000
-54	CASED HOLE LOGS & PERFING			12,000
-55	STIMULATION			30,000
-56	RIG SITE SUPERVISION	15 + 10 X \$400/day	6,000	10,000
-72	ADMINISTRATIVE OVERHEAD		3,000	5,000
-99	FSHG TOOLS & EXPENSES			
-99	TESTING: BHP, GOR, 4 PT. POT			4,883
	ABANDONMENT COST		4,940	
	OTHER INTANGIBLES			
0	CONTINGENCY (5%)		12,910	18,007
	<b>TOTAL INTANGIBLES</b>		<b>271,100</b>	<b>378,140</b>
	<b>TOTAL COSTS</b>		<b>292,000</b>	<b>672,000</b>

Drilling Dept:

*Daniel Roberts*

Date:

*8/17/93*

Operations Dept:

*M. R. Benton by me*

Date:

*8/17/93*

SFER Approval By:

*P. R. Poole by jim*

Date:

*8/20/93*

Non Operator Approval By:

Date:

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



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

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

September 20, 1993

Santa Fe Energy Operating Partners, L. P.  
550 West Texas, Suite 1330  
Midland, Texas 79701

Attention: Gary Green

RE: Ocotillo ACI Federal Com. #2  
Township 20 South, Range 24 East, NMPM  
Section 10: S/2  
Eddy County, New Mexico

Gentlemen:

Enclosed for your review, please find the following:

1. Two copies of September 9, 1992 Authority For Expenditure covering the captioned well.
2. Vandiver Title Opinion No. 583 dated March 11, 1993 covering NM-81893.
3. Copy of APD approved November 5, 1992 covering said well.
4. Operating Agreement dated September 20, 1993 covering S/2 of Section 10, Township 20 South, Range 24 East.

We have received your AFE proposing a Canyon well in the W/2 of Section 10, Township 20 South, Range 24 East. As you can see from the dates above, we had planned to propose the captioned well be drilled next summer prior to the July 31, 1994 expiration date. As you know, the E/2 is under Operating Agreement dated August 29, 1989; however, we would like to have one Operating Agreement for the S/2 proration unit well.

The AFE covers an 8,200' Canyon test located 660/S and 660/E of Section 10, Township 20 South, Range 24 East. Our 1992 AFE can be updated if you feel it is necessary. Our geologists feel this location is much closer to the "oil leg" and therefore is a preferred location in the S/2.

We respectfully request your consideration for approval of this well for the first S/2 well and your withdrawal of your well proposal in the SW/4. Should you have any questions, please do not hesitate to contact us.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Kathy H. Porter, CPL  
Landman

KHP/pkw  
Enclosures

Exhibit B



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

TO: *ARNA*  
AUTHORITY FOR EXPENDITURE  
NEW DRILLING

AFE NO. 92-428-0  
AFE DATE 9/9/92

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

AFE STATUS:

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

LEASE NAME	Ocotillo ACI Federal Com. #2	PROJ'D DEPTH	8200'
COUNTY	Eddy	STATE	New Mexico
LEGAL DESC.	660' FSL & 660' FEL	LOCATION	Sec. 10-20S-24E
FIELD		HORIZON	Canyon
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	500	500
920-110	Location, Right-of-Way	10,800	10,800
920-120	Drilling, Footage	123,000	123,000
920-130	Drilling, Daywork	13,500	13,500
920-140	Drilling Water, Fasline Rental	18,000	18,000
920-150	Drilling Mud & Additives	10,000	10,000
920-160	Mud Logging Unit, Sample Bags	3,600	3,600
920-170	Cementing - Surface Casing	12,500	12,500
920-180	Drill Stem Testing, OHT	-	-
920-190	Electric Logs & Tape Copies	11,000	11,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	6,300	6,300
920-210	Supervision & Overhead	7,500	7,500
920-220	Contingency	-	-
920-230	Coring, Tools & Service	-	-
920-240	Bits, Tool & Supplies Purchase	300	300
920-350	Cementing - Production Casing	-	8,000
920-410	Completion Unit - Swabbing	-	7,800
920-420	Water for Completion	-	1,100
920-430	Mud & Additives for Completion	-	600
920-440	Cementing - Completion	-	-
920-450	Elec. Logs, Testing, Etc. - Completion	-	4,000
920-460	Tools & Equip. Rental, Etc. - Completion	-	8,000
920-470	Stimulation for Completion	-	10,000
920-480	Supervision & O/H - Completion	-	5,400
920-490	Additional LOC Charges - Completion	-	3,300
920-510	Bits, Tools & Supplies - Completion	-	2,300
920-500	Contingency for Completion	-	4,500
<b>TOTAL INTANGIBLE DRILLING COSTS</b>		<b>217,000</b>	<b>272,000</b>

TANGIBLE EQUIPMENT COSTS:			
930-010	Christmas Tree & Wellhead	2,200	15,700
930-020	Casing 9 5/8" @ 1200'	16,800	-
	7" @ 8200'	-	16,800
		-	80,000
		-	-
930-030	Tubing 2-7/8" @ 7700'	-	21,500
930-040	Packer & Special Equipment	-	1,500
940-010	Pumping Equipment	-	75,000
940-020	Storage Facilities	-	-
940-030	Separation Equip., Flowlines, Misc.	-	10,000
940-040	Trucking & Construction Costs	-	-
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>		<b>19,000</b>	<b>220,500</b>
<b>TOTAL COSTS</b>		<b>236,000</b>	<b>492,500</b>

APPROVAL OF THIS AFE COSTITUTES 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>Al Springs</i>	Operations Approval	<i>S</i>
-------------	-------------------	---------------------	----------

OWNER		SHARE
YATES PETROLEUM CORPORATION	DATE	41.665625%
SANTA FE OPERATING PARTNERS, L.P.	DATE	58.334375%
	DATE	
	DATE	

FISK & VANDIVER

ATTORNEYS AT LAW

SEVENTH & MAHONE / SUITE E
ARTESIA, NEW MEXICO 88210

(505) 746-9841

JOHN FISK
DAVID R. VANDIVER

FAX
(505) 746-4208

March 11, 1993

IN RE DRILLING OPINION OF TITLE TO: United States Oil and Gas Lease NM 81893, covering:

Township 20 South, Range 24 East, N.M.P.M. No. 583

Section 10: W/2
Section 28: SE/4 SW/4

containing 360 acres, more or less,

in Eddy County, New Mexico.

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Gentlemen:

In connection with the title to the oil and gas lease covering the lands described in the caption hereof, for drilling purposes, we have examined the following:

- 1. Abstract of Title No. 46168, compiled by Federal Abstract Company, Santa Fe, New Mexico, containing 43 pages, and tracing title to the captioned lease and lands, from the Plat Book Records, Historical Index Records, Serial Record and Case File in the United States Department of the Interior, Bureau of Land Management, State Office at Santa Fe, New Mexico, from inception of the records to October 16, 1992 at 9:00 A.M.
2. Abstract of Title No. 92369, compiled by Currier Abstract Company, Artesia, New Mexico, containing 30 pages, and tracing title to the minerals only in the captioned lands, as reflected by the records in the Offices of the County Clerk and Clerk of the District Court of Eddy County, New Mexico, from inception of the records to October 16, 1992 at 8:00 A.M.

From our examination of the foregoing, we report as follows:

I. TITLE:

A. Minerals:

United States ..... All

B. Oil and Gas Leasehold Estate:

United States ..... .1250 RI
Yates Petroleum Corporation (1/2 of .875) ..... .4375 WI
Santa Fe Energy Operating Partners, L.P. (1/2 of .875) ..... .4375 WI

II. EFFECTIVE OIL AND GAS LEASE: The principal features of the oil and gas lease covering the lands described in the caption hereof are as follows:

Effective Date: August 1, 1989
Serial No.: NM 81893
Recorded: Unrecorded

Lessor: United States

Original Lessee: Yates Petroleum Corporation

Present Lessees: Yates Petroleum Corporation (50%) and  
Santa Fe Energy Operating Partners, L.P. (50%)

Lands Covered: Exact captioned lands

Term: Five years and so long thereafter as oil or  
gas is produced in paying quantities.

Rental: \$1.50 per acre or fraction thereof for the  
first five years of the lease term and \$2.00 per acre or fraction thereof for  
any subsequent year prior to discovery, to be paid to Minerals Manage-  
ment Service, Royalty Management Program, BRASS, on or before the  
anniversary date of each lease year. If the lease or a portion thereof is  
committed to an approved cooperative or unit plan which includes a  
well capable of producing leased resources, and the plan contains a pro-  
vision for allocation of production, royalties shall be paid on the produc-  
tion allocated to the lease, but annual rentals shall continue to be paid  
for those lands not within a participating area.

Minimum Royalty: Commencing with the lease year begin-  
ning on or after a discovery of oil or gas in paying quantities on the lands  
leased, in lieu of rental a minimum royalty of not less than the amount  
of rental which would otherwise be required for that lease year, payable  
at the expiration of each lease year.

Royalty: 12-1/2% on the production removed or  
sold from the leased lands, computed in accordance with the regulations  
on production removed or sold.

Annual rentals in the amount of \$540 are shown as paid to September 1, 1992 (see Requirement 2 in IV below).

### III. COMMENTS:

1. Rights-of-Way. The Historical Index and Oil and Gas Plat reflect that the surface of the captioned lands is subject to the following:

(a) Right-of-Way NM 77943, issued September 13, 1989, crossing S/2 NW/4 Section 10 and other lands, for a salt water disposal site.

(b) Right-of-Way NM 82251, issued January 11, 1990, crossing SW/4 NW/4, N/2 SW/4 Section 10 and other lands, for an electrical line.

Your operations for oil and gas on the captioned lands should not interfere with these rights-of-way.

2. Environmental and Securities Laws. We express no opinion as to compliance with or violation of any state or federal environmental or securities laws or regulations in connection with the captioned lands, and this opinion excepts all such matters.

### IV. REQUIREMENTS:

1. Unrecorded Oil and Gas Lease. United States Oil and Gas Lease NM 81893 has not been recorded in the county records. Reported decisions hold that constructive notice exists only with respect to instruments recorded in the county records which concern federal oil and gas leases.

A certified copy of the foregoing oil and gas lease should be recorded in the county records in order to confer the benefits provided by the constructive notice provisions of the New Mexico recording statutes.

2. Rental Receipts. The federal abstract contains a copy of the receipt reflecting timely payment of the annual rental on United States Oil and Gas Lease NM 81893 for the period from September 1, 1989, through August 31, 1990, and the case abstract reflects the timely payment of rentals from September 1, 1990, through August 31, 1992. The abstracts contain no indication that the rental due September 1, 1992, was timely paid. Effective October 2, 1989, rental receipts are no longer posted in the case files for federal oil and gas leases, and we are therefore unable to confirm that rentals were timely and properly paid for the period from September 1, 1990, through August 31, 1993.

We should be furnished with copies of rental receipts on NM 81893 for the period from September 1, 1990, through August 31, 1993, for examination, or you should satisfy yourselves that rentals were timely and properly paid so as to maintain the lease in force and effect.

When the requirements hereinabove set forth have been satisfied, we will approve title, for drilling purposes, to the oil and gas lease covering the lands described in the caption hereof, on the date to which the abstracts were last certified, in accordance with this opinion.

Respectfully submitted,

FISK & VANDIVER

  
David R. Vandiver

DRV:pvw

Abstracts returned herewith

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK  
 DRILL  DEEPEN  PLUG BACK   
 b. TYPE OF WELL  
 OIL WELL  GAS WELL  OTHER  SINGLE ZONE  MULTIPLE ZONE

2. NAME OF OPERATOR  
 Yates Petroleum Corporation

3. ADDRESS OF OPERATOR  
 105 South Fourth Street, Artesia, New Mexico 88210

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)\*  
 At surface  
 660' FSL and 660' FEL  
 At proposed prod. zone  
 Same

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*  
 Approximately 30 miles southwest of Artesia, New Mexico

15. DISTANCE FROM PROPOSED\* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drig. unit line, if any) 660'  
 18. NO. OF ACRES IN LEASE

18. DISTANCE FROM PROPOSED\* LOCATION TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.  
 19. PROPOSED DEPTH 8200'  
 20. ROTARY OR CABLE TOOLS Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)  
 3648' GR  
 22. APPROX. DATE WORK WILL START\* ASAP

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
14 3/4"	9 5/8"	36# J-55	1150'	1100 sacks (Circulated)
8 3/4"	7"	23 - 26#	TD	1500 sacks - see slips.

Yates Petroleum Corporation proposes to drill and test the Canyon and intermediate formations. Approximately 1150' of surface casing will be set and cement circulated to shut off gravel and cavings. If commercial, production casing will be run and cemented, will perforate and stimulate as needed for production.

MUD PROGRAM: FW gel/ LCM to 1150'; FW to 5000'; cut Brine to 7200'; SW gel/Starch to TD.

BOP PROGRAM: BOPE will be installed, tested, and maintained in accordance with Part III A. of Onshore Oil and Gas Order #2.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED [Signature] TITLE Landman DATE 10-13-92

(This space for Federal or State office use)

PERMIT NO. \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_

APPROVED BY [Signature] TITLE [Signature] DATE 11/5/92

CONDITIONS OF APPROVAL, IF ANY:  
 APPROVAL SUBJECT TO  
 GENERAL REQUIREMENTS AND  
 SPECIAL STIPULATIONS

\*See Instructions On Reverse Side

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

Submit to Appropriate District Office  
 State Lease - 4 copies  
 Fee Lease - 3 copies

State of New Mexico  
 Energy, Minerals and Natural Resources Department

Form C-102  
 Revised 1-1-89

**OIL CONSERVATION DIVISION**  
 P.O. Box 2088  
 Santa Fe, New Mexico 87504-2088

DISTRICT I  
 P.O. Box 1980, Hobbs, NM 88240

DISTRICT II  
 P.O. Drawer DD, Artesia, NM 88210

DISTRICT III  
 1000 Rio Brazos Rd., Aztec, NM 87410

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

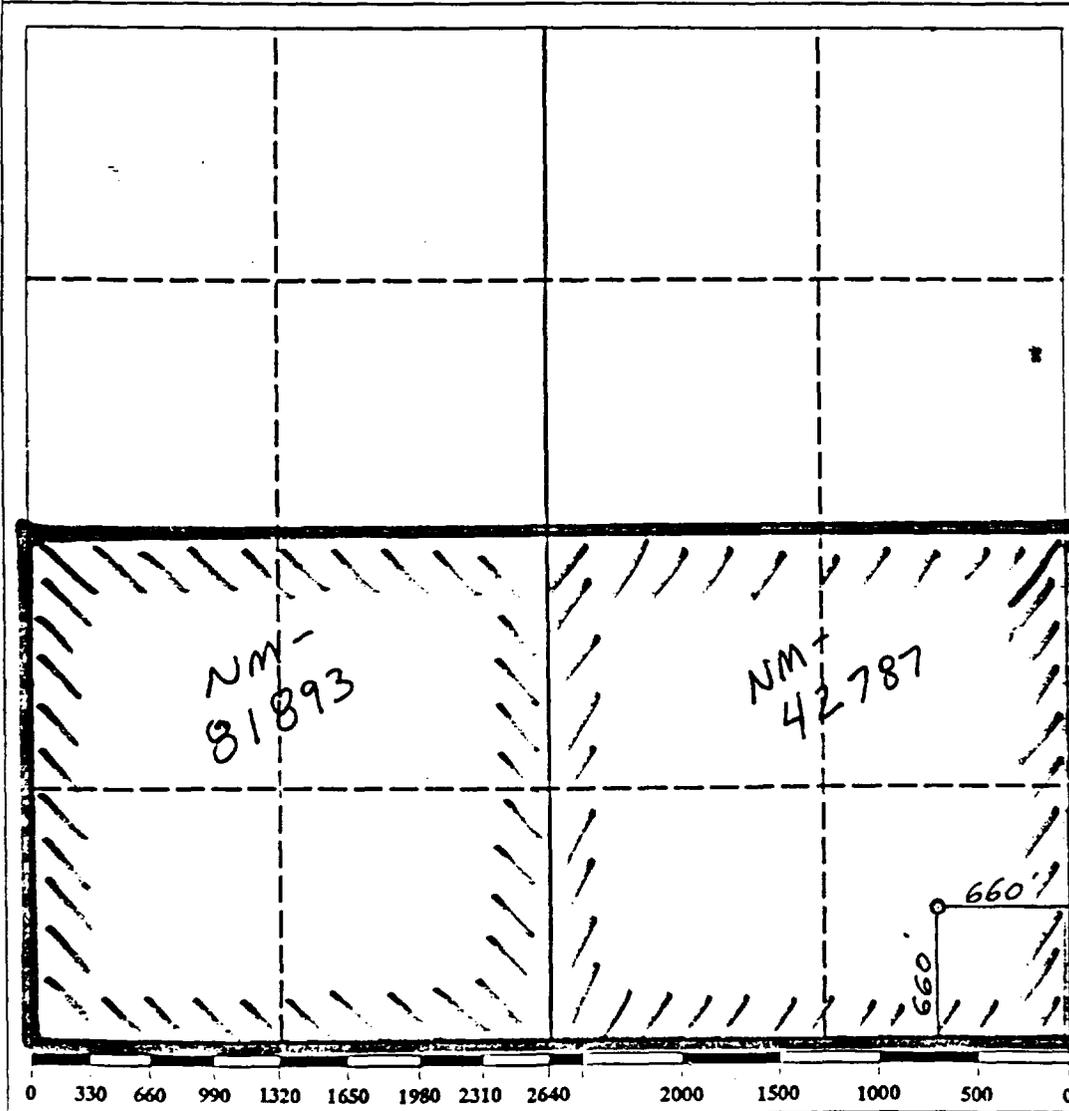
All Distances must be from the outer boundaries of the section

Operator <b>YATES PETROLEUM CORPORATION</b>			Lease <b>OCOTILLO "ACI" FEDERAL Com</b>		Well No. <b>2</b>
Unit Letter <b>P</b>	Section <b>10</b>	Township <b>20 SOUTH</b>	Range <b>24 EAST</b>	County <b>NMPM EDDY COUNTY, NM</b>	
Actual Footage Location of Well: <b>660</b> feet from the <b>SOUTH</b> line and <b>660</b> feet from the <b>EAST</b> line					
Ground level Elev. <b>3648.</b>	Producing Formation <b>Cisco Canyon</b>		Pool <b>S. Dagger Draw Upper Penn</b>		Dedicated Acreage: <b>320</b> Acres

- Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?  
 Yes     No    If answer is "yes" type of consolidation Communitization

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



**OPERATOR CERTIFICATION**

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature: Ken Beardemph  
 Printed Name: Ken Beardemph  
 Position: Landman  
 Company: Yates Pet. Corp.  
 Date: 10-13-92

**SURVEYOR CERTIFICATION**

I hereby certify that the well location shown on this plat was plotted from field notes, actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed: OCTOBER 5, 1992  
 Signature & Seal of Professional Surveyor: [Signature]  
 Certified No. 5412  
 State of NEW MEXICO  
 Surveyor No. 5412  
 Professional Seal

Drilling Plan  
YATES PETROLEUM CORPORATION  
Ocotillo "ACI" Federal Com #2  
660' FSL and 660' FEL  
Section 10-T20S-R24E  
Eddy County, New Mexico

Anticipated Drilling Time 17 days.

Hole Size: 14 3/4"    Depth To: 1150'                    Casing Size: 9 5/8"    Setting Depth: 1150'

Casing Description: 9 5/8", 36#, 8R, J55, ST&C.

Cement Slurry: 700 sx. "Class C Lite" w/1/2# Cellocel, 10# Gilsomite and 3% CaCl<sub>2</sub>. Wt 12.7 yield 1.84 + 200 sx. "Class C" and 2% CaCl<sub>2</sub>. Wt. 14.8 yield 1.32. Cement circulated to surface.

All casing in New Minimum Design Factors: Collapse 1.125, Burst 1.0, Tensile Str. 1.80.

Hole size: 8 3/4"    Depth To: 8300' -                    Casing Size 7"    Setting Depth: 8300'

Casing Description: 0 - 600', 7", 26#, N-80, 8R, LT&C, 600' - 3200', 7", 26#, J55, 8R, LT&C, 3200' - 6950', 7", 23#, J-55, 8R, LT&C, 6950' - 8200', 7", 26#, J55, 8R, LT&C.

All casing is New Minimum Design Factors: Tensile Strength 1.8, collapse 1.125, Burst 1.0

Cement Slurry: Will be cemented in two stages. Stage Tool set approximately 5500'.

First stage: 500 gals sure bond, 500 gals - WMWI, 700 sx. "Class H" w/5# sack CSE, .659. CF-14, 1/2# Cellocel & 10# Gilsomite. Wt. 15.1, yield 1.34. Calculated to fill 2700 linear feet.

Second stage: 775 sx "Lite C" w/4% CF-14, 5# sack Salt. Wt. 12.4 yield 1.98. Tail w/100 sx. "H" neat Wt. 15.6. Yield 1.18, circulated to surface.

All casing is New Minimum Design Factors: Collapse 1.125, Burst 1.0, Tensile 1.80.

**Anticipated Drilling Mud Program:**

rt

From spud to 1150' Minimum Properties: Mud Weight 8.6 - 9.6. Viscosity 32 sec./1000cc. Water loss N/C cc. Mud will be checked tourly by rig personnel. Sufficient quantities of mud will be kept on location to maintain minimum properties.

From 1150' to 4500' Fresh Water. Mud weight 8.4. Viscosity 28 sec./1000 cc mud. Water loss - No control. Mud to be checked tourly by rig personnel. Sufficient quantities of mud on hand to maintain mud properties listed.

From 4500' to 8200' Cut Brine, Mud weight 9.1 - 9.4 ppg. Viscosity 28 sec./1000cc. WL - No control. Mud to be checked tourly by rig personnel. Sufficient quantities of mud on hand to maintain minimum properties listed.

Drilling Plan  
Ocotillo "ACI" Federal Com #2  
Page 2

**Anticipated BHP:**

From: <u>-0-</u>	TO <u>1150</u>	Anticipated Max. BHP:	<u>500</u> PSI
From: <u>1150</u>	TO <u>8200</u>	Anticipated Max. BHP:	<u>2500</u> PSI

Abnormal Pressures Anticipated: None

Lost Circulation zones anticipated: Spud - 1150'.

H2S Zones Anticipated: H2S present in Canyon formation. Mud hydrastatic suppresses H2S during drilling.

Maximum Bottom Hole Temperature: 145 F

**YATES PETROLEUM CORPORATION**  
**Ocotillo "ACI" Federal Com #2**  
**660' FSL and 660' FEL**  
**Section 10-T20S-R24E**  
**Eddy County, New Mexico**

**H2S Drilling Operations Plan**

Personnel employed at the rig site shall receive training in H2S detection, safe drilling procedures and contingency plans. H2S safety equipment shall be installed and functional 3 days or 500 feet prior to encountering known or probable H2S zone at 7500 feet.

Submitted with the APD is a well site diagram showing:

- 1) Drilling rig orientation, location of flare pit.
- 2) Prevailing wind direction.
- 3) Location of access road.

Primary briefing area will be established 150' from wellbore and up wind of prevailing wind direction. Secondary briefing area will be established 180 degrees from primary briefing area.

A H2S warning sign will be posted at the entrance of the location. Depending on conditions, a green, yellow, or red flag will be displayed.

Green - Normal conditions

Yellow - Potential danger

Red - Danger H2S present

Wind indicators will be placed on location at strategic, highly visible areas. H2S monitors ( a minimum of three) will be positioned on location for best coverage and response. H2S concentrations of 10 ppm will trigger a flashing light and 20 ppm will trigger an audible siren.

H2S breathing equipment will consist of:

- 1) 30 minute "pressure demand" type working unit for each member of rig crew on location.
- 2) 5 minute escape packs for each crew member.
- 3) Trailer with a "cascade air system: to facilitate working in a H2S environment for time period greater than 30 minutes.

**Ocotillo "ACI" Federal Com #2**

**Page 2**

Breathing equipment will be stored in weather proof cases or facilities. They will be inspected and maintained weekly.

The mud system will be designed to minimize or eliminate the escape of H<sub>2</sub>S at the rig floor. This will be accomplished through the use of proper mud weight, proper pH control of the drilling fluid and the use of H<sub>2</sub>S scavengers in the drilling fluid. A mud gas separator will be utilized when H<sub>2</sub>S has is present in the mud.

**Hill View "AHE" Federal Com #13**

**Page 2**

Drilling experience has shown that wells in developmental areas, (i.e. Dagger Draw, Livingston Ridge Delaware, and Lusk Delaware) are normally pressured and don't experience either H<sub>2</sub>S kicks or loss of returns. Due to these circumstances, we request exceptions to the rule requiring flare line with remote lighter and choke manifold with minimum of one remote choke. This equipment would be provided on exploratory wells or wells with the known potential for H<sub>2</sub>S kicks. Additionally, a SO<sub>2</sub> monitor would be positioned near the flare line, and a rotating head utilized.

The drill string, casing, tubing, wellhead, blowout preventers and associated lines and valves will be suitable for anticipated H<sub>2</sub>S encounters.

Radio and or mobile telephone communication will be available on site. Mobile telephone communication will be available in company vehicles.

Drill stem testing to be performed with a minimum number<sup>71</sup> of essential people on location. They will be those necessary to safely conduct the test. If H<sub>2</sub>S is encountered during a drill stem test, essential personnel will mask up and determine H<sub>2</sub>S concentration. The recovery will then be reversed to flare pit. Pulling of test tools will be conducted in a safe manner.

**YATES PETROLEUM CORPORATION**  
**Ocotillo "ACI" Federal Com #2**  
**660' FSL and 660' FEL**  
**Section 10-T20S-R24E**  
**Eddy County, New Mexico**

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Yates Petroleum Corporation submits the following ten items of pertinent information in accordance with BLM requirements.

1. The geological surface formation is Alluvium:

2. The estimated tops of geologic markers are as follows:

San Andres	460'
Glorieta	2,008'
Bone Spring Lime	3,306"
Abo Green Shale	5,064'
Wolfcamp Lime	5,504'
Canyon Lime	7,474' -
Canyon Dolomite	7,606'
Base Dolomite	7,736'
TD	8,200'

3. The estimated depths at which anticipated water, oil or gas formations are expected to be encountered:

Water:	Approximately 275'
Oil or Gas:	Canyon

4. Proposed Casing Program: See Form 3160-3.

5. Pressure Control Equipment: See Form 3160-3 and Exhibit B.

6. Mud Program: See Form 3160-3.

7. Auxiliary Equipment: Kelly Cock; pit level indicators and flow sensor equipment; sub with full-opening valve on floor, drill pipe connections.

8. Testing, Logging and Coring Program:

Samples: 10' samples from 400' to TD.

DST's: As warranted by drilling breaks and shows.

Coring: As warranted.

Logging: CNL-LDT from TD to casing, with GR-CNL up to surface;  
DLL with RxO from TD to casing.

9. No abnormal pressures or temperatures are anticipated.

10. Anticipated starting date: As soon as possible after approval.

**MULTI-POINT SURFACE USE AND OPERATIONS PLAN**  
**Yates Petroleum Corporation**  
**Ocotillo "ACI" Federal Com #2**  
**660' FSL and 660' FEL**  
**Section 10-T20S-R24E**  
**Eddy County, New Mexico**

This plan is submitted with Form 3160-3, Application for Permit to Drill, covering the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of the surface disturbance involved and the procedures to be followed in rehabilitating the surface after completion of the operations, so that a complete appraisal can be made of the environmental effect associated with the operations.

**1. EXISTING ROADS:**

Exhibit A is a portion of BLM map showing the well and roads in the vicinity of the proposed location. The proposed wellsite is located approximately 30 miles southwest of Artesia, New Mexico, and the access route to the location is indicated in red and green on Exhibit A.

**DIRECTIONS:**

1. Go south of Artesia on Highway 285 for approximately 15 miles to Rock Daisy Road.
2. Turn west for approximately 8.2 miles to Sawbucks road.
3. Turn south for 2 miles to caliche road.
4. Turn west for .3 of a mile.
5. New road starts here.

**2. PLANNED ACCESS ROAD**

- A. The proposed new access will be approximately 1000' in length from point of origin to the SE edge of the drilling pad. The road will lie in a north to south direction
- B. The new road will be 14 feet in width (driving surface) and will be adequately drained to control runoff and soil erosion.
- C. The new road will be bladed with drainage on one side. No traffic turnout will be built.
- D. The route of the road is visible.

**3. LOCATION OF EXISTING WELL**

- A. There is drilling activity within a one-mile radius of the wellsite.
- B. Exhibit D shows existing wells within a one-mile radius of the proposed wellsite.

**4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES**

- A. There are production facilities on this lease at the present time.
- B. In the event that the well is productive, the necessary production facilities will be installed on the drilling pad. If the well is productive oil, a gas or diesel self-contained unit will be used to provide the necessary power. No power will be required if the well is productive of gas.

**5. LOCATION AND TYPE OF WATER SUPPLY:**

- A. It is planned to drill the proposed well with a fresh water system. The water will be obtained from commercial sources and will be hauled to the location by truck over the existing and proposed roads shown in Exhibit A.

**6. SOURCE OF CONSTRUCTION MATERIALS:**

Private pit located in Section 35-T19S-R24E.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or separate disposal application will be submitted.
- D. Oil produced during operations will be stored in tanks until sold.
- E. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- F. All trash, junk, and other waste materials will be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary land fill. Burial on site is not approved.

8. ANCILLARY FACILITIES:

- A. A 3" buried flowline to the Saguaro #1 battery, approximately 1800' in length, 30' wide R-O-W. (on plat).
- B. A 3" phase, 480 volt, rapture proof powerline, 25' wide and approximately 600' in length. (on plat)

9. WELLSITE LAYOUT:

- A. Exhibit C shows the relative location and dimensions of the well pad, the reserve pits, the location of the drilling equipment, rig orientation and access road approach. A cross section of a drill pad with approximate cuts, fills and pad orientation is shown on Exhibit E.
- B. The reserve pits will be plastic lined.
- C. A 400' x 400' area has been staked and flagged.

10. PLANS FOR RESTORATION

- A. After finishing drilling and/or completion operations, all equipment and other material not needed for further operations will be removed. The location will be cleaned of all trash and junk to leave the wellsite in as aesthetically pleasing a condition as possible.
- B. Unguarded pits, if any, containing fluids will be fenced until they have dried and been levelled.
- C. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled level within 10 months after abandonment.

11. SURFACE OWNERSHIP: BLM (Carlsbad, New Mexico) .

12. OTHER INFORMATION:

- A. Topography: Refer to the existing archaeological report for a description of the topography, flora, fauna, soil characteristics, dwellings, historical and cultural sites.
- B. The primary surface use is for grazing.

12. OPERATOR'S REPRESENTATIVE

A. Through A.P.D. Approval:

Ken Beardemphi, Landman  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
Phone (505) 748-1471

B. Through Drilling Operations,  
Completions and Production:

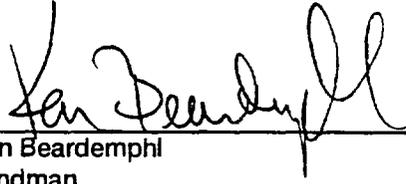
Mike Slater, Operations Manager  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
Phone (505) 748-1471

13. CERTIFICATION:

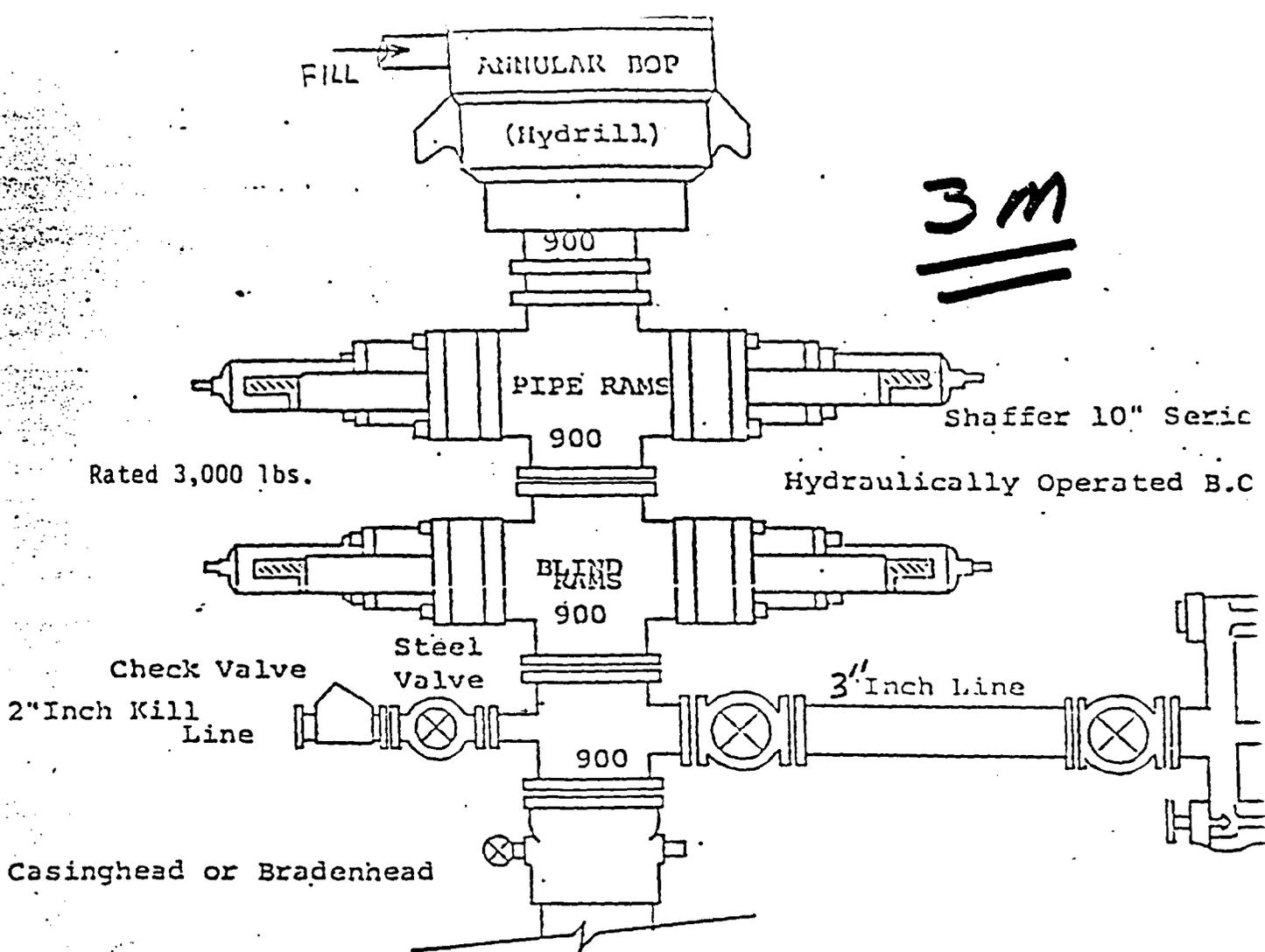
I hereby certify that I, or persons under my direct supervision, have inspected the proposed drillsite and access route, that I am familiar with the conditions which presently exist; that the statements made in this plan are to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed by Yates Petroleum Corporation and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

10-13-92

\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Ken Beardemphi  
Landman





THE FOLLOWING CONSTITUTE MINIMUM BLOWOUT PREVENTER REQUIREMENTS

1. All preventers to be hydraulically operated with secondary manual installed prior to drilling out from under casing.
2. Choke outlet to be a minimum of 3" diameter.
3. Kill line to be of all steel construction of 2" minimum diameter.
4. All connections from operating manifolds to preventers to be all s hole or tube a minimum of one inch in diameter.
5. The available closing pressure shall be at least 15% in excess of required with sufficient volume to operate the B.O.P.'s.
6. All connections to and from preventer to have a pressure rating equ to that of the B.O.P.'s.
7. Inside blowout preventer to be available on rig floor.
8. Operating controls located a safe distance from the rig floor.
9. Hole must be kept filled on trips below intermediate casing.

EXHIBIT  
B

# YATES PETROLEUM CORPORATION

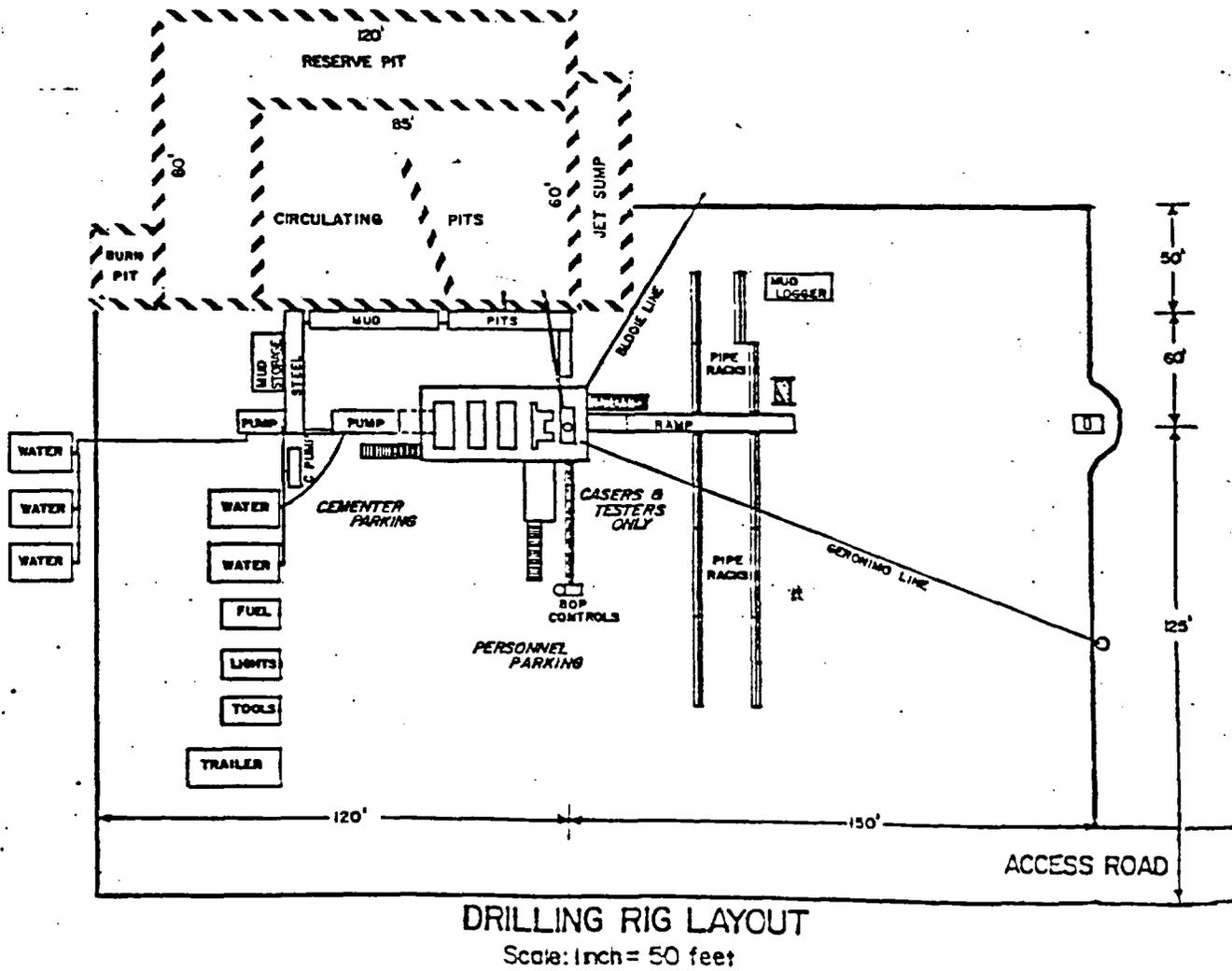


Exhibit C

**SPECIAL DRILLING STIPULATIONS**

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

OPERATORS NAME YATES PETROLEUM CORPORATION WELL NO. & NAME OCOTILLO "ACI" FED COM #2  
 LOCATION 660 F S L & 660 F E L SEC. 10, T. 20 S., R. 24 E.  
 LEASE NO. NM-42787 COUNTY EDDY

The special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. **EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CFR 3165.3 and 3165.4.**

**I. SPECIAL ENVIRONMENT REQUIREMENTS**

- ( ) Lesser Prairie Chicken (Stips attached)                      ( ) Floodplain (Stips attached)  
 ( ) San Simon Swale (Stips attached)                              ( ) Other \_\_\_\_\_

**II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING**

(✓) The BLM will monitor construction of this drill site. Notify the Carlsbad Resource Area Office, BLM at least 3 working days prior to commencing construction at (505) 887-6544.

(✓) Roads and the drill pad for this well must be surfaced with 6 inches of compacted caliche.

( ) All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for resurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately \_\_\_\_\_ inches in depth. Approximately \_\_\_\_\_ cubic yards of topsoil material will be stockpiled for reclamation.

( ) Other

Roswell Controlled Water Basin

**III. DRILLING OPERATIONS REQUIREMENTS**

The Bureau of Land Management office is to be notified at (505) 887-6544, in sufficient time for a representative to witness:

(✓) 1. Spudding                      (✓) 2. Cement casing 9 5/8 inch 7 inch \_\_\_\_\_ inch

( ) 3. BOP tests                      ( ) Other Whenever a casing string is cemented in the R-111-P potash area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating tests.

**IV. CASING**

(✓) 9 5/8" surface casing should be set AT=1150 (below potash water) and cement circulated to the surface. If cement does not circulate to the surface, this BLM office will be notified and a temperature survey or cement bond log will be run to verify the top of the cement. Remedial cementing will be done prior to drilling out of that string.

(✓) Minimum required fill of cement behind the N/A intermediate casing is to \_\_\_\_\_.

(✓) Minimum required fill of cement behind the 8 3/4' production casing is to ± 600' ABOVE UPPERMOST POTENTIALLY PRODUCING HORIZON.

### RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit will be constructed entirely in cut material and lined with a 6 mill plastic.

Mineral material extracted in the reserve pit construction may be used for development of the pad and access road as needed. Removal of any additional material on location must be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner's NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of pit contents.

The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

### OPTIONAL PIT CONSTRUCTION STANDARDS

The reserve pit may be constructed in predominantly fill material if:

- 1) Lined as specified above and,
- 2) A borrow/caliche/gravel pit can be constructed immediately adjacent to the reserve pit and it is capable of containing all reserve pit contents. The mineral material removed in the process can be used for pad and access road construction. However, a material sales contract must be purchased from BLM prior to removal of the material.

Reclamation of the reserve pit consist of bulldozing all reserve pit contents and contaminants into the borrow pit and overing with a minimum of 3 feet of clean soil material. The entire area must be recontoured, all trash removed, and reseeded as specified in this permit.

### CULTURAL

Whether or not an archaeological survey has been conducted and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously identified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to proceed by BLM.

### TRASH PIT STIPS

All trash, junk and other waste material will be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary landfill. Burial on site is not approved.

*Lease*

BLM Serial Number N111-42787  
 Company Reference Yates Petroleum  
Octilla A.C.I. Ed. Com. #2

STANDARD STIPULATIONS FOR OVERHEAD ELECTRIC DISTRIBUTION LINES  
 IN THE ROSWELL DISTRICT, BLM

Holder agrees to comply with the following stipulations to the satisfaction of the Authorized Officer:

1. The holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of public lands under this grant.
2. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act of 1976 as amended, 15 USC 2601 et seq. (1982) with regards to any toxic substances that are used, generated by or stored on the right-of-way or on facilities authorized under this right-of-way grant. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation, and Liability Act, section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the authorized officer concurrent with the filing of the reports to the involved Federal agency or State government.
3. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et seq. or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et seq.) on the Right-of-Way (unless the release or threatened release is wholly unrelated to the Right-of-Way holder's activity on the Right-of-Way), or resulting from the activity of the Right-of-Way holder on the Right-of-Way. This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.
4. There will be no clearing or blading of the right-of-way unless otherwise agreed to in writing by the Authorized Officer.
5. Powerlines shall be constructed in accordance to standards outlined in "Suggested Practices for Raptor Protection on Powerlines," Raptor Research Foundation, Inc., 1981. The holder shall assume the burden and expense of proving that pole designs not shown in the above publication are "raptor safe." Such proof shall be provided by a raptor expert approved by the Authorized Officer. The BLM reserves the right to require modification or additions to all powerline structures placed on this right-of-way, should they be necessary to ensure the safety of large perching birds. Such modifications and/or additions shall be made by the holder without liability or expense to the United States.

(over)

6. The holder shall minimize disturbance to existing fences and other improvements on public lands. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence. No permanent gates will be allowed unless approved by the Authorized Officer.
7. The BLM serial number assigned to this authorization shall be posted in a permanent, conspicuous manner where the power line crosses roads and at all serviced facilities. Numbers will be at least two inches high and will be affixed to the pole nearest the road crossing and at the facilities served.
8. Upon cancellation, relinquishment, or expiration of this grant, the holder shall comply with those abandonment procedures as prescribed by the Authorized Officer.
9. All surface structures (poles, lines, transformers, etc.) shall be removed within 180 days of abandonment, relinquishment, or termination of use of the serviced facility or facilities or within 180 days of abandonment, relinquishment, cancellation, or expiration of this grant, whichever comes first. This will not apply where the power line extends service to an active, adjoining facility or facilities.
10. Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on his behalf, on public or Federal land shall be immediately reported to the Authorized Officer. Holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery will be made by the Authorized Officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to proper mitigation measures will be made by the Authorized Officer after consulting with the holder.
11. Special Stipulations: *None close.*

EXHIBIT A

BLM Serial Number: NM-42787

Company Reference: John O'Connell

STANDARD STIPULATIONS FOR PERMANENT RESOURCE ROADS  
THE ROSWELL DISTRICT, BLM

The holder/grantee/permittee shall hereafter be identified as the holder in these stipulations. The Authorized Officer is the person who approves the Application for Permit to Drill (APD) and/or Right-of-Way (ROW).

GENERAL REQUIREMENTS

The holder shall minimize disturbance to existing fences and other improvements on public domain surface. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will make a documented good-faith effort to contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence.

Holder agrees to comply with the following stipulations:

1. ROAD WIDTH AND GRADE

The road will have a driving surface of 14 feet (all roads shall have a minimum driving surface of 12 feet, unless local conditions dictate a different width). The maximum grade is 10 percent unless the box below is checked. Maximum width of surface disturbance from construction will be 30 feet.

Those segments of road where grade is in excess of 10% for more than 300 feet shall be designed by a professional engineer.

2. CROWNING AND DITCHING

Crowning with materials on site and ditching on one side of the road on the uphill side will be required. The road cross-section will conform to the cross section diagrams in Figure 1. If conditions dictate, ditching may be required for both sides of the road; if local conditions permit, a flat-bladed road may be considered (if these conditions exist, check the appropriate box below). The crown shall have a grade of approximately 2% (i.e., 1" crown on a 12' wide road).

Ditching will be required on both sides of the roadway as shown on the attached map or as staked in the field.

Flat-blading is authorized on segment(s) delineated on the attached map.

## 3. DRAINAGE

Drainage control shall be ensured over the entire road through the use of borrow ditches, outsloping, insloping, natural rolling topography, lead-off (turnout) ditches, culverts, and/or drainage dips.

A. All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval for lead-off ditches shall be determined according to the following table, but may be amended depending upon existing soil types and centerline road slope (in %):

SPACING INTERVAL FOR TURNOUT DITCHES	
Percent slope	Spacing interval
0% - 4%	400' - 150'
4% - 6%	250' - 125'
6% - 8%	200' - 100'
8% - 10%	150' - 75'

A typical lead-off ditch has a minimum depth of 1 foot below and a berm 6 inches above natural ground level. The berm will be on the down-slope side of the lead-off ditch. The ditch end will tie into vegetation whenever possible.

For this road the spacing interval for lead-off ditches shall be at

- 400 foot intervals.
- \_\_\_ foot intervals.
- locations staked in the field as per spacing intervals above.
- locations delineated on the attached map.

B. Culvert pipes shall be used for cross drains where drainage dips or low water crossings are not feasible. The minimum culvert diameter must be 18 inches. Any culvert pipe installed shall be of sufficient diameter to pass the anticipated flow of water. Culvert location and required diameter are shown on the attached map (Further details can be obtained from the Roswell District Office or the appropriate Resource Area Office).

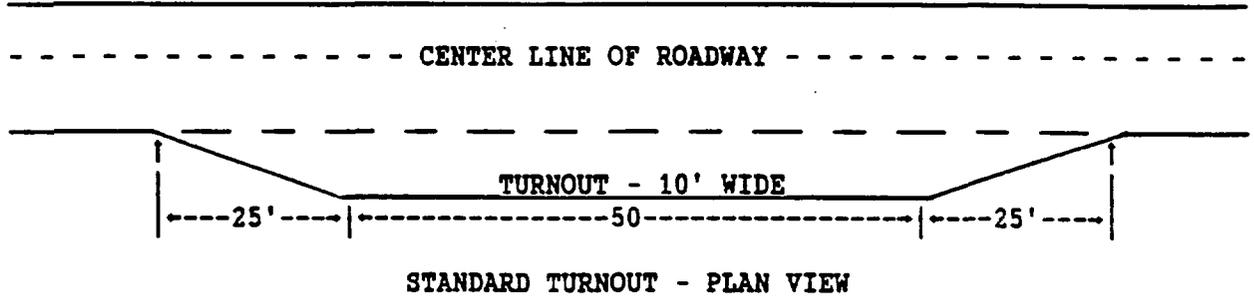
C. On road slopes exceeding 2%, drainage dips shall drain water into an adjacent lead-off ditch. Drainage dip location and spacing shall be determined by the formula:

$$\text{spacing interval} = \frac{400'}{\text{road slope in \%}} + 100'$$

Example: 4% slope: spacing interval =  $\frac{400}{4} + 100 = 200$  feet

4. TURNOUTS

Unless otherwise approved by the Authorized Officer, vehicle turnouts will be required. Turnouts will be located at 2000-foot intervals, or the turnouts will be intervisible, whichever is less. Turnouts will conform to the following diagram:



5. SURFACING

Surfacing of the road or those portions identified on the attached map may, at the direction of the Authorized Officer, be required, if necessary, to maintain traffic within the right-of-way with caliche, gravel, or other surfacing material which shall be approved by the Authorized Officer. When surfacing is required, surfacing materials will be compacted to a minimum thickness of six inches with caliche material. The width of surfacing shall be no less than the driving surface. Prior to using any mineral materials from an existing or proposed Federal source, authorization must be obtained from the Authorized Officer.

6. CATTLEGUARDS

Where used, all cattleguard grids and foundation designs and construction shall meet the American Association of State Highway and Transportation Officials (AASHTO) Load Rating H-20, although AASHTO U-80 rated grids shall be required where heavy loads (exceeding H-20 loading), are anticipated (See BLM standard drawings for cattleguards). Cattleguard grid length shall not be less than 8 feet and width of not less than 14 feet. A wire gate (16-foot minimum width) will be provided on one side of the cattleguard unless requested otherwise by the surface user.

7. MAINTENANCE

The holder shall maintain the road in a safe, usable condition. A maintenance program shall include, but not be limited to blading, ditching, culvert installation, culvert cleaning, drainage installation, cattleguard maintenance, and surfacing.

8. PUBLIC ACCESS

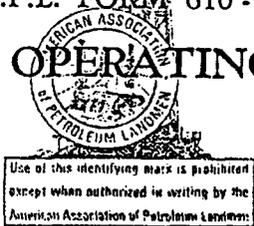
Public access along this road will not be restricted by the holder without specific written approval being granted by the Authorized Officer. Gates or cattleguards on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the Authorized Officer.

9. CULTURAL RESOURCES

Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on the holder's behalf, on public or Federal land shall be immediately reported to the authorized officer. The holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the authorized officer. An evaluation of the discovery will be made by the authorized officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to the proper mitigation measures will be made by the authorized officer after consulting with the holder.

10. SPECIAL STIPULATIONS: *NONE*

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



OCOTILLO "ACI" FEDERAL COM. #2

OPERATING AGREEMENT

DATED

September 20, 1993,

OPERATOR YATES PETROLEUM CORPORATION

CONTRACT AREA TOWNSHIP 20 SOUTH, RANGE 24 EAST

SECTION 10: S/2

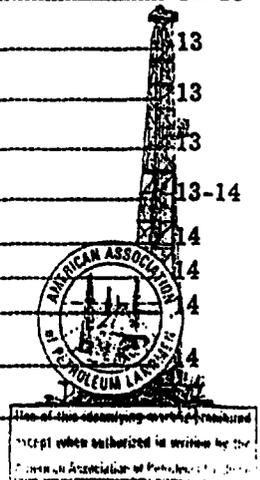
CONTAINING 320.00 ACRES, MORE OR LESS

COUNTY OR PARISH OF EDDY STATE OF NEW MEXICO

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MAY BE ORDERED DIRECTLY FROM THE PUBLISHER  
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a New Mexico corporation, 105 S. 4th St., Artesia, NM 88210, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II. EXHIBITS

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

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

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

ARTICLE III.  
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.  
TITLES

A. Title Examination:

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

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

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

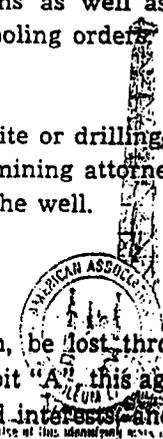
Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well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

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

B. Loss of Title:

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

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



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

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

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

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

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

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

24  
 25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,  
 26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously  
 27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against  
 28 the party who failed to make such payment. Unless the party who failed to make the required payment  
 29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-  
 30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of  
 31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-  
 32 volved, and the party who failed to make proper payment will no longer be credited with an interest in  
 33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event  
 34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of  
 35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an  
 36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it  
 37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the  
 38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following  
 39 as is necessary to effect reimbursement:

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

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

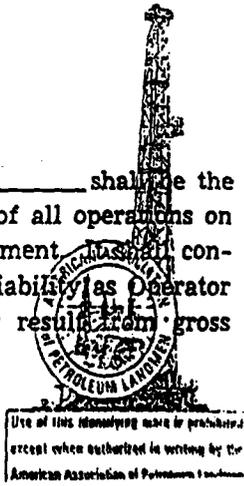
48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or  
 49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-  
 50 coming a party to this agreement.

51  
 52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.  
 53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties  
 54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
 55 the Contract Area.

56  
 57 **ARTICLE V.**  
 58 **OPERATOR**

59  
 60 **A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:**

61 YATES PETROLEUM CORPORATION, 105 S. 4th , Artesia, NM 88210 shall be the  
 62 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
 63 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-  
 64 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
 65 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
 66 negligence or willful misconduct.  
 67  
 68  
 69  
 70



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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI. DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 31st day of July, 1994, Operator shall commence the drilling of a well for oil and gas at the following location:

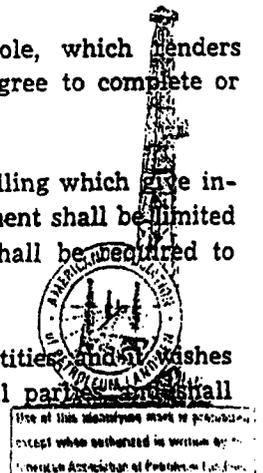
Township 20 South, Range 24 East
Section 10: S/2

and shall thereafter continue the drilling of the well with due diligence to adequately test the Canyon formation at approximately 8,200 feet.

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

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

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



Use of this instrument shall be governed by the rules of the American Petroleum Land Institute.

1 B. Subsequent Operations:  
2

3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area  
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled  
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing  
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-  
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-  
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the  
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.  
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given  
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,  
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed  
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any  
15 notice or response given by telephone shall be promptly confirmed in writing.  
16

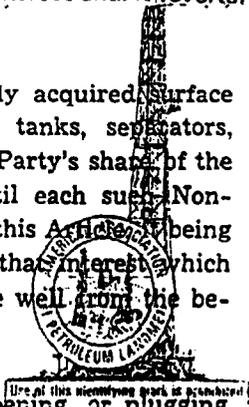
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article  
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to  
19 the benefits of this article, the party or parties giving the notice and such other parties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

31 If less than all parties approve any proposed operation, the proposing party, immediately after the  
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest  
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-  
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)  
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the  
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",  
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its  
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify  
39 all parties of such decision.  
40

41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in  
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting  
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and  
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such  
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole  
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions  
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall  
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned  
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.  
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such  
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party  
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and  
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's  
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,  
55 calculated at the well, or market value thereof if such share is not sold (after deducting production  
56 taxes, crude oil excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof,  
57 payable out of or measured by the production from such well accruing with respect to such interest until it reverts)  
58 shall equal the total of the following:  
59

60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface  
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,  
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the  
63 cost of operation of the well commencing with first production and continuing until each such Non-  
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being  
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which  
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-  
67 ginning of the operation; and  
68

69 (b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging  
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and



1 300% of that portion of the cost of newly acquired equipment in the well (to and including the well-  
 2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-  
 3 pated therein.

4  
 5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's  
 6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-  
 7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from  
 8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-  
 9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not  
 10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-  
 11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-  
 12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13  
 14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share  
 15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of  
 16 all production, crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty  
 17 and other burdens applicable to Non-Consenting Party's share of production.

18  
 19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall  
 20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of  
 21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,  
 22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the  
 23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of  
 24 salvage.

25  
 26 Within sixty (60) days after the completion of any operation under this Article, the party con-  
 27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-  
 28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,  
 29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,  
 30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed  
 31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being  
 32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-  
 33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the  
 34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the  
 35 amount of proceeds realized from the sale of the well's working interest production during the preceding  
 36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties  
 37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any  
 38 amount realized from the sale or other disposition of equipment newly acquired in connection with any  
 39 such operation which would have been owned by a Non-Consenting Party had it participated therein  
 40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,  
 41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;  
 42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43  
 44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest  
 45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-  
 46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same  
 47 interest in such well, the material and equipment in or pertaining thereto, and the production there-  
 48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,  
 49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be  
 50 charged with and shall pay its proportionate part of the further costs of the operation of said well in  
 51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

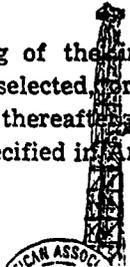
52  
 53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent  
 54 of all parties, no wells shall be completed in or produced from a source of supply from which a well  
 55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing  
 56 well spacing pattern for such source of supply.

57  
 58 The provisions of this Article shall have no application whatsoever to the drilling of the initial  
 59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)  
 60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall  
 61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article  
 62 VI.A.

63  
 64 **C. Right to Take Production in Kind:**

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

69  
 70 Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced  
 from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and



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

4 Each party shall execute such division orders and contracts as may be necessary for the sale of its  
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled  
6 to receive payment direct from the purchaser thereof for its share of all production.  
7

8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale.  
21

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

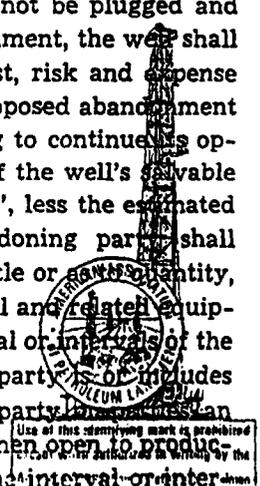
29 **D. Access to Contract Area and Information:**

30  
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect  
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-  
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon  
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-  
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports  
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings  
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to  
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the  
39 information.  
40

41 **E. Abandonment of Wells:**

42  
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.  
53

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



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

7  
8 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the op-  
9 eration of or production from the well in the interval or intervals then open other than the royalties  
10 retained in any lease made under the terms of this Article. Upon request, Operator shall continue to  
11 operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
12 templated by this agreement, plus any additional cost and charges which may arise as the result of  
13 the separate ownership of the assigned well.

14  
15 **ARTICLE VII.**  
16 **EXPENDITURES AND LIABILITY OF PARTIES**

17  
18 **A. Liability of Parties:**

19  
20 The liability of the parties shall be several, not joint or collective. Each party shall be responsible  
21 only for its obligations, and shall be liable only for its proportionate share of the costs of developing  
22 and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are  
23 given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall  
24 this agreement be construed as creating, a mining or other partnership or association, or to render the  
25 parties liable as partners. It is not the intention of the parties that this contract is  
26 made or intended for the benefit of any third person.

27 **B. Liens and Payment Defaults:**

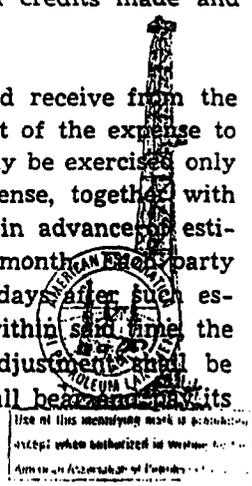
28  
29 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a  
30 security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure  
31 payment of its share of expense, together with interest thereon at the rate provided in the Accounting  
32 Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the  
33 Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies  
34 of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator  
35 for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
36 rights or security interest as security for the payment thereof. In addition, upon default by any Non-  
37 Operator in the payment of its share of expense, Operator shall have the right, without prejudice to  
38 other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's  
39 share of oil and/or gas until the amount owed by such Non-Operator/plus interest has been paid. Each  
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any de-  
41 fault. Operator grants a like lien and security interest to the Non-Operators to secure payment of Op-  
42 erator's proportionate share of expense.

43  
44 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of  
45 a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by  
46 Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the in-  
47 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-  
48 ment thereof, be subrogated to the security rights described in the foregoing paragraph.

49  
50 **C. Payments and Accounting:**

51  
52 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses  
53 incurred in the development and operation of the Contract Area pursuant to this agreement and shall  
54 charge each of the parties hereto with their respective proportionate shares upon the expense basis pro-  
55 vided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate  
56 record of the joint account hereunder, showing expenses incurred and charges and credits made and  
57 received.

58  
59 Operator, at its election, shall have the right from time to time to demand and receive from the  
60 other parties payment in advance of their respective shares of the estimated amount of the expense to  
61 be incurred in operations hereunder during the next succeeding month, which right may be exercised only  
62 by submission to each such party of an itemized statement of such estimated expense, together with  
63 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-  
64 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party  
65 shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such es-  
66 timate and invoice is received. If any party fails to pay its share of said estimate within said time the  
67 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustments shall be  
68 made monthly between advances and actual expense to the end that each party shall bear and pay its  
69 proportionate share of actual expenses incurred, and no more.



D. Limitation of Expenditures:

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

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

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

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

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

E. Royalties, Overriding Royalties and Other Payments:

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

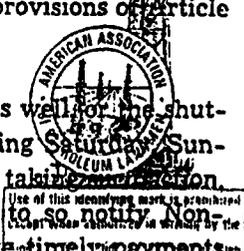
No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall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

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

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

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

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



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

3  
4 **G. Taxes:**

5  
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad  
7 valorem taxation all property subject to this agreement which by law should be rendered for such  
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-  
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be  
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-  
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its  
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in  
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold  
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such  
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-  
16 ner provided in Exhibit "C".

17  
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within  
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all  
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative  
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and  
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay  
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then  
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25  
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-  
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-  
28 duced under the terms of this agreement.

29  
30 **H. Insurance:**

31  
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's  
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-  
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge  
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have  
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the  
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.  
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the  
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain  
40 such other insurance as Operator may require.

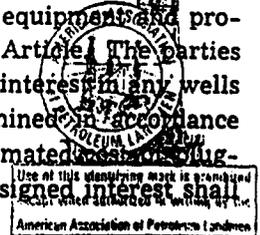
41  
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently  
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for  
44 such insurance for Operator's fully owned automotive equipment.

45  
46 **ARTICLE VIII.**  
47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48  
49 **A. Surrender of Leases:**

50  
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall  
52 not be surrendered in whole or in part unless all parties consent thereto.

53  
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and  
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express  
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and  
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties  
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-  
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas  
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas  
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".  
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,  
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,  
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-  
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties  
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells  
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance  
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of rig-  
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall  
70



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

3  
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or  
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract  
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter  
7 be subject to the terms and provisions of this agreement.

8  
9 **B. Renewal or Extension of Leases:**

10  
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties  
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt  
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such  
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper  
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,  
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17  
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it  
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of  
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages  
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23 without warranty

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

26  
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest  
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease  
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after  
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted  
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal  
32 lease and shall not be subject to the provisions of this agreement.

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases. The provisions of this Article VIII-B shall only apply to leases, or portions  
36 of leases, located within the Unit Area.

37 **C. Acreage or Cash Contributions:**

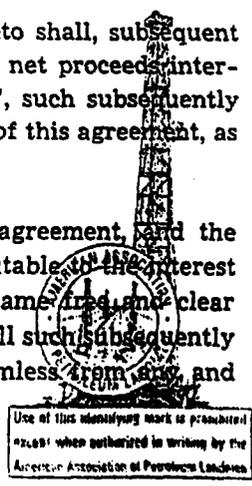
38  
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling  
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who  
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or  
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is  
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling  
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto  
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and  
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and  
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-  
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or  
49 any other operation on the Contract Area.

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage  
54 by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

55 **D. Subsequently Created Interest:**

56  
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent  
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-  
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently  
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as  
61 follows:

62  
63 1. If non-consent operations are conducted pursuant to any provision of this agreement and the  
64 party conducting such operations becomes entitled to receive the production attributable to the interest  
65 out of which the subsequently created interest is derived, such party shall receive same free and clear  
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently  
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and  
68 all liability resulting therefrom.



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

**E. Maintenance of Uniform Interest:**

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

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

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

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

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

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

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

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

**ARTICLE IX.  
INTERNAL REVENUE CODE ELECTION**

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

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

9  
 10 **ARTICLE X.**  
 11 **CLAIMS AND LAWSUITS**

12  
 13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-  
 14 penditure does not exceed FIFTEEN THOUSAND----- Dollars  
 15 (\$15,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount  
 16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the  
 17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-  
 18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense  
 19 of the parties. If a claim is made against any party or if any party is sued on account of any matter  
 20 arising from operations hereunder over which such individual has no control because of the rights given  
 21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall  
 22 be treated as any other claim or suit involving operations hereunder.

23  
 24 **ARTICLE XI.**  
 25 **FORCE MAJEURE**

26  
 27 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations  
 28 under this agreement, other than the obligation to make money payments, that party shall give to all  
 29 other parties prompt written notice of the force majeure with reasonably full particulars concerning it;  
 30 thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,  
 31 shall be suspended during, but no longer than, the continuance of the force majeure. The affected party  
 32 shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

33  
 34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not  
 35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its  
 36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party  
 37 concerned.

38  
 39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other  
 40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,  
 41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,  
 42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not  
 43 reasonably within the control of the party claiming suspension.

44  
 45 **ARTICLE XII.**  
 46 **NOTICES**

47  
 48 All notices authorized or required between the parties, and required by any of the provisions of  
 49 this agreement, unless otherwise specifically provided, shall be given in writing by United States mail  
 50 or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to  
 51 whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any  
 52 provision hereof shall be deemed given only when received by the party to whom such notice is directed,  
 53 and the time for such party to give any notice in response thereto shall run from the date the originat-  
 54 ing notice is received. The second or any responsive notice shall be deemed given when deposited in  
 55 the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid,  
 56 or when sent by teletype. Each party shall have the right to change its address at any time, and from  
 57 time to time, by giving written notice hereof to all other parties.

58  
 59 **ARTICLE XIII.**  
 60 **TERM OF AGREEMENT**

61  
 62 This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas in-  
 63 terests subjected hereto for the period of time selected below; provided, however, no party hereto shall  
 64 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-  
 65 tributed by any other party beyond the term of this agreement.

66  
 67  Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are con-  
 68 tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-  
 69 wise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

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

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

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.  
OTHER PROVISIONS

- A. Not included.
- B. Not included.
- C. Not included.

D. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk, and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest.

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

F. The SE/4 Section 10-Township 20 South-Range 24 East was previously committed by parties hereto to Operation Agreement dated August 29, 1989. It is hereby agreed to by both parties that this Operating Agreement shall supercede said earlier Operating Agreement and shall be the controlling instrument.



EXHIBIT "A"

- I. 1. **Lands Subject to Agreement:**  
Township 20 South, Range 24 East, NMPM  
 Section 10: S/2  
 Containing 320.00 acres, more or less  
 Eddy County, New Mexico
2. **Depth Restriction:**  
 None
3. **Drilling Unit for First Well:**  
 Proration Unit as established by the New Mexico Oil Conservation Division.
- II. **Percentage Interests of Parties Under the Agreement:**

NAME	ACRES	% OF UNIT	INITIAL TEST WELL BEFORE PAYOUT	INITIAL TEST WELL AFTER PAYOUT AND SUBSEQUENT WELLS
Yates Petroleum Corporation	133.33	41.665625%	41.665625%	41.665625%
Santa Fe Energy Operating Partners, L.P.	186.67	58.334375	58.334375	58.334375
<b>TOTALS</b>	<b>470.00</b>	<b>100.000000%</b>	<b>100.000000%</b>	<b>100.000000%</b>

III. **Leasehold Interest of Each Party:**

1. **Lessor:** United States of America  
**Present Lessee:** Santa Fe Energy Operating Partners, L.P. 66.67%  
 Yates Petroleum Corporation 33.33  
**Expiration Date:** HBP  
**Serial No.** NM-42787  
**Description:** Township 20 South, Range 24 East, NMPM  
 Section 10: SE/4  
 Containing 160 acres, more or less  
 Eddy County, New Mexico
2. **Lessor:** United States of America  
**Present Lessee:** Santa Fe Energy Operating Partners, L.P. 50.00%  
 Yates Petroleum Corporation 50.00  
**Expiration Date:** July 31, 1994  
**Serial No.** NM-81893  
**Description:** Township 20 South, Range 24 East, NMPM  
 Section 10: SW/4  
 Containing 160 acres, more or less  
 Eddy County, New Mexico

IV. **Addresses of Parties to Which Notices Should be Sent:**

Attention: Kathy H. Porter  
 Yates Petroleum Corporation  
 105 South Fourth Street  
 Artesia, New Mexico 88210

Attention: Gary Green  
 Santa Fe Energy Operating Partners, L.P.  
 550 West Texas, Suite 1330  
 Midland, Texas 79701

ARTICLE XVI. MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of September, 1993.

OPERATOR

YATES PETROLEUM CORPORATION

BY: Attorney-in-Fact [Signature]

NON-OPERATORS

SANTA FE ENERGY OPERATING PARTNERS, L.P.

BY: TITLE:

STATE OF NEW MEXICO ) : ss COUNTY OF EDDY )

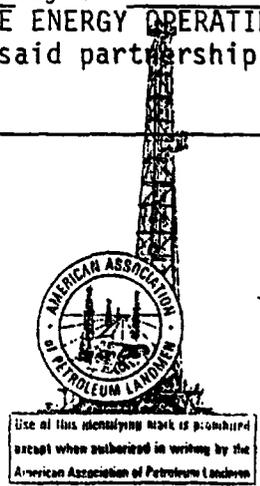
The foregoing instrument was acknowledged before me this day of 1993 by Peyton Yates, Attorney-in-Fact of YATES PETROLEUM CORPORATION, a New Mexico corporation on behalf of said corporation.

My commission expires Notary Public

STATE OF ) : ss COUNTY OF )

The foregoing instrument was acknowledged before me this day of 1993 by of SANTA FE ENERGY OPERATING PARTNERS, L.P., a partnership on behalf of said partnership.

My commission expires Notary Public



## EXHIBIT " C "

Attached to and made a part of that Operating Agreement dated September 20, 1993 between Yates Petroleum Corporation, "Operator", and Santa Fe Energy Operating Partners, L.P., "Non-Operator", covering lands located 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.

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

#### 2. Statement and Billings

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

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

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

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

#### 4. Adjustments

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

#### 5. Audits

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

#### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

A. Overhead - Fixed Rate Basis

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

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

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

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

**B. Overhead - Percentage Basis**

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

(a) Development

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

(b) Operating

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

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

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

**2. Overhead - Major Construction**

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

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

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

**A. New Material (Condition A)**

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

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

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

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

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

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

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

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

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

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

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

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF

OPERATING AGREEMENT

DATED SEPTEMBER 20, 1993 BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND SANTA FE ENERGY OPERATING PARTNERS, L.P., "NON-OPERATOR", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

ADDITIONAL INSURANCE PROVISIONS

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

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

(B) Public Liability Insurance:  
Bodily Injury - \$500,000.00 each occurrence.

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

Property Damage - \$100,000.00 each accident.

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

EXHIBIT "E"

GAS BALANCING AGREEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

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

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

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

#### CERTIFICATION OF NON-SEGREGATED FACILITIES

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

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

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

Exhibit "F"

Page 2



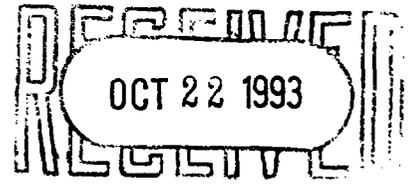


**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

CERTIFIED MAIL P 237 056 958

October 21, 1993



Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: AFE - Ocotillo ACI Federal Com #2  
Eddy County, New Mexico

Gentlemen:

Enclosed please find one (1) fully executed AFE acknowledging Santa Fe Energy Operating Partners, L.P.'s approval of the referenced AFE.

If you have any questions, please contact the undersigned. In addition, please provide the undersigned with a status report on this project.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Gary Green, Division Landman

GG:pr

Enclosure a/s

pr2782

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

Exhibit C



AUTHORITY FOR EXPENDITURE  
NEW DRILLING

AFE NO. 92-428-0  
AFE DATE 9/9/92

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

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

AFE STATUS:

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

LEASE NAME	Ocotillo ACI Federal Com. #2	PROJ'D DEPTH	8200'
COUNTY	Eddy	STATE	New Mexico
LEGAL DESC.	660' FSL & 660' FEL	LOCATION	Sec. 10-20S-24E
FIELD		HORIZON	Canyon
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	500	500
920-110 Location, Right-of-Way	10,800	10,800
920-120 Drilling, Footage	123,000	123,000
920-130 Drilling, Daywork	13,500	13,500
920-140 Drilling Water, Fasline Rental	18,000	18,000
920-150 Drilling Mud & Additives	10,000	10,000
920-160 Mud Logging Unit, Sample Bags	3,600	3,600
920-170 Cementing - Surface Casing	12,500	12,500
920-180 Drill Stem Testing, OHT	-	-
920-190 Electric Logs & Tape Copies	11,000	11,000
920-200 Tools & Equip. Rntl., Trkg. & Welding	6,300	6,300
920-210 Supervision & Overhead	7,500	7,500
920-220 Contingency	-	-
920-230 Coring, Tools & Service	-	-
920-240 Bits, Tool & Supplies Purchase	300	300
920-350 Cementing - Production Casing	-	8,000
920-410 Completion Unit - Swabbing	-	7,800
920-420 Water for Completion	-	1,100
920-430 Mud & Additives for Completion	-	600
920-440 Cementing - Completion	-	-
920-450 Elec. Logs, Testing, Etc. - Completion	-	4,000
920-460 Tools & Equip. Rental, Etc. - Completion	-	8,000
920-470 Stimulation for Completion	-	10,000
920-480 Supervision & O/H - Completion	-	5,400
920-490 Additional LOC Charges - Completion	-	3,300
920-510 Bits, Tools & Supplies - Completion	-	2,300
920-500 Contingency for Completion	-	4,500
<b>TOTAL INTANGIBLE DRILLING COSTS</b>	<b>217,000</b>	<b>272,000</b>

TANGIBLE EQUIPMENT COSTS:

930-010 Christmas Tree & Wellhead	2,200	15,700
930-020 Casing 9 5/8" @ 1200'	16,800	-
7" @ 8200'	-	16,800
	-	80,000
930-030 Tubing 2-7/8" @ 7700'	-	21,500
930-040 Packer & Special Equipment	-	1,500
940-010 Pumping Equipment	-	75,000
940-020 Storage Facilities	-	-
940-030 Separation Equip., Flowlines, Misc.	-	10,000
940-040 Trucking & Construction Costs	-	-
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>	<b>19,000</b>	<b>220,500</b>
<b>TOTAL COSTS</b>	<b>236,000</b>	<b>492,500</b>

APPROVAL OF THIS AFE COSTITUTES 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>Al Sprague</i>	Operations Approval	<i>S</i>
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OWNER

SHARE

YATES PETROLEUM CORPORATION	DATE	41.665625%
SANTA FE OPERATING PARTNERS, L.P.	DATE	58.334375%
Paul Baker, Division Production Manager	DATE	
	DATE	
	DATE	



**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

RECEIVED  
SEP 25 1992

September 23, 1992

Certified Mail P 987 116 546

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: Dagger Draw Prospect  
Eddy County, New Mexico  
Proposed Drilling Schedule

Gentlemen:

In reference to our telephone conversation concerning the development of the Dagger Draw Prospect for the remainder of 1992, Santa Fe proposes the following wells be drilled:

Well Name	Location
1. Senita "AIP" #2	SE/4 SW/4 Section 14
2. Hill View "AHE" #13	NE/4 SE/4 Section 14
3. Saguaro "AGS"	SW/4 SW/4 Section 15
4. Ocotillo "ACT" #2	SW/4 SW/4 Section 10
5. Sara "AHA" #7	SW/4 SW/4 Section 11
6. Saguaro "AGS" #1	NE/4 SW/4 Section 11
7. Candelilla "AKD" #3	SW/4 SW/4 Section 2

In comparing the allowable to current production, we feel the above wells would not cause allowable problems. The wells proposed in Sections 10 and 15 should be drilled as early as possible to take advantage of the current increase in gas prices.

Should you have any questions, please feel free to contact me.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By: Gary Green  
Gary Green, Division Landman

GG:pr2391

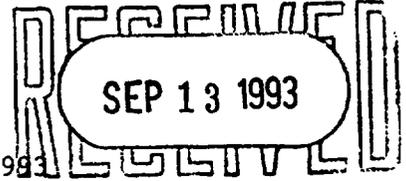
cc: Tim Parker  
Lou Shuflin  
Gene Davis  
Robert Winkler

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
918/687-3551



**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner



September 10, 1993

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attn: Robert Bullock

Re: Daggar Draw Prospect  
Daggar Draw "10" Federal No. 31  
990' FSL & 990' FWL  
Section 10, T20S, R24E  
Eddy County, New Mexico

Gentlemen:

Santa Fe Energy Operating Partners, L. P. hereby proposes the drilling of the Daggar Draw "10" Federal No. 31 well at a legal location of 990' FSL & 990' FWL in Section 10, T20S, R24E, Eddy County, New Mexico which is to be drilled to a depth sufficient to test the Cisco Canyon formation.

Enclosed are two (2) copies of Santa Fe's well cost estimate. Please return one original to my attention.

Should you have any questions, please contact me at (915) 686-6630.

Sincerely yours,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company  
Managing General Partner

By: *Gary Green*  
Gary Green, Division Landman

GG/kt  
2 Encls

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551

*sent to g201. 9-14-93*

## SANTA FE ENERGY OPERATING PARTNERS, L.P.

## GENERALIZED WELL COST ESTIMATE

NAME: Dagger Draw "10" Federal No.31

LOC: 990' FSL &amp; FWL, Sec.10-20S-24E, Eddy County, New Mexico

DESC: Drill and Complete A 7,950' Cisco/ Canyon Oil Well



ACCOUNT	DESCRIPTION OF COSTS	DRY HOLE	PRODUCER
501-000	<b>TANGIBLE WELL COSTS</b>		
-41	CONDUCTOR CSG	3,000	3,000
-41	SURFACE CSG		
-41	PROTECTION CSG	14,400	14,400
-41	INTERMEDIATE CSG		
-41	PROD CSG		100,800
-41	PROD LINER		
-42	TUBING		20,160
-43	WELLHEAD	2,000	8,000
-44	PMPG UNIT		
-45	PRIME MOVER		
-50	OTHER DWN HOLE EQUIP		2,500
-50	RODS		
-50	SUBSURFACE PMPS		75,000
-55	CSG EQUIP	1,500	5,000
-55	ELECTRICAL		8,000
-55	MISC. TANGIBLES		1,000
-55	ROD EQUIP		
-55	TUBING EQUIP		2,000
	<b>TOTAL TANGIBLE COSTS</b>	<b>20,900</b>	<b>239,860</b>
541-000	<b>LEASE FACILITY COSTS</b>		
-50	FLOW LINES		6,000
-50	LABOR		10,000
-50	OTHER PROD EQUIP		20,000
-50	TANK FACILITIES		18,000
	<b>TOTAL LEASE FACILITY COSTS</b>	<b>0</b>	<b>54,000</b>
511-000	<b>INTANGIBLE WELL COSTS</b>		
-21	LOCATION	15,000	15,000
-22	FENCING	1,000	3,000
-26	WTR & FUEL FOR RIG	30,000	30,000
-31	CONTRACTOR MOVING EXP		
-32	CONT FOOTAGE OR TURNKEY	119,250	119,250
-32	CONTRACTOR DAY WORK	9,000	9,000
-33	DRLG FLUID & ADDITIVES	15,000	15,000
-34	BITS & REAMERS		
-36	CORING & CORE ANALYSES		
-37	CEMENT	15,000	40,000
-39	INSPECTION & TSTG OF TANG	3,000	8,000
-41	DIRECTIONAL DRLG SURVEYS		
-42	DRILLING EQUIP RENTAL	8,000	8,000
-43	OPEN HOLE LOGGING	20,000	20,000
-44	DRILL STEM TSTG		
-45	MUD LOGGING	5,000	5,000
-51	TRANSPORTATION	4,000	10,000
-52	COMPLETION UNIT		12,000
-53	COMPLETION TOOL RENTAL		4,000
-54	CASED HOLE LOGS & PERFING		12,000
-55	STIMULATION		30,000
-56	RIG SITE SUPERVISION	6,000	10,000
-72	ADMINISTRATIVE OVERHEAD	3,000	5,000
-99	FSHG TOOLS & EXPENSES		
-99	TESTING: BHP,GOR,4 PT.POT		4,883
	ABANDONMENT COST	4,940	
	OTHER INTANGIBLES		
0	CONTINGENCY (5%)	12,910	18,007
	<b>TOTAL INTANGIBLES</b>	<b>271,100</b>	<b>378,140</b>
	<b>TOTAL COSTS</b>	<b>292,000</b>	<b>672,000</b>

Drilling Dept: Daniel Roberts Date: 8/17/93

Operations Dept: M. R. Burton by ORC Date: 8/17/93

SFER Approval By: P. R. Boake by JRM Date: 8/20/93

Non Operator Approval By: \_\_\_\_\_ Date: \_\_\_\_\_

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



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

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

September 20, 1993

Santa Fe Energy Operating Partners, L. P.  
550 West Texas, Suite 1330  
Midland, Texas 79701

Attention: Gary Green

RE: Ocotillo ACI Federal Com. #2  
Township 20 South, Range 24 East, NMPM  
Section 10: S/2  
Eddy County, New Mexico

Gentlemen:

Enclosed for your review, please find the following:

1. Two copies of September 9, 1992 Authority For Expenditure covering the captioned well.
2. Vandiver Title Opinion No. 583 dated March 11, 1993 covering NM-81893.
3. Copy of APD approved November 5, 1992 covering said well.
4. Operating Agreement dated September 20, 1993 covering S/2 of Section 10, Township 20 South, Range 24 East.

We have received your AFE proposing a Canyon well in the W/2 of Section 10, Township 20 South, Range 24 East. As you can see from the dates above, we had planned to propose the captioned well be drilled next summer prior to the July 31, 1994 expiration date. As you know, the E/2 is under Operating Agreement dated August 29, 1989; however, we would like to have one Operating Agreement for the S/2 proration unit well.

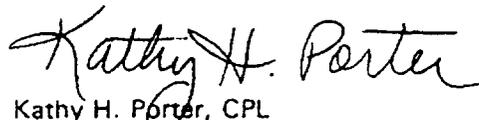
The AFE covers an 8,200' Canyon test located 660/S and 660/E of Section 10, Township 20 South, Range 24 East. Our 1992 AFE can be updated if you feel it is necessary. Our geologists feel this location is much closer to the "oil leg" and therefore is a preferred location in the S/2.

We respectfully request your consideration for approval of this well for the first S/2 well and your withdrawal of your well proposal in the SW/4. Should you have any questions, please do not hesitate to contact us.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

  
Kathy H. Porter, CPL  
Landman

KHP/pkw  
Enclosures



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

*K. J. J. J.*  
AUTHORITY FOR EXPENDITURE  
NEW DRILLING

AFE NO. 92-428-0  
AFE DATE 9/9/92

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

AFE STATUS:

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

LEASE NAME	Ocotillo ACT Federal Com. #2	PROJ'D DEPTH	8200'
COUNTY	Eddy	STATE	New Mexico
LEGAL DESC.	660' FSL & 660' FEL	LOCATION	Sec. 10-20S-24E
FIELD		HORIZON	Canyon
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	500	500
920-110 Location, Right-of-Way	10,800	10,800
920-120 Drilling, Footage	123,000	123,000
920-130 Drilling, Daywork	13,500	13,500
920-140 Drilling Water, Fasline Rental	18,000	18,000
920-150 Drilling Mud & Additives	10,000	10,000
920-160 Mud Logging Unit, Sample Bags	3,600	3,600
920-170 Cementing - Surface Casing	12,500	12,500
920-180 Drill Stem Testing, OHT	-	-
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920-210 Supervision & Overhead	7,500	7,500
920-220 Contingency	-	-
920-230 Coring, Tools & Service	-	-
920-240 Bits, Tool & Supplies Purchase	300	300
920-350 Cementing - Production Casing	-	8,000
920-410 Completion Unit - Swabbing	-	7,800
920-420 Water for Completion	-	1,100
920-430 Mud & Additives for Completion	-	600
920-440 Cementing - Completion	-	-
920-450 Elec. Logs, Testing, Etc. - Completion	-	4,000
920-460 Tools & Equip. Rental, Etc. - Completion	-	8,000
920-470 Stimulation for Completion	-	10,000
920-480 Supervision & O/H - Completion	-	5,400
920-490 Additional LOC Charges - Completion	-	3,300
920-510 Bits, Tools & Supplies - Completion	-	2,300
920-500 Contingency for Completion	-	4,500
<b>TOTAL INTANGIBLE DRILLING COSTS</b>	<b>217,000</b>	<b>272,000</b>

TANGIBLE EQUIPMENT COSTS:

930-010 Christmas Tree & Wellhead	2,200	15,700
930-020 Casing 9 5/8" @ 1200'	16,800	-
7" @ 8200'	-	16,800
	-	80,000
930-030 Tubing 2-7/8" @ 7700'	-	21,500
930-040 Packer & Special Equipment	-	1,500
940-010 Pumping Equipment	-	75,000
940-020 Storage Facilities	-	-
940-030 Separation Equip., Flowlines, Misc.	-	10,000
940-040 Trucking & Construction Costs	-	-
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>	<b>19,000</b>	<b>220,500</b>
<b>TOTAL COSTS</b>	<b>236,000</b>	<b>492,500</b>

APPROVAL OF THIS AFE COSTITUTES 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>Al Springs</i>	Operations Approval	<i>S</i>
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OWNER		SHARE
YATES PETROLEUM CORPORATION	BY	41.665625%
SANTA FE OPERATING PARTNERS, L.P.	BY	58.334375%
	BY	
	BY	
	BY	

FISK & VANDIVER

ATTORNEYS AT LAW

SEVENTH & MAHONE / SUITE E
ARTESIA, NEW MEXICO 88210

(505) 746-9841

JOHN FISK
DAVID R. VANDIVER

FAX
(505) 746-4208

March 11, 1993

IN RE DRILLING OPINION OF TITLE TO: United States Oil and
Gas Lease NM 81893, covering:

Township 20 South, Range 24 East, N.M.P.M. No. 583

Section 10: W/2
Section 28: SE/4 SW/4

containing 360 acres, more or less,

in Eddy County, New Mexico.

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Gentlemen:

In connection with the title to the oil and gas lease covering the lands described in the
caption hereof, for drilling purposes, we have examined the following:

- 1. Abstract of Title No. 46168, compiled by Federal Abstract Company, Santa Fe,
New Mexico, containing 43 pages, and tracing title to the captioned lease and
lands, from the Plat Book Records, Historical Index Records, Serial Record and
Case File in the United States Department of the Interior, Bureau of Land Man-
agement, State Office at Santa Fe, New Mexico, from inception of the records to
October 16, 1992 at 9:00 A.M.
2. Abstract of Title No. 92369, compiled by Currier Abstract Company, Artesia,
New Mexico, containing 30 pages, and tracing title to the minerals only in the
captioned lands, as reflected by the records in the Offices of the County Clerk
and Clerk of the District Court of Eddy County, New Mexico, from inception of
the records to October 16, 1992 at 8:00 A.M.

From our examination of the foregoing, we report as follows:

I. TITLE:

A. Minerals:

United States ..... All

B. Oil and Gas Leasehold Estate:

United States ..... .1250 RI
Yates Petroleum Corporation (1/2 of .875) ..... .4375 WI
Santa Fe Energy Operating Partners, L.P. (1/2 of .875) ..... .4375 WI

II. EFFECTIVE OIL AND GAS LEASE: The principal features of the oil and gas
lease covering the lands described in the caption hereof are as follows:

Effective Date: August 1, 1989
Serial No.: NM 81893
Recorded: Unrecorded

Lessor: United States

Original Lessee: Yates Petroleum Corporation

Present Lessees: Yates Petroleum Corporation (50%) and  
Santa Fe Energy Operating Partners, L.P. (50%)

Lands Covered: Exact captioned lands

Term: Five years and so long thereafter as oil or  
gas is produced in paying quantities.

Rental: \$1.50 per acre or fraction thereof for the  
first five years of the lease term and \$2.00 per acre or fraction thereof for  
any subsequent year prior to discovery, to be paid to Minerals Manage-  
ment Service, Royalty Management Program, BRASS, on or before the  
anniversary date of each lease year. If the lease or a portion thereof is  
committed to an approved cooperative or unit plan which includes a pro-  
vision for allocation of production, royalties shall be paid on the produc-  
tion allocated to the lease, but annual rentals shall continue to be paid  
for those lands not within a participating area.

Minimum Royalty: Commencing with the lease year begin-  
ning on or after a discovery of oil or gas in paying quantities on the lands  
leased, in lieu of rental a minimum royalty of not less than the amount  
of rental which would otherwise be required for that lease year, payable  
at the expiration of each lease year.

Royalty: 12-1/2% on the production removed or  
sold from the leased lands, computed in accordance with the regulations  
on production removed or sold.

Annual rentals in the amount of \$540 are shown as paid to September 1, 1992 (see Requirement 2 in IV below).

### III. COMMENTS:

1. Rights-of-Way. The Historical Index and Oil and Gas Plat reflect that the surface of the captioned lands is subject to the following:

- (a) Right-of-Way NM 77943, issued September 13, 1989, crossing S/2 NW/4 Section 10 and other lands, for a salt water disposal site.
- (b) Right-of-Way NM 82251, issued January 11, 1990, crossing SW/4 NW/4, N/2 SW/4 Section 10 and other lands, for an electrical line.

Your operations for oil and gas on the captioned lands should not interfere with these rights-of-way.

2. Environmental and Securities Laws. We express no opinion as to compliance with or violation of any state or federal environmental or securities laws or regulations in connection with the captioned lands, and this opinion excepts all such matters.

### IV. REQUIREMENTS:

1. Unrecorded Oil and Gas Lease. United States Oil and Gas Lease NM 81893 has not been recorded in the county records. Reported decisions hold that constructive notice exists only with respect to instruments recorded in the county records which concern federal oil and gas leases.

A certified copy of the foregoing oil and gas lease should be recorded in the county records in order to confer the benefits provided by the constructive notice provisions of the New Mexico recording statutes.

2. Rental Receipts. The federal abstract contains a copy of the receipt reflecting timely payment of the annual rental on United States Oil and Gas Lease NM 81893 for the period from September 1, 1989, through August 31, 1990, and the case abstract reflects the timely payment of rentals from September 1, 1990, through August 31, 1992. The abstracts contain no indication that the rental due September 1, 1992, was timely paid. Effective October 2, 1989, rental receipts are no longer posted in the case files for federal oil and gas leases, and we are therefore unable to confirm that rentals were timely and properly paid for the period from September 1, 1990, through August 31, 1993.

We should be furnished with copies of rental receipts on NM 81893 for the period from September 1, 1990, through August 31, 1993, for examination, or you should satisfy yourselves that rentals were timely and properly paid so as to maintain the lease in force and effect.

When the requirements hereinabove set forth have been satisfied, we will approve title, for drilling purposes, to the oil and gas lease covering the lands described in the caption hereof, on the date to which the abstracts were last certified, in accordance with this opinion.

Respectfully submitted,

FISK & VANDIVER

  
David R. Vandiver

DRV:pvw

Abstracts returned herewith

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK  
 DRILL  DEEPEN  PLUG BACK

b. TYPE OF WELL  
 OIL WELL  GAS WELL  OTHER  SINGLE ZONE  MULTIPLE ZONE

2. NAME OF OPERATOR  
 Yates Petroleum Corporation

3. ADDRESS OF OPERATOR  
 105 South Fourth Street, Artesia, New Mexico 88210

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)\*  
 At surface  
 660' FSL and 660' FEL  
 At proposed prod. zone  
 Same

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*  
 Approximately 30 miles southwest of Artesia, New Mexico

10. DISTANCE FROM PROPOSED\* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drig. unit line, if any) 660'

18. DISTANCE FROM PROPOSED LOCATION\* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.

16. NO. OF ACRES IN LEASE

17. NO. OF ACRES ASSIGNED TO THIS WELL 320

19. PROPOSED DEPTH 8200'

20. ROTARY OR CABLE TOOLS Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.) 3648' GR

22. APPROX. DATE WORK WILL START\* ASAP

5. LEASE DESIGNATION AND SERIAL NO. NM-42787

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME Ocotillo "ACI" Federal

9. WELL NO. 2

10. FIELD AND POOL, OR WILDCAT S. Dagger Draw Upper Pe

11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA Sect. 10-T20S-R24E

12. COUNTY OR PARISH Eddy

13. STATE NM

23. PROPOSED CASING AND CEMENTING PROGRAM *Small Controlled Water Basin*

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
14 3/4"	9 5/8"	36# J-55	1150'	1100 sacks (Circulated)
8 3/4"	7"	23 - 26#	TD	1500 sacks - SEE STRIPS.

Yates Petroleum Corporation proposes to drill and test the Canyon and intermediate formations. Approximately 1150' of surface casing will be set and cement circulated to shut off gravel and cavings. If commercial, production casing will be run and cemented, will perforate and stimulate as needed for production.

MUD PROGRAM: FW gel/ LCM to 1150'; FW to 5000'; cut Brine to 7200'; SW gel/Starch to TD.

BOP PROGRAM: BOPE will be installed, tested, and maintained in accordance with Part III A. of Onshore Oil and Gas Order #2.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED Tom Baur TITLE Landman DATE 10-13-92

(This space for Federal or State office use)

PERMIT NO. \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_

APPROVED BY Gary Baur TITLE for DATE 11/5/92

CONDITIONS OF APPROVAL, IF ANY:

APPROVAL SUBJECT TO  
 GENERAL REQUIREMENTS AND  
 SPECIAL STIPULATIONS

\*See Instructions On Reverse Side

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

Submit to Appropriate District Office  
 State Lease - 4 copies  
 Fee Lease - 3 copies

State of New Mexico  
 Energy, Minerals and Natural Resources Department

Form C-102  
 Revised 1-1-89

**OIL CONSERVATION DIVISION**

P.O. Box 2088  
 Santa Fe, New Mexico 87504-2088

DISTRICT I  
 P.O. Box 1980, Hobbs, NM 88240

DISTRICT II  
 P.O. Drawer DD, Artesia, NM 88210

DISTRICT III  
 1000 Rio Brazos Rd., Aztec, NM 87410

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

All Distances must be from the outer boundaries of the section

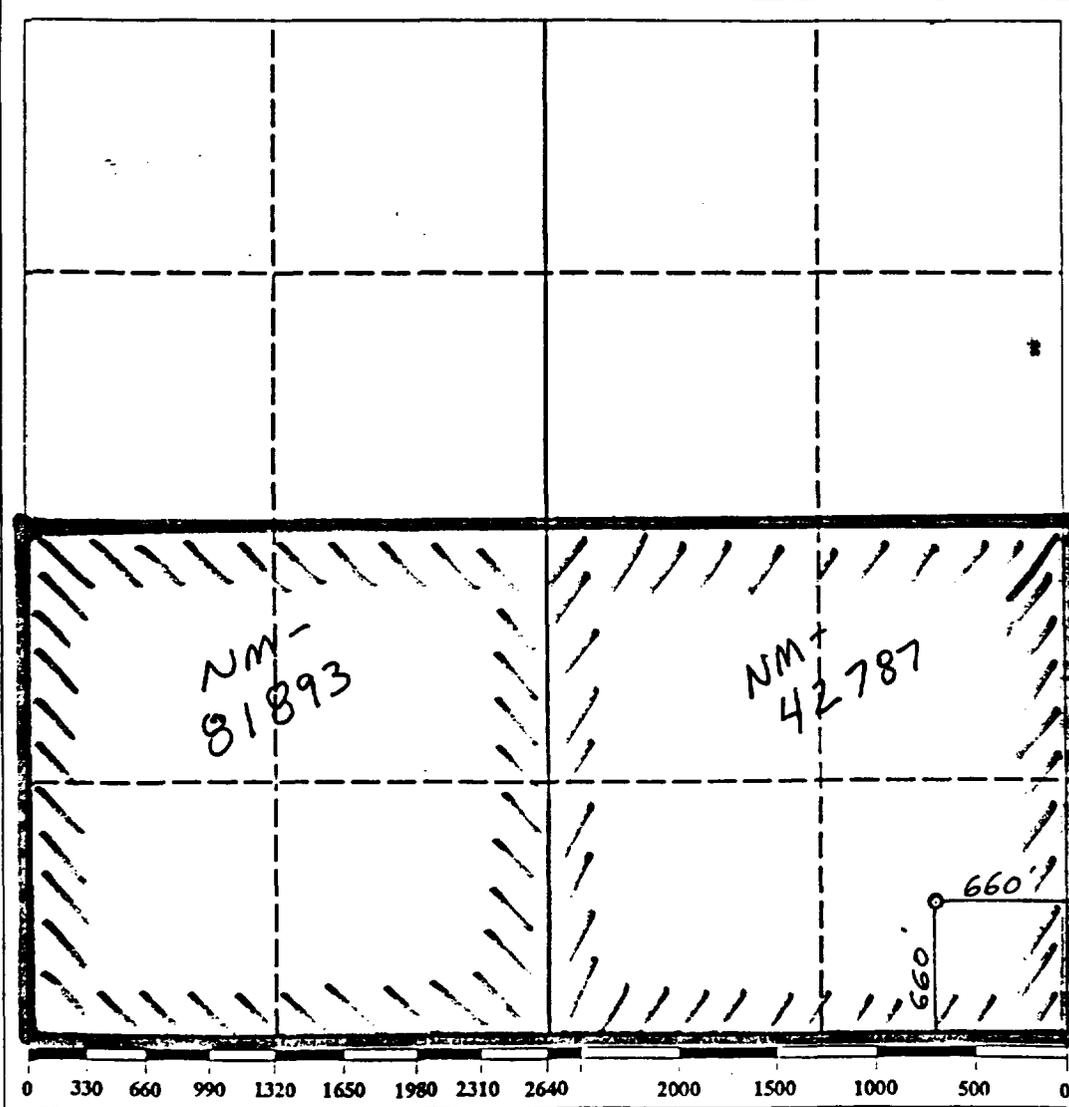
Operator <b>YATES PETROLEUM CORPORATION</b>			Lease <b>OCOTILLO "ACI" FEDERAL Com</b>		Well No. <b>2</b>
Unit Letter <b>P</b>	Section <b>10</b>	Township <b>20 SOUTH</b>	Range <b>24 EAST</b>	County <b>NMPM EDDY COUNTY, NM</b>	
Actual Footage Location of Well: <b>660</b> feet from the <b>SOUTH</b> line and <b>660</b> feet from the <b>EAST</b> line					
Ground level Elev. <b>3648.</b>	Producing Formation <b>Cisco Canyon</b>		Pool <b>S. Dagger Draw Upper Penn</b>	Dedicated Acreage: <b>320</b> Acres	

- Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?
 

Yes     No    If answer is "yes" type of consolidation Communitization

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



**OPERATOR CERTIFICATION**

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature: *Ken Beardemphl*  
 Printed Name: **Ken Beardemphl**  
 Position: **Landman**  
 Company: **Yates Pet. Corp.**  
 Date: **10-13-92**

**SURVEYOR CERTIFICATION**

I hereby certify that the well location shown on this plat was plotted from field notes or actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed: **OCTOBER 5, 1992**  
 Signature & Seal of Professional Surveyor: *[Signature]*  
 Certificate No. **5412**  
 NEW MEXICO PROFESSIONAL SURVEYOR  
 NM P.S. NO. **5412**

Drilling Plan  
YATES PETROLEUM CORPORATION  
Ocotillo "ACI" Federal Com #2  
660' FSL and 660' FEL  
Section 10-T20S-R24E  
Eddy County, New Mexico

Anticipated Drilling Time 17 days.

Hole Size: 14 3/4"    Depth To: 1150'                      Casing Size: 9 5/8"    Setting Depth: 1150'

Casing Description: 9 5/8", 36#, 8R, J55, ST&C.

Cement Slurry: 700 sx. "Class C Lite" w/1/2# Cellocel, 10# Gilsonite and 3% CaCl<sub>2</sub>. Wt 12.7 yield 1.84 + 200 sx. "Class C" and 2% CaCl<sub>2</sub>. Wt. 14.8 yield 1.32. Cement circulated to surface.

All casing in New Minimum Design Factors: Collapse 1.125, Burst 1.0, Tensile Str. 1.80.

Hole size: 8 3/4"    Depth To: 8300' ~                      Casing Size 7"    Setting Depth: 8300'

Casing Description: 0 - 600', 7", 26#, N-80, 8R, LT&C, 600' - 3200', 7", 26#, J55, 8R, LT&C, 3200' - 6950', 7", 23#, J-55, 8R, LT&C, 6950' - 8200', 7", 26#, J55, 8R, LT&C.

All casing is New Minimum Design Factors: Tensile Strength 1.8, collapse 1.125, Burst 1.0

Cement Slurry: Will be cemented in two stages. Stage Tool set approximately 5500'.

First stage: 500 gals sure bond, 500 gals - WMWI, 700 sx. "Class H" w/5# sack CSE, .659.

CF-14, 1/2# Cellocel & 10# Gilsonite. Wt. 15.1, yield 1.34. Calculated to fill 2700 linear feet.

Second stage: 775 sx "Lite C" w/4% CF-14, 5# sack Salt. Wt. 12.4 yield 1.98. Tail w/100 sx. "H" neat Wt. 15.6. Yield 1.18, circulated to surface.

All casing is New Minimum Design Factors: Collapse 1.125, Burst 1.0, Tensile 1.80.

**Anticipated Drilling Mud Program:**

tt

From spud to 1150' Minimum Properties: Mud Weight 8.6 - 9.6. Viscosity 32 sec./1000cc. Water loss N/C cc. Mud will be checked tourly by rig personnel. Sufficient quantities of mud will be kept on location to maintain minimum properties.

From 1150' to 4500' Fresh Water. Mud weight 8.4. Viscosity 28 sec./1000 cc mud. Water loss - No control. Mud to be checked tourly by rig personnel. Sufficient quantities of mud on hand to maintain mud properties listed.

From 4500' to 8200' Cut Brine, Mud weight 9.1 - 9.4 ppg. Viscosity 28 sec./1000cc. WL - No control. Mud to be checked tourly by rig personnel. Sufficient quantities of mud on hand to maintain minimum properties listed.

**Drilling Plan**  
**Ocotillo "ACI" Federal Com #2**  
**Page 2**

**Anticipated BHP:**

From: <u>-0-</u>	TO <u>1150</u>	Anticipated Max. BHP:	<u>500</u> PSI
From: <u>1150</u>	TO <u>8200</u>	Anticipated Max. BHP:	<u>2500</u> PSI

**Abnormal Pressures Anticipated: None**

**Lost Circulation zones anticipated: Spud - 1150'.**

**H2S Zones Anticipated: H2S present in Canyon formation. Mud hydrastatic suppresses H2S during drilling.**

**Maximum Bottom Hole Temperature: 145 F**

**YATES PETROLEUM CORPORATION  
Ocotillo "ACI" Federal Com #2  
660' FSL and 660' FEL  
Section 10-T20S-R24E  
Eddy County, New Mexico**

**H2S Drilling Operations Plan**

Personnel employed at the rig site shall receive training in H2S detection, safe drilling procedures and contingency plans. H2S safety equipment shall be installed and functional 3 days or 500 feet prior to encountering known or probable H2S zone at 7500 feet.

Submitted with the APD is a well site diagram showing:

- 1) Drilling rig orientation, location of flare pit.
- 2) Prevailing wind direction.
- 3) Location of access road.

Primary briefing area will be established 150' from wellbore and up wind of prevailing wind direction. Secondary briefing area will be established 180 degrees from primary briefing area.

A H2S warning sign will be posted at the entrance of the location. Depending on conditions, a green, yellow, or red flag will be displayed.

Green - Normal conditions

Yellow - Potential danger

Red - Danger H2S present

Wind indicators will be placed on location at strategic, highly visible areas. H2S monitors ( a minimum of three) will be positioned on location for best coverage and response. H2S concentrations of 10 ppm will trigger a flashing light and 20 ppm will trigger an audible siren.

H2S breathing equipment will consist of:

- 1) 30 minute "pressure demand" type working unit for each member of rig crew on location.
- 2) 5 minute escape packs for each crew member.
- 3) Trailer with a "cascade air system: to facilitate working in a H2S environment for time period greater than 30 minutes.

**Ocotillo "ACI" Federal Com #2**

**Page 2**

Breathing equipment will be stored in weather proof cases or facilities. They will be inspected and maintained weekly.

The mud system will be designed to minimize or eliminate the escape of H<sub>2</sub>S at the rig floor. This will be accomplished through the use of proper mud weight, proper ph control of the drilling fluid and the use of H<sub>2</sub>S scavengers in the drilling fluid. A mud gas separator will be utilized when H<sub>2</sub>S has is present in the mud.

**Hill View "AHE" Federal Com #13**

**Page 2**

Drilling experience has shown that wells in developmental areas, (i.e. Dagger Draw, Livingston Ridge Delaware, and Lusk Delaware) are normally pressured and don't experience either H<sub>2</sub>S kicks or loss of returns. Due to these circumstances, we request exceptions to the rule requiring flare line with remote lighter and choke manifold with minimum of one remote choke. This equipment would be provided on exploratory wells or wells with the known potential for H<sub>2</sub>S kicks. Additionally, a SO<sub>2</sub> monitor would be positioned near the flare line, and a rotating head utilized.

The drill string, casing, tubing, wellhead, blowout preventers and associated lines and valves will be suitable for anticipated H<sub>2</sub>S encounters.

Radio and or mobile telephone communication will be available on site. Mobile telephone communication will be available in company vehicles.

Drill stem testing to be performed with a minimum number of essential people on location. They will be those necessary to safely conduct the test. If H<sub>2</sub>S is encountered during a drill stem test, essential personnel will mask up and determine H<sub>2</sub>S concentration. The recovery will then be reversed to flare pit. Pulling of test tools will be conducted in a safe manner.

**YATES PETROLEUM CORPORATION**  
**Ocotillo "ACI" Federal Com #2**  
**660' FSL and 660' FEL**  
**Section 10-T20S-R24E**  
**Eddy County, New Mexico**

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Yates Petroleum Corporation submits the following ten items of pertinent information in accordance with BLM requirements.

1. The geological surface formation is Alluvium:

2. The estimated tops of geologic markers are as follows:

San Andres	460'
Glorieta	2,008'
Bone Spring Lime	3,306"
Abo Green Shale	5,064'
Wolfcamp Lime	5,504'
Canyon Lime	7,474' ^
Canyon Dolomite	7,606'
Base Dolomite	7,736'
TD	8,200'

3. The estimated depths at which anticipated water, oil or gas formations are expected to be encountered:

Water:	Approximately 275'
Oil or Gas:	Canyon

4. Proposed Casing Program: See Form 3160-3.

5. Pressure Control Equipment: See Form 3160-3 and Exhibit B.

6. Mud Program: See Form 3160-3.

7. Auxiliary Equipment: Kelly Cock; pit level indicators and flow sensor equipment; sub with full-opening valve on floor, drill pipe connections.

8. Testing, Logging and Coring Program:

Samples: 10' samples from 400' to TD.

DSTs: As warranted by drilling breaks and shows.

Coring: As warranted.

Logging: CNL-LDT from TD to casing, with GR-CNL up to surface;  
DLL with RxO from TD to casing.

9. No abnormal pressures or temperatures are anticipated.

10. Anticipated starting date: As soon as possible after approval.

**MULTI-POINT SURFACE USE AND OPERATIONS PLAN**  
**Yates Petroleum Corporation**  
**Ocotillo "ACI" Federal Com #2**  
**660' FSL and 660' FEL**  
**Section 10-T20S-R24E**  
**Eddy County, New Mexico**

This plan is submitted with Form 3160-3, Application for Permit to Drill, covering the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of the surface disturbance involved and the procedures to be followed in rehabilitating the surface after completion of the operations, so that a complete appraisal can be made of the environmental effect associated with the operations.

**1. EXISTING ROADS:**

Exhibit A is a portion of BLM map showing the well and roads in the vicinity of the proposed location. The proposed wellsite is located approximately 30 miles southwest of Artesia, New Mexico, and the access route to the location is indicated in red and green on Exhibit A.

**DIRECTIONS:**

1. Go south of Artesia on Highway 285 for approximately 15 miles to Rock Daisy Road.
2. Turn west for approximately 8.2 miles to Sawbucks road.
3. Turn south for 2 miles to caliche road.
4. Turn west for .3 of a mile.
5. New road starts here.

**2. PLANNED ACCESS ROAD**

- A. The proposed new access will be approximately 1000' in length from point of origin to the SE edge of the drilling pad. The road will lie in a north to south direction
- B. The new road will be 14 feet in width (driving surface) and will be adequately drained to control runoff and soil erosion.
- C. The new road will be bladed with drainage on one side. No traffic turnout will be built.
- D. The route of the road is visible.

**3. LOCATION OF EXISTING WELL**

- A. There is drilling activity within a one-mile radius of the wellsite.
- B. Exhibit D shows existing wells within a one-mile radius of the proposed wellsite.

**4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES**

- A. There are production facilities on this lease at the present time.
- B. In the event that the well is productive, the necessary production facilities will be installed on the drilling pad. If the well is productive oil, a gas or diesel self-contained unit will be used to provide the necessary power. No power will be required if the well is productive of gas.

**5. LOCATION AND TYPE OF WATER SUPPLY:**

- A. It is planned to drill the proposed well with a fresh water system. The water will be obtained from commercial sources and will be hauled to the location by truck over the existing and proposed roads shown in Exhibit A.

**6. SOURCE OF CONSTRUCTION MATERIALS:**

Private pit located in Section 35-T19S-R24E.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or separate disposal application will be submitted.
- D. Oil produced during operations will be stored in tanks until sold.
- E. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- F. All trash, junk, and other waste materials will be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary land fill. Burial on site is not approved.

8. ANCILLARY FACILITIES:

- A. A 3" buried flowline to the Saguaro #1 battery, approximately 1800' in length, 30' wide R-O-W.(on plat).
- B. A 3" phase, 480 volt, rapture proof powerline, 25' wide and approximately 600' in length.(on plat)

9. WELLSITE LAYOUT:

- A. Exhibit C shows the relative location and dimensions of the well pad, the reserve pits, the location of the drilling equipment, rig orientation and access road approach. A cross section of a drill pad with approximate cuts, fills and pad orientation is shown on Exhibit E.
- B. The reserve pits will be plastic lined.
- C. A 400' x 400' area has been staked and flagged.

10. PLANS FOR RESTORATION

- A. After finishing drilling and/or completion operations, all equipment and other material not needed for further operations will be removed. The location will be cleaned of all trash and junk to leave the wellsite in as aesthetically pleasing a condition as possible.
- B. Unguarded pits, if any, containing fluids will be fenced until they have dried and been levelled.
- C. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled level within 10 months after abandonment.

11. SURFACE OWNERSHIP: BLM (Carlsbad, New Mexico) .

12. OTHER INFORMATION:

- A. Topography: Refer to the existing archaeological report for a description of the topography, flora, fauna, soil characteristics, dwellings, historical and cultural sites.
- B. The primary surface use is for grazing.

12. OPERATOR'S REPRESENTATIVE

A. Through A.P.D. Approval:

Ken Beardemphl, Landman  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
Phone (505) 748-1471

B. Through Drilling Operations,  
Completions and Production:

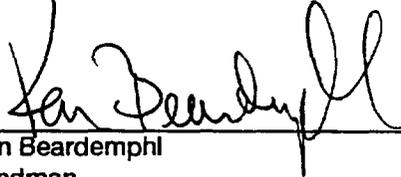
Mike Slater, Operations Manager  
Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
Phone (505) 748-1471

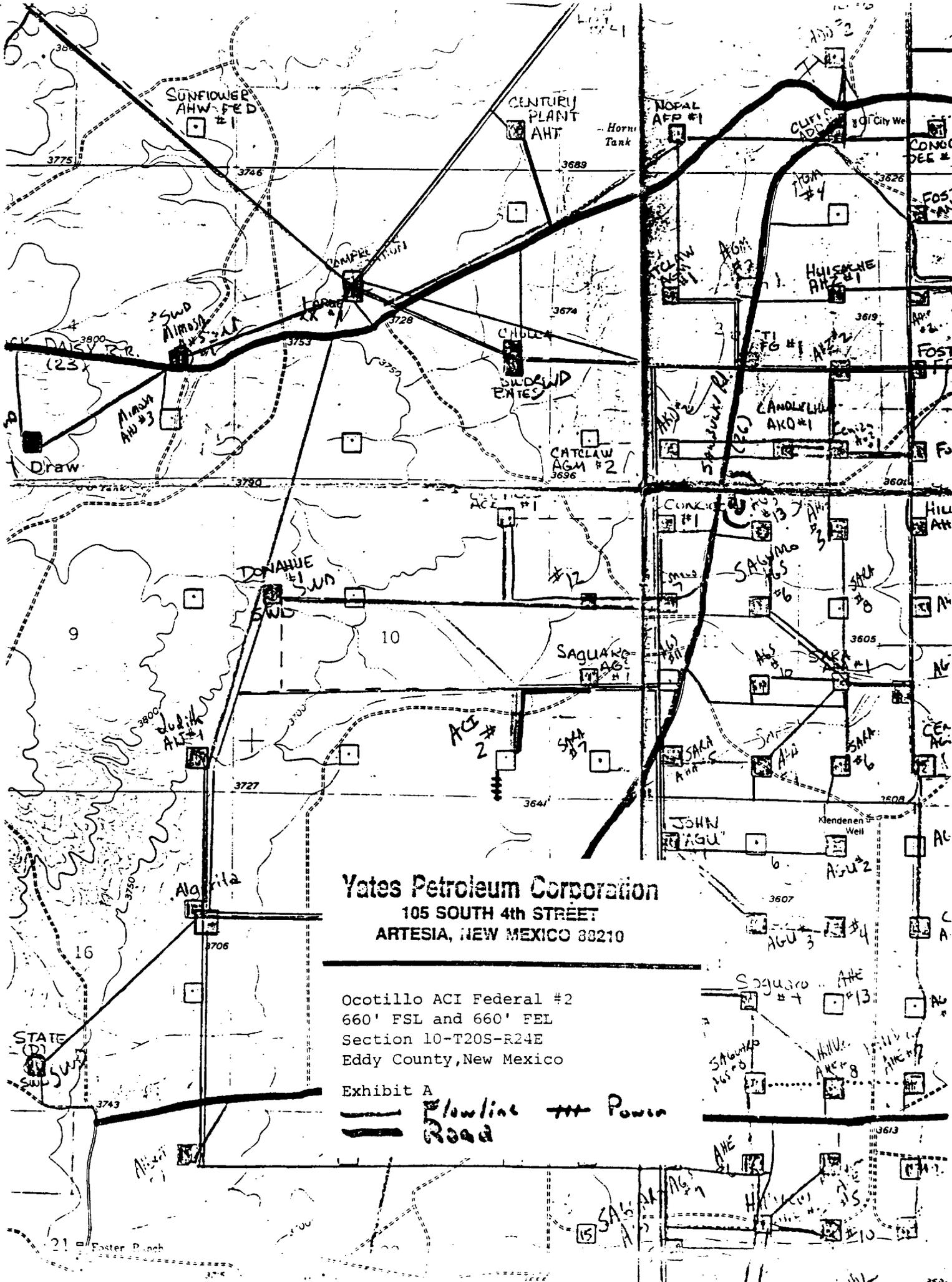
13. CERTIFICATION:

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drillsite and access route, that I am familiar with the conditions which presently exist; that the statements made in this plan are to the best of my knowledge, true and correct; and , that the work associated with the operations proposed herein will be performed by Yates Petroleum Corporation and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

10-13-92

\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Ken Beardemphl  
Landman

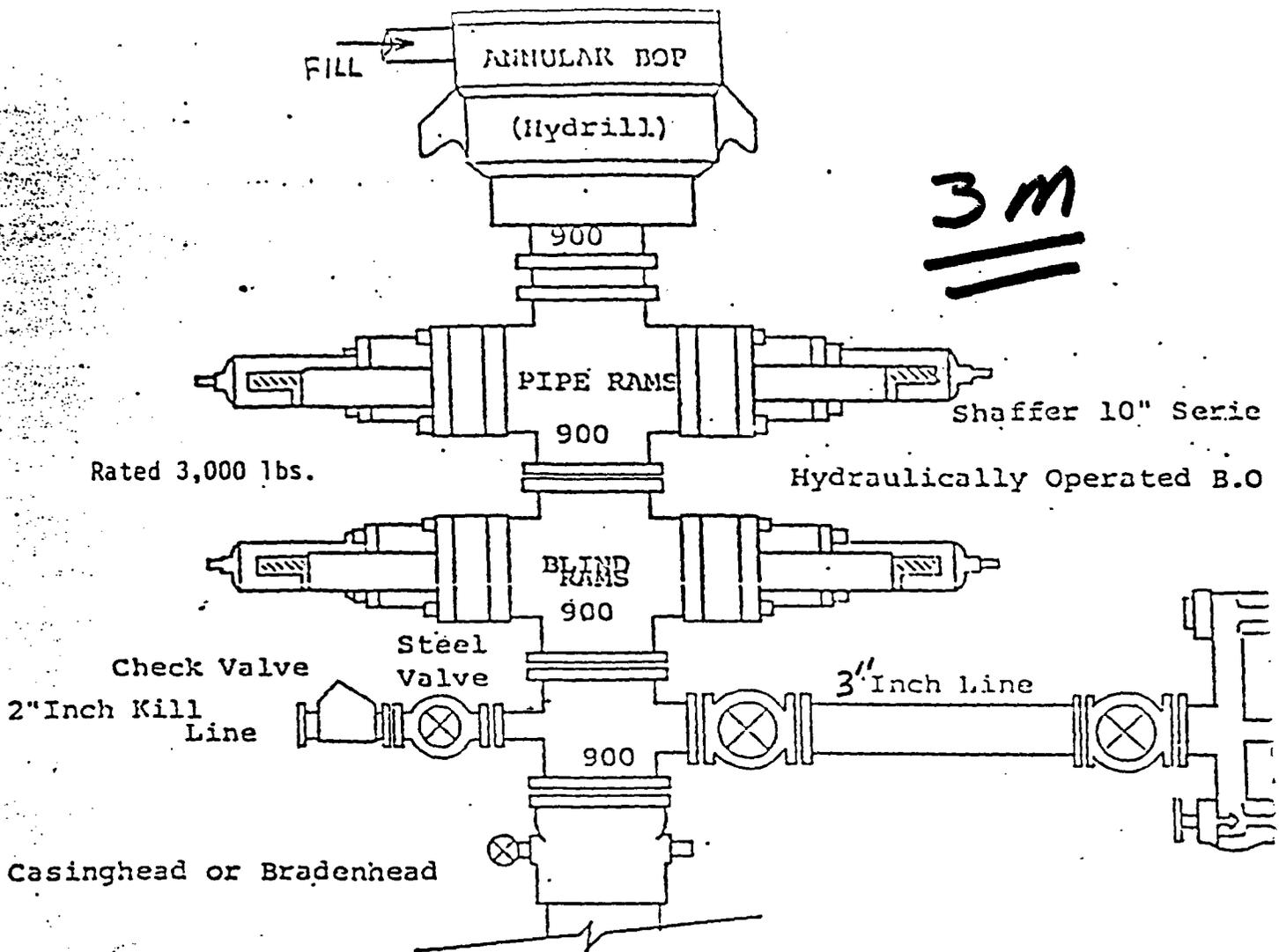


**Yates Petroleum Corporation**  
 105 SOUTH 4th STREET  
 ARTESIA, NEW MEXICO 88210

Ocotillo ACI Federal #2  
 660' FSL and 660' FEL  
 Section 10-T20S-R24E  
 Eddy County, New Mexico

Exhibit A

== Flowline --- Power  
 == Road

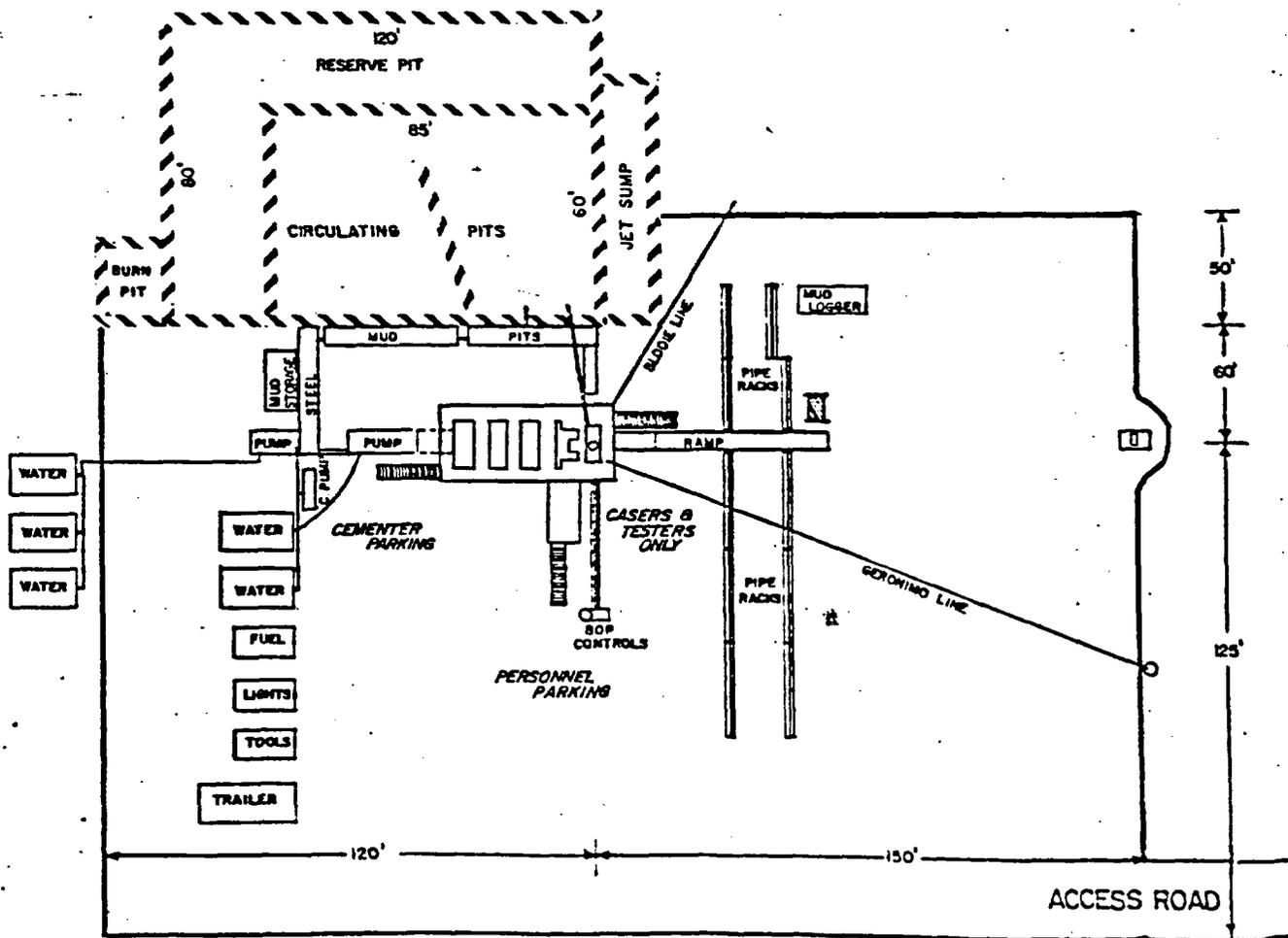


THE FOLLOWING CONSTITUTE MINIMUM BLOWOUT PREVENTER REQUIREMENTS

1. All preventers to be hydraulically operated with secondary manual installed prior to drilling out from under casing.
2. Choke outlet to be a minimum of 3" diameter.
3. Kill line to be of all steel construction of 2" minimum diameter.
4. All connections from operating manifolds to preventers to be all steel hole or tube a minimum of one inch in diameter.
5. The available closing pressure shall be at least 15% in excess of that required with sufficient volume to operate the B.O.P.'s.
6. All connections to and from preventer to have a pressure rating equal to that of the B.O.P.'s.
7. Inside blowout preventer to be available on rig floor.
8. Operating controls located a safe distance from the rig floor.
9. Hole must be kept filled on trips below intermediate casing.

EXHIBIT  
B

# YATES PETROLEUM CORPORATION



DRILLING RIG LAYOUT

Scale: 1 inch = 50 feet

Exhibit C

**SPECIAL DRILLING STIPULATIONS**

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

OPERATORS NAME YATES PETROLEUM CORPORATION WELL NO. & NAME OCOTILLO "ACI" FED COM #2  
 LOCATION 660 F S L & 660 F E L SEC. 10, T. 20 S., R. 24 E.  
 LEASE NO. NM-42787 COUNTY EDDY

The special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CFR 3165.3 and 3165.4.

**I. SPECIAL ENVIRONMENT REQUIREMENTS**

- Lesser Prairie Chicken (Stips attached)
- Floodplain (Stips attached)
- San Simon Swale (Stips attached)
- Other \_\_\_\_\_

**II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING**

- The BLM will monitor construction of this drill site. Notify the Carlsbad Resource Area Office, BLM at least 3 working days prior to commencing construction at (505) 887-6544.
- Roads and the drill pad for this well must be surfaced with 6 inches of compacted caliche.
- All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for resurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately \_\_\_\_\_ inches in depth. Approximately \_\_\_\_\_ cubic yards of topsoil material will be stockpiled for reclamation.

Other

Roswell Controlled Water Basin

**III. DRILLING OPERATIONS REQUIREMENTS**

The Bureau of Land Management office is to be notified at (505) 887-6544, in sufficient time for a representative to witness:

- 1. Spudding
- 2. Cement casing 9 5/8 inch 7 inch \_\_\_\_\_ inch
- 3. DOP tests
- Other Whenever a casing string is cemented in the R-111-P potash area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating tests.

**IV. CASING**

9 5/8" surface casing should be set AT=1150 (below Potable Water) and cement circulated to the surface. If cement does not circulate to the surface, this BLM office will be notified and a temperature survey or cement bond log will be run to verify the top of the cement. Remedial cementing will be done prior to drilling out of that string.

Minimum required fill of cement behind the N/A intermediate casing is to \_\_\_\_\_.

Minimum required fill of cement behind the 8 3/4' production casing is to ± 600' ABOVE UPPERMOST POTENTIALLY PRODUCING HORIZON.

### RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit will be constructed entirely in cut material and lined with a 6 mill plastic.

Mineral material extracted in the reserve pit construction may be used for development of the pad and access road as needed. Removal of any additional material on location must be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner's NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of pit contents.

The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

### OPTIONAL PIT CONSTRUCTION STANDARDS

The reserve pit may be constructed in predominantly fill material if:

- 1) Lined as specified above and,
- 2) A borrow/caliche/gravel pit can be constructed immediately adjacent to the reserve pit and it is capable of containing all reserve pit contents. The mineral material removed in the process can be used for pad and access road construction. However, a material sales contract must be purchased from BLM prior to removal of the material.

Reclamation of the reserve pit consist of bulldozing all reserve pit contents and contaminants into the borrow pit and overing with a minimum of 3 feet of clean soil material. The entire area must be recontoured, all trash removed, and reseeded as specified in this permit.

### CULTURAL

Whether or not an archaeological survey has been conducted and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously identified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to proceed by BLM.

### TRASH PIT STIPS

All trash, junk and other waste material will be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary landfill. Burial on site is not approved.

*Lease*

BLM Serial Number NM-42787  
 Company Reference Yates Petroleum  
OCotillo A.C.I. Co. #2

STANDARD STIPULATIONS FOR OVERHEAD ELECTRIC DISTRIBUTION LINES  
 IN THE ROSWELL DISTRICT, BLM

Holder agrees to comply with the following stipulations to the satisfaction of the Authorized Officer:

1. The holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of public lands under this grant.
2. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act of 1976 as amended, 15 USC 2601 et seq. (1982) with regards to any toxic substances that are used, generated by or stored on the right-of-way or on facilities authorized under this right-of-way grant. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation, and Liability Act, section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the authorized officer concurrent with the filing of the reports to the involved Federal agency or State government.
3. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et seq. or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et seq.) on the Right-of-Way (unless the release or threatened release is wholly unrelated to the Right-of-Way holder's activity on the Right-of-Way), or resulting from the activity of the Right-of-Way holder on the Right-of-Way. This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.
4. There will be no clearing or blading of the right-of-way unless otherwise agreed to in writing by the Authorized Officer.
5. Powerlines shall be constructed in accordance to standards outlined in "Suggested Practices for Raptor Protection on Powerlines," Raptor Research Foundation, Inc., 1981. The holder shall assume the burden and expense of proving that pole designs not shown in the above publication are "raptor safe." Such proof shall be provided by a raptor expert approved by the Authorized Officer. The BLM reserves the right to require modification or additions to all powerline structures placed on this right-of-way, should they be necessary to ensure the safety of large perching birds. Such modifications and/or additions shall be made by the holder without liability or expense to the United States.

(over)

6. The holder shall minimize disturbance to existing fences and other improvements on public lands. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence. No permanent gates will be allowed unless approved by the Authorized Officer.

7. The BLM serial number assigned to this authorization shall be posted in a permanent, conspicuous manner where the power line crosses roads and at all serviced facilities. Numbers will be at least two inches high and will be affixed to the pole nearest the road crossing and at the facilities served.

8. Upon cancellation, relinquishment, or expiration of this grant, the holder shall comply with those abandonment procedures as prescribed by the Authorized Officer.

9. All surface structures (poles, lines, transformers, etc.) shall be removed within 180 days of abandonment, relinquishment, or termination of use of the serviced facility or facilities or within 180 days of abandonment, relinquishment, cancellation, or expiration of this grant, whichever comes first. This will not apply where the power line extends service to an active, adjoining facility or facilities.

10. Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on his behalf, on public or Federal land shall be immediately reported to the Authorized Officer. Holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the Authorized Officer. An evaluation of the discovery will be made by the Authorized Officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to proper mitigation measures will be made by the Authorized Officer after consulting with the holder.

11. Special Stipulations: *None close.*

EXHIBIT A

BLM Serial Number: NM-42787

Company Reference: Jose Cortello J & C

STANDARD STIPULATIONS FOR PERMANENT RESOURCE ROADS  
THE ROSWELL DISTRICT, BLM

The holder/grantee/permittee shall hereafter be identified as the holder in these stipulations. The Authorized Officer is the person who approves the Application for Permit to Drill (APD) and/or Right-of-Way (ROW).

GENERAL REQUIREMENTS

The holder shall minimize disturbance to existing fences and other improvements on public domain surface. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will make a documented good-faith effort to contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence.

Holder agrees to comply with the following stipulations:

1. ROAD WIDTH AND GRADE

The road will have a driving surface of 14 feet (all roads shall have a minimum driving surface of 12 feet, unless local conditions dictate a different width). The maximum grade is 10 percent unless the box below is checked. Maximum width of surface disturbance from construction will be 30 feet.

Those segments of road where grade is in excess of 10% for more than 300 feet shall be designed by a professional engineer.

2. CROWNING AND DITCHING

Crowning with materials on site and ditching on one side of the road on the uphill side will be required. The road cross-section will conform to the cross section diagrams in Figure 1. If conditions dictate, ditching may be required for both sides of the road; if local conditions permit, a flat-bladed road may be considered (if these conditions exist, check the appropriate box below). The crown shall have a grade of approximately 2% (i.e., 1" crown on a 12' wide road).

Ditching will be required on both sides of the roadway as shown on the attached map or as staked in the field.

Flat-blading is authorized on segment(s) delineated on the attached map.

3. DRAINAGE

Drainage control shall be ensured over the entire road through the use of borrow ditches, outsloping, insloping, natural rolling topography, lead-off (turnout) ditches, culverts, and/or drainage dips.

A. All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval for lead-off ditches shall be determined according to the following table, but may be amended depending upon existing soil types and centerline road slope (in %):

SPACING INTERVAL FOR TURNOUT DITCHES	
Percent slope	Spacing interval
0% - 4%	400' - 150'
4% - 6%	250' - 125'
6% - 8%	200' - 100'
8% - 10%	150' - 75'

A typical lead-off ditch has a minimum depth of 1 foot below and a berm 6 inches above natural ground level. The berm will be on the down-slope side of the lead-off ditch. The ditch end will tie into vegetation whenever possible.

For this road the spacing interval for lead-off ditches shall be at

- 400 foot intervals.
- \_\_\_ foot intervals.
- locations staked in the field as per spacing intervals above.
- locations delineated on the attached map.

B. Culvert pipes shall be used for cross drains where drainage dips or low water crossings are not feasible. The minimum culvert diameter must be 18 inches. Any culvert pipe installed shall be of sufficient diameter to pass the anticipated flow of water. Culvert location and required diameter are shown on the attached map (Further details can be obtained from the Roswell District Office or the appropriate Resource Area Office).

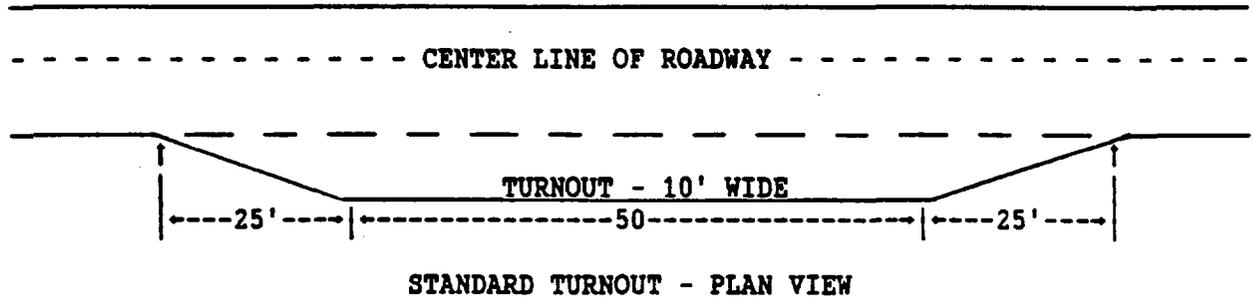
C. On road slopes exceeding 2%, drainage dips shall drain water into an adjacent lead-off ditch. Drainage dip location and spacing shall be determined by the formula:

$$\text{spacing interval} = \frac{400'}{\text{road slope in \%}} + 100'$$

Example: 4% slope: spacing interval =  $\frac{400}{4} + 100 = 200$  feet

4. TURNOUTS

Unless otherwise approved by the Authorized Officer, vehicle turnouts will be required. Turnouts will be located at 2000-foot intervals, or the turnouts will be intervisible, whichever is less. Turnouts will conform to the following diagram:



5. SURFACING

Surfacing of the road or those portions identified on the attached map may, at the direction of the Authorized Officer, be required, if necessary, to maintain traffic within the right-of-way with caliche, gravel, or other surfacing material which shall be approved by the Authorized Officer. When surfacing is required, surfacing materials will be compacted to a minimum thickness of six inches with caliche material. The width of surfacing shall be no less than the driving surface. Prior to using any mineral materials from an existing or proposed Federal source, authorization must be obtained from the Authorized Officer.

6. CATTLEGUARDS

Where used, all cattleguard grids and foundation designs and construction shall meet the American Association of State Highway and Transportation Officials (AASHTO) Load Rating H-20, although AASHTO U-80 rated grids shall be required where heavy loads (exceeding H-20 loading), are anticipated (See BLM standard drawings for cattleguards). Cattleguard grid length shall not be less than 8 feet and width of not less than 14 feet. A wire gate (16-foot minimum width) will be provided on one side of the cattleguard unless requested otherwise by the surface user.

7. MAINTENANCE

The holder shall maintain the road in a safe, usable condition. A maintenance program shall include, but not be limited to blading, ditching, culvert installation, culvert cleaning, drainage installation, cattleguard maintenance, and surfacing.

8. PUBLIC ACCESS

Public access along this road will not be restricted by the holder without specific written approval being granted by the Authorized Officer. Gates or cattleguards on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the Authorized Officer.

9. CULTURAL RESOURCES

Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on the holder's behalf, on public or Federal land shall be immediately reported to the authorized officer. The holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the authorized officer. An evaluation of the discovery will be made by the authorized officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to the proper mitigation measures will be made by the authorized officer after consulting with the holder.

10. SPECIAL STIPULATIONS: *NONE*

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



OCOTILLO "ACI" FEDERAL COM. #2

OPERATING AGREEMENT

DATED

September 20, 1993,

OPERATOR YATES PETROLEUM CORPORATION

CONTRACT AREA TOWNSHIP 20 SOUTH, RANGE 24 EAST

SECTION 10: S/2

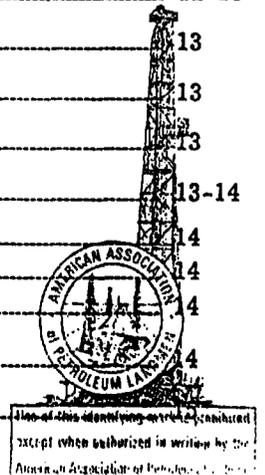
CONTAINING 320.00 ACRES, MORE OR LESS

COUNTY OR PARISH OF EDDY STATE OF NEW MEXICO

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MAY BE ORDERED DIRECTLY FROM THE PUBLISHER  
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a New Mexico corporation, 105 S. 4th St., Artesia, NM 88210, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.  
EXHIBITS

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

A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

B. Exhibit "B", Form of Lease.

C. Exhibit "C", Accounting Procedure.

D. Exhibit "D", Insurance.

E. Exhibit "E", Gas Balancing Agreement.

F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

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

ARTICLE III.  
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.  
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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



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

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

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

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

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

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection  
 22 with the defense of the interest claimed by any party hereto, it being the intention of the parties  
 23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.  
 24

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

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

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

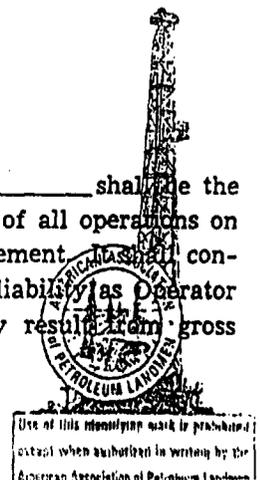
48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or  
 49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-  
 50 coming a party to this agreement.  
 51

52 **3. Other Losses:** All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.  
 53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties  
 54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
 55 the Contract Area.  
 56

57 **ARTICLE V.**  
 58 **OPERATOR**

59 **A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:**

60 YATES PETROLEUM CORPORATION, 105 S. 4th , Artesia, NM 88210 shall be the  
 61 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
 62 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-  
 63 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
 64 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
 65 negligence or willful misconduct.  
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1 **B. Resignation or Removal of Operator and Selection of Successor:**

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

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

26 **C. Employees:**

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

32 **D. Drilling Contracts:**

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

42 **ARTICLE VI.**  
43 **DRILLING AND DEVELOPMENT**

45 **A. Initial Well:**

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On or before the 31st day of July, 1994, Operator shall commence the drilling of a well for oil and gas at the following location:

Township 20 South, Range 24 East  
Section 10: S/2

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52

and shall thereafter continue the drilling of the well with due diligence to adequately test the Canyon formation at approximately 8,200 feet.

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

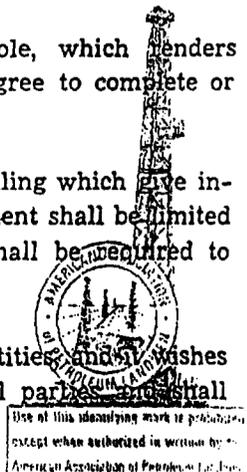
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Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or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

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

70



1 **B. Subsequent Operations:**

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

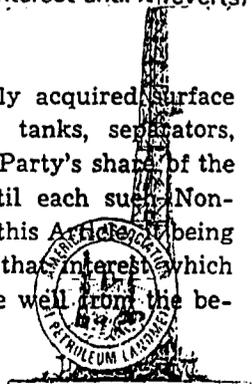
16  
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article  
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to  
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect  
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of  
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period  
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed  
23 operation and complete it with due diligence. Operator shall perform all work for the account of the  
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-  
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform  
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-  
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when  
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms  
29 and conditions of this agreement.

30  
31 If less than all parties approve any proposed operation, the proposing party, immediately after the  
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest  
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-  
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)  
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the  
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",  
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its  
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify  
39 all parties of such decision.

40  
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in  
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting  
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and  
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such  
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole  
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions  
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall  
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned  
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.  
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such  
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party  
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and  
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's  
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,  
55 calculated at the well, or market value thereof if such share is not sold (after deducting production  
56 taxes, crude oil excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof,  
57 payable out of or measured by the production from such well accruing with respect to such interest until it reverts)  
58 shall equal the total of the following:

59  
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface  
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,  
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the  
63 cost of operation of the well commencing with first production and continuing until each such Non-  
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, being  
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which  
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-  
67 ginning of the operation; and

68  
69 (b) 300% of that portion of the costs and expenses of drilling reworking, deepening or plugging  
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C. and



Use of this identifying mark is prohibited

1 300% of that portion of the cost of newly acquired equipment in the well (to and including the well-  
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-  
3 pated therein.

4  
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's  
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-  
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from  
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-  
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not  
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-  
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-  
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13  
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share  
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of  
16 all production, crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty  
17 and other burdens applicable to Non-Consenting Party's share of production.

18  
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall  
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of  
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,  
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the  
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of  
24 salvage.

25  
26 Within sixty (60) days after the completion of any operation under this Article, the party con-  
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-  
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,  
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,  
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed  
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being  
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-  
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the  
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the  
35 amount of proceeds realized from the sale of the well's working interest production during the preceding  
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties  
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any  
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any  
39 such operation which would have been owned by a Non-Consenting Party had it participated therein  
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,  
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;  
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43  
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest  
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-  
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same  
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-  
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,  
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be  
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in  
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

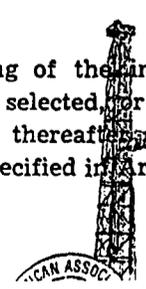
52  
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent  
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well  
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing  
56 well spacing pattern for such source of supply.

57  
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial  
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)  
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall  
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article  
62 VI.A.

63  
64 **C. Right to Take Production in Kind:**

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

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



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

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

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

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

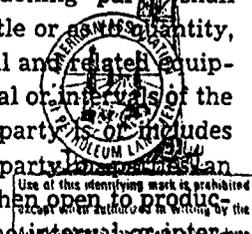
29 **D. Access to Contract Area and Information:**

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

40  
41 **E. Abandonment of Wells:**

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

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



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

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

**ARTICLE VII.  
EXPENDITURES AND LIABILITY OF PARTIES**

**A. Liability of Parties:**

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

**B. Liens and Payment Defaults:**

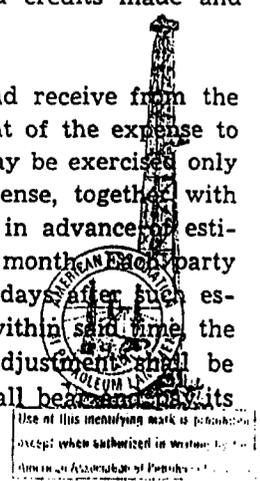
Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the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

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

**C. Payments and Accounting:**

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

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



1 D. Limitation of Expenditures:

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

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

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

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

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

E. Royalties, Overriding Royalties and Other Payments:

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

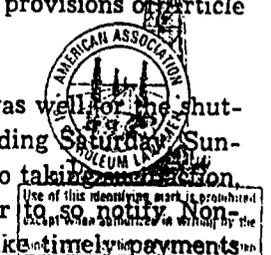
No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall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

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

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

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

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



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

3  
4 **G. Taxes:**

5  
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad  
7 valorem taxation all property subject to this agreement which by law should be rendered for such  
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-  
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be  
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-  
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its  
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in  
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold  
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such  
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-  
16 ner provided in Exhibit "C".

17  
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within  
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all  
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative  
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and  
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay  
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then  
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25  
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-  
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-  
28 duced under the terms of this agreement.

29  
30 **H. Insurance:**

31  
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's  
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-  
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge  
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have  
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the  
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.  
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the  
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain  
40 such other insurance as Operator may require.

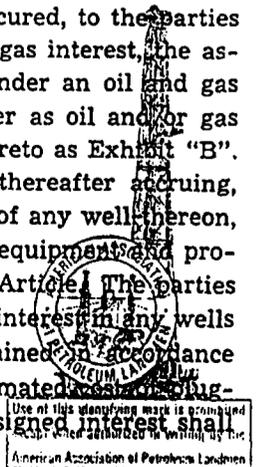
41  
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently  
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for  
44 such insurance for Operator's fully owned automotive equipment.

45  
46 **ARTICLE VIII.**  
47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48  
49 **A. Surrender of Leases:**

50  
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall  
52 not be surrendered in whole or in part unless all parties consent thereto.

53  
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and  
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express  
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and  
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties  
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-  
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas  
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas  
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".  
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,  
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,  
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-  
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties  
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells  
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance  
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of rig-  
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall



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

3  
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or  
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract  
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter  
7 be subject to the terms and provisions of this agreement.

8  
9 **B. Renewal or Extension of Leases:**

10  
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties  
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt  
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such  
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper  
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,  
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17  
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it  
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of  
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages  
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23 without warranty  
24 Each party who participates in the purchase of a renewal lease shall be given an assignment/ of its  
25 proportionate interest therein by the acquiring party.

26  
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest  
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease  
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after  
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted  
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal  
32 lease and shall not be subject to the provisions of this agreement.

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases. The provisions of this Article VIII-B shall only apply to leases, or portions  
36 of leases, located within the Unit Area.

37 **C. Acreage or Cash Contributions:**

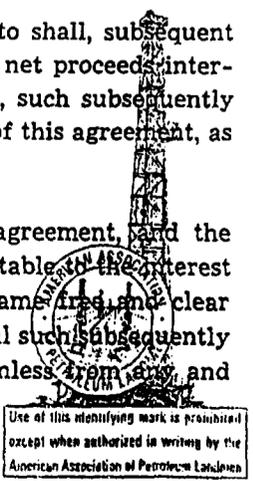
38  
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling  
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who  
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or  
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is  
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling  
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto  
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and  
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and  
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly  
48 notify all other parties of all acreage or money contributions it may obtain in support of any well or  
49 any other operation on the Contract Area.

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage  
54 by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

55 **D. Subsequently Created Interest:**

56  
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent  
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-  
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently  
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as  
61 follows:

62  
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the  
64 party conducting such operations becomes entitled to receive the production attributable to the interest  
65 out of which the subsequently created interest is derived, such party shall receive same free and clear  
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently  
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and  
68 all liability resulting therefrom.



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

9  
10 **E. Maintenance of Uniform Interest:**

11  
12 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests  
13 covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall  
14 sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Con-  
15 tract Area and in wells, equipment and production unless such disposition covers either:

- 16  
17 1. the entire interest of the party in all leases and equipment and production; or  
18  
19 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

20  
21 Every such sale, encumbrance, transfer or other disposition made by any party shall be made ex-  
22 pressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

23  
24 If, at any time the interest of any party is divided among and owned by four or more co-owners,  
25 Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full  
26 authority to receive notices, approve expenditures, receive billings for and approve and pay such party's  
27 share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such  
28 party's interests within the scope of the operations embraced in this agreement; however, all such  
29 co-owners shall have the right to enter into and execute all contracts or agreements for the disposition  
30 of their respective shares of the oil and gas produced from the Contract Area and they shall have the  
31 right to receive, separately, payment of the sale proceeds hereof.

32  
33 **F. Waiver of Right to Partition:**

34  
35 If permitted by the laws of the state or states in which the property covered hereby is located, each  
36 party hereto owning an undivided interest in the Contract Area waives any and all rights it may have  
37 to partition and have set aside to it in severalty its undivided interest therein.

38  
39 ~~**G. Preferential Right to Purchase.**~~

40  
41 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and  
42 interests in the Contract Area, it shall promptly give written notice to the other parties, with full infor-  
43 mation concerning its proposed sale, which shall include the name and address of the prospective pur-  
44 chaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of  
45 the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after  
46 receipt of the notice, to purchase on the same terms and conditions the interest which the other party  
47 proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the pur-  
48 chased interest in the proportions that the interest of each bears to the total interest of all purchasing  
49 parties. However, there shall be no preferential right to purchase in those cases where any party wishes  
50 to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale  
51 of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent  
52 company, or to any company in which any one party owns a majority of the stock.~~

53  
54 **ARTICLE IX.**  
55 **INTERNAL REVENUE CODE ELECTION**

56  
57 This agreement is not intended to create, and shall not be construed to create, a relationship of part-  
58 nership or an association for profit between or among the parties hereto. Notwithstanding any pro-  
59 visions herein that the rights and liabilities hereunder are several and not joint or collective, or that this  
60 agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax pur-  
61 poses, this agreement and the operations hereunder are regarded as a partnership, each party hereby  
62 affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter  
63 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 1761 of  
64 the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on  
65 behalf of each party hereby affected such evidence of this election as may be required by the Secretary  
66 of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but  
67 not by way of limitation, all of the returns, statements, and the data required by Federal Regula-  
68 tions 1.761. Should there be any requirement that each party hereby affected give further evidence of  
69 this election, each such party shall execute such documents and furnish such other evidence as may be  
70 required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

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

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11  
12

**ARTICLE X.  
CLAIMS AND LAWSUITS**

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

23  
24  
25  
26

**ARTICLE XI.  
FORCE MAJEURE**

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

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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.

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44

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

45  
46  
47

**ARTICLE XII.  
NOTICES**

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

58  
59  
60  
61

**ARTICLE XIII.  
TERM OF AGREEMENT**

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

66  
67  
68  
69  
70

Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are con-  
 tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-  
 wise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

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

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

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.  
OTHER PROVISIONS

A. Not included.

B. Not included.

C. Not included.

D. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk, and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest.

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

F. The SE/4 Section 10-Township 20 South-Range 24 East was previously committed by parties hereto to Operation Agreement dated August 29, 1989. It is hereby agreed to by both parties that this Operating Agreement shall supercede said earlier Operating Agreement and shall be the controlling instrument.



ATTACHED TO AND MADE PART OF THAT OPERATING AGREEMENT DATED SEPTEMBER 20, 1993 BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND SANTA FE ENERGY OPERATING PARTNERS, L.P., "NON-OPERATOR", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

EXHIBIT "A"

- I. 1. Lands Subject to Agreement:  
Township 20 South, Range 24 East, NMPM  
 Section 10: S/2  
 Containing 320.00 acres, more or less  
 Eddy County, New Mexico
- 2. Depth Restriction:  
 None
- 3. Drilling Unit for First Well:  
 Proration Unit as established by the New Mexico Oil Conservation Division.
- II. Percentage Interests of Parties Under the Agreement:

NAME	ACRES	% OF UNIT	INITIAL TEST WELL BEFORE PAYOUT	INITIAL TEST WELL AFTER PAYOUT AND SUBSEQUENT WELLS
Yates Petroleum Corporation	133.33	41.665625%	41.665625%	41.665625%
Santa Fe Energy Operating Partners, L.P.	<u>186.67</u>	<u>58.334375</u>	<u>58.334375</u>	<u>58.334375</u>
TOTALS	470.00	100.000000%	100.000000%	100.000000%

III. Leasehold Interest of Each Party:

- 1. Lessor: United States of America
- Present Lessee: Santa Fe Energy Operating Partners, L.P. 66.67%  
 Yates Petroleum Corporation 33.33
- Expiration Date: HBP
- Serial No. NM-42787
- Description: Township 20 South, Range 24 East, NMPM  
 Section 10: SE/4  
 Containing 160 acres, more or less  
 Eddy County, New Mexico
- 2. Lessor: United States of America
- Present Lessee: Santa Fe Energy Operating Partners, L.P. 50.00%  
 Yates Petroleum Corporation 50.00
- Expiration Date: July 31, 1994
- Serial No. NM-81893
- Description: Township 20 South, Range 24 East, NMPM  
 Section 10: SW/4  
 Containing 160 acres, more or less  
 Eddy County, New Mexico

IV. Addresses of Parties to Which Notices Should be Sent:

Attention: Kathy H. Porter  
 Yates Petroleum Corporation  
 105 South Fourth Street  
 Artesia, New Mexico 88210

Attention: Gary Green  
 Santa Fe Energy Operating Partners, L.P.  
 550 West Texas, Suite 1330  
 Midland, Texas 79701

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

ARTICLE XVI. MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of September, 1993.

OPERATOR

YATES PETROLEUM CORPORATION

BY: Attorney-in-Fact [Signature]

NON-OPERATORS

SANTA FE ENERGY OPERATING PARTNERS, L.P.

BY: TITLE:

STATE OF NEW MEXICO ) : ss COUNTY OF EDDY )

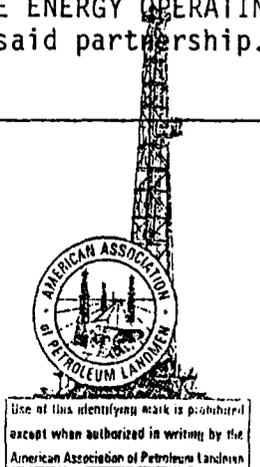
The foregoing instrument was acknowledged before me this 20th day of September, 1993 by Peyton Yates, Attorney-in-Fact of YATES PETROLEUM CORPORATION, a New Mexico corporation on behalf of said corporation.

My commission expires Notary Public

STATE OF ) : ss COUNTY OF )

The foregoing instrument was acknowledged before me this day of 1993 by of SANTA FE ENERGY OPERATING PARTNERS, L.P., a partnership on behalf of said partnership.

My commission expires Notary Public



## EXHIBIT " C "

Attached to and made a part of that Operating Agreement dated September 20, 1993 between Yates Petroleum Corporation, "Operator", and Santa Fe Energy Operating Partners, L.P., "Non-Operator", covering lands located 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.

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

#### 2. Statement and Billings

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

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

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

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

#### 4. Adjustments

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

#### 5. Audits

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

#### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

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

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

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

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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

**10. Taxes**

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

**11. Insurance**

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

**12. Other Expenditures**

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

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

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

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

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

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

**A. Overhead - Fixed Rate Basis**

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

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

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

**(a) Drilling Well Rate**

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

**(b) Producing Well Rates**

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

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

**B. Overhead - Percentage Basis**

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

(a) Development

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

(b) Operating

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

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

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

**2. Overhead - Major Construction**

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

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

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

**A. New Material (Condition A)**

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

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

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

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

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

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

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

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

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

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

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

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF

OPERATING AGREEMENT

DATED SEPTEMBER 20, 1993 BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND SANTA FE ENERGY OPERATING PARTNERS, L.P., "NON-OPERATOR", COVERING LANDS LOCATED IN EDDY COUNTY, NEW MEXICO.

ADDITIONAL INSURANCE PROVISIONS

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

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

(B) Public Liability Insurance:

Bodily Injury - \$500,000.00 each occurrence.

(C) Automobile Public Liability Insurance:

Bodily Injury - \$250,000.00 each person.

\$500,000.00 each occurrence.

Property Damage - \$100,000.00 each accident.

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

EXHIBIT "E"

GAS BALANCING AGREEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

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

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

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

#### CERTIFICATION OF NON-SEGREGATED FACILITIES

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

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

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



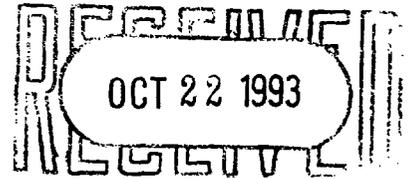


**Santa Fe Energy Operating Partners, L.P.**

Santa Fe Pacific Exploration Company  
Managing General Partner

CERTIFIED MAIL P 237 056 958

October 21, 1993



Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: AFE - Ocotillo ACI Federal Com #2  
Eddy County, New Mexico

Gentlemen:

Enclosed please find one (1) fully executed AFE acknowledging Santa Fe Energy Operating Partners, L.P.'s approval of the referenced AFE.

If you have any questions, please contact the undersigned. In addition, please provide the undersigned with a status report on this project.

Yours very truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.  
By: Santa Fe Pacific Exploration Company,  
Managing General Partner

By:   
Gary Green, Division Landman

GG:pr

Enclosure a/s

pr2782

Permian Basin District  
550 W. Texas, Suite 1330  
Midland, Texas 79701  
915/687-3551



AUTHORITY FOR EXPENDITURE

A/E NO. 92-428-0  
A/E DATE 9/9/92

NEW DRILLING

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

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

A/E STATUS:

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

LEASE NAME	Ocotillo ACI Federal Com. #2	PROJ'D DEPTH	8200'
COUNTY	Eddy	STATE	New Mexico
LEGAL DESC.	660' FSL & 660' FEL	LOCATION	Sec. 10-20S-24E
FIELD		HORIZON	Canyon
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	500	500
920-110 Location, Right-of-Way	10,800	10,800
920-120 Drilling, Footage	123,000	123,000
920-130 Drilling, Daywork	13,500	13,500
920-140 Drilling Water, Fasline Rental	18,000	18,000
920-150 Drilling Mud & Additives	10,000	10,000
920-160 Mud Logging Unit, Sample Bags	3,600	3,600
920-170 Cementing - Surface Casing	12,500	12,500
920-180 Drill Stem Testing, OHT	-	-
920-190 Electric Logs & Tape Copies	11,000	11,000
920-200 Tools & Equip. Rntl., Trkg. & Welding	6,300	6,300
920-210 Supervision & Overhead	7,500	7,500
920-220 Contingency	-	-
920-230 Coring, Tools & Service	-	-
920-240 Bits, Tool & Supplies Purchase	300	300
920-350 Cementing - Production Casing	-	8,000
920-410 Completion Unit - Swabbing	-	7,800
920-420 Water for Completion	-	1,100
920-430 Mud & Additives for Completion	-	600
920-440 Cementing - Completion	-	-
920-450 Elec. Logs, Testing, Etc. - Completion	-	4,000
920-460 Tools & Equip. Rental, Etc. - Completion	-	8,000
920-470 Stimulation for Completion	-	10,000
920-480 Supervision & O/H - Completion	-	5,400
920-490 Additional LOC Charges - Completion	-	3,300
920-510 Bits, Tools & Supplies - Completion	-	2,300
920-500 Contingency for Completion	-	4,500
<b>TOTAL INTANGIBLE DRILLING COSTS</b>	<b>217,000</b>	<b>272,000</b>

TANGIBLE EQUIPMENT COSTS:

930-010 Christmas Tree & Wellhead	2,200	15,700
930-020 Casing 9 5/8" @ 1200'	16,800	-
7" @ 8200'	-	16,800
	-	80,000
930-030 Tubing 2-7/8" @ 7700'	-	21,500
930-040 Packer & Special Equipment	-	1,500
940-010 Pumping Equipment	-	75,000
940-020 Storage Facilities	-	-
940-030 Separation Equip., Flowlines, Misc.	-	10,000
940-040 Trucking & Construction Costs	-	-
<b>TOTAL TANGIBLE EQUIPMENT COSTS</b>	<b>19,000</b>	<b>220,500</b>
<b>TOTAL COSTS</b>	<b>236,000</b>	<b>492,500</b>

APPROVAL OF THIS A/E COSTITUTES 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>Al Springer</i>	Operations Approval	<i>S</i>
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OWNER

SHARE

YATES PETROLEUM CORPORATION	41.665625%
BY _____ DATE _____	
SANTA FE OPERATING PARTNERS, L.P.	58.334375%
BY <i>Paul Baker</i> DATE <i>10/20/93</i>	
Paul Baker, Division Production Manager	
BY _____ DATE _____	
BY _____ DATE _____	

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT OIL CONSERVATION DIVISION

Artesia, NM

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK  
DRILL  DEEPEN  PLUG BACK

b. TYPE OF WELL  
OIL WELL  GAS WELL  OTHER  SINGLE ZONE  MULTIPLE ZONE

2. NAME OF OPERATOR  
Yates Petroleum Corporation

3. ADDRESS OF OPERATOR  
105 South Fourth Street, Artesia, New Mexico 88210

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)  
At surface  
660' FSL and 660' FEL  
At proposed prod. zone  
Same

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*  
Approximately 30 miles southwest of Artesia, New Mexico

15. DISTANCE FROM PROPOSED\* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any)  
660'

18. DISTANCE FROM PROPOSED LOCATION\* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.  
8200'

21. ELEVATIONS (Show whether DF, RT, GR, etc.)  
3648' GR

22. APPROX. DATE WORK WILL START\*  
ASAP

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
14 3/4"	9 5/8"	36# J-55	1150'	1100 sacks (Circulated)
8 3/4"	7"	23 - 26#	TD	1500 sacks - SEE STRIP.

Yates Petroleum Corporation proposes to drill and test the Canyon and intermediate formations. Approximately 1150' of surface casing will be set and cement circulated to shut off gravel and cavings. If commercial, production casing will be run and cemented, will perforate and stimulate as needed for production.

MUD PROGRAM: FW gel/ LCM to 1150'; FW to 5000'; cut Brine to 7200'; SW gel/Starch to TD.

BOP PROGRAM: BOPE will be installed, tested, and maintained in accordance with Part III A. of Onshore Oil and Gas Order #2.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED [Signature] TITLE Landman DATE 10-13-92

(This space for Federal or State office use)

PERMIT NO. \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_

APPROVED BY \_\_\_\_\_ TITLE \_\_\_\_\_ DATE 11-5-92

CONDITIONS OF APPROVAL, IF ANY:  
APPROVAL SUBJECT TO  
GENERAL REQUIREMENTS AND  
SPECIAL STIPULATIONS

\*See Instructions On Reverse Side