

DRILLING OR WORKOVER AFE

AFE NO. _____

- ☐ RELOCAT
- ☐ DRILLING
- ☐ COMPLETION
- ☐ RE-ENTRY
- ☒ DEVELOPMENT
- ☒ DRILLING
- ☐ COMPLETION
- ☐ RE-ENTRY
- ☐ WORKOVER
- ☐ SAME ZONE
- ☐ NEW ZONE
- ☐ P & A

LSE. NO. _____

W.I. _____

EST. NET COST _____

AFE DATE 12-7-83

LEASE & WELL NO. Kemnitz State 17 #1		DEPTH & FORM 14,000' Devonian	
LOCATION 1980' FNL & 660' FEL Sec 17, T-16-S, R-34-E			
COUNTY & STATE Lea Co., New Mexico		FIELD Kemnitz, North	
OPERATOR OGR Operating Co., Inc.		SPUD DATE	

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	18,500	5,000	
2	Rig Move	35,000		
3	Footage Cost			
4	Day Work Cost 65 days at 4300	279,500		
5	Bits & Reamers	49,300		
6	Fuel			
7	Water	12,000	3,000	
8	Mud & Chemicals	40,000	2,000	
9	Cementing & Service	24,000	32,000	
10	Coring			
11	Surveying & Testing	49,500		
12	Mud Logging	14,700		
13	Perforating		7,500	
14	Stimulation		10,000	
15	Transportation	3,000		
16	Drilling Overhead & Supervision	45,000	5,200	
17	Equipment Rental	8,000	3,100	
18	Completion Rig 8 days at 1200		9,600	
19	Other Drilling Expense	9,200	5,700	
20	Contingencies (10% of Intangibles)	58,800	8,300	
21				
22				
23	TOTAL INTANGIBLES	646,500	91,400	737,900

TANGIBLE WELL COST				
24	' Of " Conductor Casing			
25	350' Of 13-3/8" Surface Casing	4,600		
26	4500' Of 8-5/8" Intermediate Casing	40,900		
27	' Of " Intermediate Casing			
28	' Of " Intermediate Casing			
29	14000' Of 5-1/2" Production Casing		104,000	
30	' Of " Tie-Back Casing			
31	14000' Of 2-7/8" Tubing		48,000	
32	' Of " Tubing			
33	' Of " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	2,300	13,000	
36	Producing Facilities, Tank Battery, Flowline		115,000	
37	Packers & Other Subsurface Tools		4,000	
38	Contingencies (10% of Tangibles)	4,800	28,400	
39				
40				
41	TOTAL TANGIBLES	52,600	312,400	365,000
42	TOTAL WELL COST	699,100	403,800	1,102,900

COMPANY APPROVAL

By	Date	By	Date	By	Date	By	Date	By	Date

JOINT OPERATOR APPROVAL

By _____ Title _____ Date _____

BEFORE EXAMINER STAMPS
OIL CONSERVATION DIVISION

EXHIBIT NO. 2

CASE NO. 8180

SUBMITTED BY _____

Hearing Date _____

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

MODEL FORM OPERATING AGREEMENT

KEMNITZ NORTH PROSPECT

OPERATING AGREEMENT

DATED

April 1 , 19 84 ,

OPERATOR OGR Operating Company, Inc.

CONTRACT AREA The East Half (E/2) of

Section 17, T-16-S, R-34-E

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

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 2408 CONTINENTAL LIFE BUILDING,
FORT WORTH, TEXAS, 76102, APPROVED FORM.
A.A.P.L. NO. 610 - 1982 REVISED

OIL FIELD EVALUATION DIVISION	
OGR	EXHIBIT NO. <u>3</u>
CASE NO.	<u>8180</u>
Submitted by	_____
Hearing Date	_____

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between OGR Operating Company, Inc.
1140 2 First City Center, Midland, Texas 79701, 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 establish-
 ed by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

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

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

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

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

ARTICLE II.
EXHIBITS

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

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

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

☐ B. Exhibit "B", Form of Lease. There is no exhibit B

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

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

☐ G. Exhibit "G", Tax Partnership. There is no exhibit G

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of _____* which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

*The parties shall bear all presently existing royalties, overriding royalties and other leasehold burdens of whatever nature in the same proportions as shown in Exhibit "A." Subsequently created interests as set forth below shall be borne by the party who created such interest.

ARTICLE IV

continued

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.

OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed. ~~Operator shall not be removed until all debts owed to it by Non-Operator(s) have been paid in full.~~

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. ~~Nothing herein contained shall limit operator in using consultants, third party services or otherwise, as operator, in its sole judgement, deems necessary.~~

D. Drilling Contracts:

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

ARTICLE VI.

DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of July, 1984, Operator shall commence the drilling of a well for oil and gas at ~~xx xxxxx xxxxx~~ a location of its choice in the East Half (E/2) of Section 17, T-16-S, R-34-E, Lea County, New Mexico.

and shall thereafter continue the drilling of the well with due diligence to a depth of 14,000 feet or to a depth sufficient to adequately test the Devonian formation, whichever is the lesser depth.

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

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

ARTICLE VI

continued

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

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

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of ⁽¹⁵⁾ fifteen days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of ⁽¹⁵⁾ fifteen days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

Any Notice or communication required or desired to be given under the terms of this Article VI. B. (except when a rig is on location) shall be given by Certified or Registered Mail - Return Receipt Requested, by personal delivery against signed receipt therefore, or by telegram on which postage and/or other sending charges have been prepaid by the sending party, at such party's address as it appears on the Exhibit "A" to this agreement or at such other address as such party may have previously specified by like notice.

ARTICLE VI

continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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

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

ARTICLE VI

continued

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

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

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

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

ARTICLE VI
continued

required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within fifteen (15) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

* In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

ARTICLE VI
continued

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

ARTICLE VII

continued

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

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

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

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty Thousand Dollars (\$ 20,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Twenty Thousand Dollars (\$ 20,000.00) but less than the amount first set forth above in this paragraph.

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

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

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holiday), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

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

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

ARTICLE VII

continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

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

B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

C. ACREAGE OR CASH CONTRIBUTIONS

If any party receives, while this agreement is in force, a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution is in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage without warranty of title to all parties in proportion to their interest in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area. When any contribution is contingent upon the completion of any one or more operations in which all of the parties hereto do not participate through the earning of such contribution, the contribution shall belong solely to those parties who participated in all steps of the operation constituting such condition precedent and any party not participating in all steps of such condition precedent shall not receive any part of such contribution.

ARTICLE VIII

continued

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

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

D. Maintenance of Uniform Interest:

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

1. the entire interest of the party in all leases and equipment and production; or

~~2. an equal undivided interest in all leases and equipment and production in the Contract Area.~~

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

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

E. Waiver of Rights to Partition:

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

F. Preferential Right to Purchase:

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

ARTICLE IX.

INTERNAL REVENUE CODE ELECTION

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

*If any party hereto creates the necessity for separate measurement facilities, such party shall alone bear the cost of purchase, installation and operation of such facilities.

Operator shall prepare and file the Federal and State partnership tax returns as provided below, and non-operator agrees to furnish operator the information necessary for the proper preparation of these returns. In preparing such returns operator shall use its best efforts but, in doing so, shall incur no liability to non-operator with regard to such returns. Operator is hereby granted authority and agrees to make the following elections under the Code and regulations promulgated thereunder and appropriate State tax laws in the first and subsequent years' partnership tax returns to be filed with respect to activities conducted hereunder:

- (i) Such accounting shall be maintained on a calendar year basis.
- (ii) An election shall be filed pursuant to Section 263 of the Code and any applicable state law, to expense as incurred all intangible drilling and development costs.
- (iii) To elect to compute the allowance for depreciation in accordance with the provisions of Section 167 of the Code and paragraph 1.67 (a) - 11 of the regulations promulgated thereunder and any depreciation method and shortest permissible life authorized under such regulations.

The parties agree that for income tax purposes, the gains and losses from sales, abandonments and other disposition of property (other than oil and gas) and all classes of costs, expenses and credits, including depreciation and depletion, shall be shared and accounted for in any such applicable partnership income tax returns as follows:

- (a) The production costs shall be allocated as deductions to each Party in accordance with its respective contributions to such costs.
- (b) The exploration costs and intangible drilling and development costs shall be allocated as deductions to each Party in accordance with its respective contributions to such costs.
- (c) The depreciation on tangible equipment shall be allocated to each Party in accordance with its respective contributions to the adjusted basis of such equipment.
- (d) The depletion allowance shall be computed separately by the Parties in accordance with Section 613 (A) (c) (7) (D) of the Code. For the purposes of computing such allowance, the adjusted basis of the depletable property shall be allocated to each Party in accordance with each Party's respective contributions to such basis and, if applicable, the oil and gas taken or disposed of by such party and the costs and expenses allocated to such party hereunder.
- (e) Gains and losses from each sale, abandonment or other disposition of the property (other than oil and gas) shall be attributed to the Parties in such manner as to reflect the gains and losses that would have been includable in their respective income tax returns if such property were held by the Parties outside this agreement. The computations shall take into account each Party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the Parties' respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization credits or other deductions which have been allocated to each Party with respect to such property in this section.

- (f) For the purposes of computing the investment credit allowed by Section 38 of the Code and any applicable State law, the basis in Section 38 property as defined by the Code and the regulations promulgated thereunder shall be allocated to each Party proportionate to its respective contribution toward such basis.
- (g) All other classes of costs, items of recapture, expenses and credits not falling within paragraph (a), (b), (c), (d), (e), and (f) of this Exhibit "G" shall be allocated to and accounted for by each Party in accordance with its respective contributions to such costs, items, expenses and credits.

The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the United States Internal Revenue Code of 1954.

Each Party shall be responsible for the discharge of its own income taxes and shall indemnify each other Party against and hold them harmless from any and all loss, costs, or liability arising therefrom.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Twenty Thousand Dollars (\$ 20,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 120 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 120 days from the date of abandonment of said well.

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

ARTICLE XIV.

COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.

OTHER PROVISIONS

- (1) Operator, at its election, shall have the right from time to time to demand and receive from Non-Operator payment in advance of their respective shares of the estimated cost of the expense to be incurred in drilling a well to casing point or for the next month's expense, whichever is greater. Operator shall bill Non-Operators on the basis of such estimated expense, together with an invoice for its share thereof.
- (2) Operator and Non-Operator agree to execute a recordable instrument as shown on Exhibit 1 of this Agreement reflecting the lien in favor of Operator created by this Agreement, both in the county records for real estate purposes and such other records as may be necessary for compliance with the Uniform Commercial Code and security interests.
- (3) If Operator should elect to proceed to foreclose the lien of Operator as against the interest of a Non-Operator having an interest in the Contract Area, this Agreement does hereby include provisions for non-judicial sale under the laws of the State where the properties covered by this Agreement are located and Thom O'Brien, 1140 Two First City Center, Midland, Texas 79701 is hereby appointed as Trustee for such purpose. Upon such default, said Trustee, or Operator, shall at least 21 days proceeding the date of nonjudicial sale, serve written notice of the proposed sale by certified mail on Non-Operator according to the records of Operator. Service of such notice shall be deemed completed upon deposit of a notice enclosed in a post-paid wrapper properly addressed to Non-Operator and each other party obligated to pay said obligations at the most recent address or addresses as shown on the records of Operator, in a post office or other official depository under the care and custody of the United States Postal Service. The Affidavit of any person having knowledge of the facts to the effect that such service was completed shall be prima facie evidence of the facts of

service. After such notice, said Trustee shall proceed to sell all of the interests of Non-Operator in the Contract Area at public auction to the highest bidder for cash after having given notice of the time and place of sale and in the manner and after the advertisement of such sale as is now required by the statutes of the State where the properties covered by this Agreement are located in making sales of real estate under deeds of trust. Sale of a part of the realty would not exhaust the power of sale and sales may be made from time to time until all of the property is sold or the obligations paid in full. Said Trustee shall have authority to appoint an attorney-in-fact to act as a Trustee in conducting the foreclosure sale and executing a deed to the purchasers; and it is further agreed that said Trustee or his successor may sell said property together or in lots and/or parcels as to him shall deem expedient and after such sales as aforesaid shall make, execute and deliver to the purchaser or purchasers thereof good and sufficient deed, assignments or other lawful conveyances to vest in said purchaser or purchasers title to Non-Operator in the Contract Area in fee simple together with all personal property used or obtained in connection therewith and together with all of the proceeds of production attributable thereto, including proceeds of production held by any party for the payment to Non-Operator. From the proceeds of said sale, said Trustee shall first pay all charges, costs and expenses in executing these provisions and secondly pay any sums due to the Trustee for taxes in the preservation of the security and thereafter pay all of the remaining sums to Operator for the satisfaction of the debts of Non-Operator hereunder and the balance, if any, shall be paid to Non-Operator.

It is agreed that such sale shall be a perpetual bar against Non-Operator and its heirs, successors, and assigns and legal representatives and all other persons claiming under him, them or any of them. It is further agreed that said Trustee or any holder or holders of said obligation, or Operator, shall have the right to become the purchaser or purchasers at such sale of the highest bidder or bidders, in which event the bid or bids may be credited upon said indebtedness of Non-Operator. It is stipulated and agreed that in case of any sale hereunder by Trustee or his successor, all prerequisites of said sale shall be presumed to have been performed and any conveyance given hereunder, all statements of fact or recitals therein made as to the non-payment of money secured or as to any default under the terms hereof or as to the request of the Trustee to enforce this trust or as to the proper and due appointment of any successor or substitute Trustee or as to the advertisement of sale or the time, place and terms of sale or as to any other preliminary act or thing, shall be taken in all courts of law and equity as a prima facie evidence that the facts so stated are true. Operator may appoint a substitute or successor Trustee in the event the Trustee above named is unable for any reason to serve.

- (4) If, with respect to any well under the terms of this Agreement, any Non-Operator neglects or fails to pay sums due and owing to Operator hereunder for the drilling of said well, the plugging and abandoning and/or the completion of same for a period of ninety (90) days after receipt of invoice therefor, Operator may notify Non-Operator of his selection to regard such non-operating party as a nonconsenting party hereunder as to said costs, whereupon Operator shall be liable therefor. If Non-Operator fails to pay such amount within ten (10) days after receipt of such notice, then the Operator's election shall be effective; Non-Operator will no longer owe said sum to Operator and shall be subject to the nonconsent provisions of this Agreement, the same as if such party had elected to be a nonconsenting party at the inception of the operation but only with respect to the sums remaining unpaid by such Non-Operator.
- (5) RIGHTS SUSPENDED. If a lien conferred in Article VII. B. has been enforced, for so long as the affected party remains in default, it shall have not further access to the Contract Area or information obtained in connection with operations hereunder and shall not be entitled to vote on any matter hereunder. As to any proposed operation in which it otherwise would have the right to participate, such party shall have the right to be a Consenting Party therein only if it pays the amount it is in default before the operation is commenced; otherwise, it automatically shall be deemed a Non-Consenting Party to that operation.

- (6) NATURAL GAS POLICY ACT FILINGS AND REPORTS. Operator may, at its election (but is not required to), file and prosecute applications for the determination of the status under the Natural Gas Policy Act of 1978 ("NGPA") of wells subject to this Operating Agreement for the joint account of parties hereto to the extent that such filings by Operator are premitted by law, rule, regulation or order. Each party hereto shall be responsible for making all other filings and reports required under the NGPA, including, but without limitation thereto, refund undertakings and interim, retroactive or other collection statements. Operator shall not be responsible to any Non-Operator for any damage or loss arising out of or connected with the filing or prosecution of the applications for determination, including the failure to file, delay in filing or failure to prosecute such applications. The sole recourse of each Non-Operator is to file and process for his own account whatever application for determination he deems appropriate. In the event operator elects to file an application for determination, the cost and expense of preparing, filing and prosecuting such application shall be charged to the joint account.

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

- (7) If, prior to reaching the depth stipulated in paragraph VI. A. of this Operating Agreement, the Initial Test Well encounters salt, saltwater flow, heaving shale or other impenetrable substances, or uncontrollable conditions are encountered, rendering further drilling impracticable, Operator shall give notice of such to each Non-Operator and each Non-Operator shall have the right to elect whether or not it wishes to participate in the drilling of a substitute well. If all of the parties hereto elect to participate in drilling a Substitute Test Well, all the provisions of this Agreement relative to the Initial Test Well shall be applicable to the Substitute Test Well. If all of the parties hereto elect not to participate in the drilling of a Substitute Test Well, the parties hereto shall plug and abandon the Initial Test Well, and the costs thereof shall be borne by the parties hereto in the same proportion as the parties hereto bear in the costs of drilling of the Initial Test Well. If less than all of the parties hereto elect to participate in the drilling of a Substitute Test Well, the non-consenting party or parties shall forfeit all of their rights in and to the well and the acreage unitized with said substitute test well down to the depth drilled plus one hundred (100) feet.
- (8) Except as may otherwise be expressly provided above, any notice or communications required or desired to be given under the terms of this Agreement, shall be given by Certified or Registered Mail, Return Receipt Requested, by personal delivery against signed receipt therefor, or by telegram, on which the postage and/or other sending charges have been prepaid by sending party, at such party's address listed on Exhibit "A" to this Agreement or at such other address as such party may have previously specified by like notice.

- (9) With respect to proposals for expenditures subject to the provisions of Article VII. D. 3. of this Agreement, if approval of all parties is not obtained by Operator within fifteen (15) days after proposal for such expenditures in writing and the parties owning 55% in interest of the Contract Area have approved of such expenditures, the parties who have failed to respond to such proposal or who have responded in the negative shall nevertheless be bound thereby and obligated to pay their proportionate part of such proposed operation the same as if they had consented to such operation pursuant to the terms hereof.
- (10) If any party hereafter creates any overriding royalty, production payment or other burden against its working interest production and if any other party or parties hereto conduct nonconsent operations pursuant to any provisions of this Agreement and, as a result, become entitled to received the working interest production otherwise belonging to a non-participating party, the party of parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of burdens against such production which may have been created subsequent to this Agreement and the non-participating party creating such subsequent burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.
- (11) Notwithstanding any provision to the contrary contained within this Agreement, consent to the drilling or deepening of any well on the Unit Area shall not be deemed consent to the running and setting of a production string of casing therein or to completion therein (including the equipping of such well to the depth or formation previously agreed upon) and after appropriate tests have been made, Operator shall give immediate notice by telegraph or telephone to all parties participating in the drilling or deepening of such well, setting forth Operator's recommendations with respect to such attempted completion. Each such party shall within twenty-four (24) hours, exclusive of Saturday and Sunday and holidays, after receipt of such notice notify Operator as to whether or not such party elects to participate in such completion attempt. Failure to so notify Operator shall be deemed an election not to participate. Should less than all parties elect to so participate, then such completion operations shall be conducted under the provisions of Article VI. B. 2. of this Agreement as an operation by less than all of the parties. Should no party elect to attempt such completion, Operator shall plug and abandon the well at the joint cost of all parties who participated in the drilling or deepening of the well.

It is specifically provided that no notice shall be given under Article VI. B. of this Agreement which proposes the drilling of more than one (1) well. Further, the provisions of said Article VI. B., insofar as same pertains to notification by a party of its desire to drill a well, shall be suspended for so long as (1) a prior notice has been given which is still in force and effect and the period of time during which the well regarding same may be commenced has not expired, or (2) a well is presently drilling hereunder. This paragraph shall not apply under those circumstances when the well to which it is directed is a well which is required under the terms of a lease or contract or one required to maintain a lease or a protion thereof in force.

- (12) It is agreed that without the mutual consent of all parties, no reworking or other operations shall be conducted under the provisions of Article VI. B. 2. of this Agreement so long as any completion is producing in paying quantities in the well with respect to which such proposal is made.

- (13) Notwithstanding the foregoing provisions, if, during the terms of this Agreement, a well is required to be drilled, deepended, reworked, plugged back, sidetracked or recompleted, or any other operation may be required in order to (1) continue a lease 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, or (5) under any circumstances where a lease is in jeopardy of being terminated 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 risk and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an assignment to the participating parties in the proportion that the interest of each bears to the total interest of each such 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 the drilling unit upon which the well was drilled excepting, however, wells theretofore completed and capable of producing in paying quantities.

- (14) Notwithstanding the provisions of this Agreement and of the accounting procedure attached as Exhibit "C", the parties to this Agreement specifically agree that in no event during the terms of this contract shall Operator be required to make more than one billing for the entire interest credited to each party on Exhibit "A" of this Agreement. It is further agreed that if any party to this Agreement (hereafter referred to as "Selling Party") disposes of part of the interest credited to it on said Exhibit "A", the Selling Party will be solely responsible for billing its assignee or assignees, and shall remain primarily liable to the other parties for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it. It is further understood and agreed that if Selling Party disposes of all its interest as set out on said Exhibit "A", whether one or several assignees, Operator shall continue to issue statements and billings to the Selling Party for the interest conveyed until such time as Selling Party has designated and qualified one assignee to receive the billing for the entire interest credited to Selling Party on said Exhibit "A", Selling Party shall furnish to Operator the following:

(a) Written notice for the conveyance and photostatic or certified copies of the assignment by which transfer was made.

(b) The names of the assignee to be billed and a written statement signed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" of this Agreement.

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 1st day of April, 19 84.

OPERATOR

OGR OPERATING CO., INC.

Sal J. Pagano, Manager

NON-OPERATORS

MARATHON OIL COMPANY

BY:

EXHIBIT "A"

Attached to that certain Operating Agreement
dated April 1, 1984, by and between
OGR Operating Company, Inc., as Operator, and
Marathon Oil Company, ET AL, as Non-Operators,
covering the North Kemnitz Prospect, Lea County, New Mexico

I. LANDS SUBJECT TO THIS AGREEMENT:

The East Half (E/2) of Section 17,
Township 16 South, Range 34 East, N.M.P.M.,
Lea County, New Mexico

II. RESTRICTIONS:

None

III. PERCENTAGES OF PARTICIPATION OF THE PARTIES TO THIS AGREEMENT:

A) Initial Test Well and Subsequent Wells (should Marathon elect to join)

OGR Operating Co., et al	50.00%
Marathon Oil Company	50.00%
	<u>100.00%</u>

IV. LEASES SUBJECT TO THIS AGREEMENT:

Lease 1.

Lessor: State of New Mexico No. V-836
Lessee: O'Brien, Goins, Ritter & Associates
Date: September 1, 1983
Recorded: Book 363, Page 811-813, Oil & Gas Records
of Lea County, New Mexico
Land Covered: The NE/4 of Section 17, T-16-S, R-34-E.
Royalty: 1/6 on oil and gas
Overriding
Royalty: to be completed later.

Lease 2:

Lessor: State of New Mexico No. E-1127
Lessee: Marathon Oil Company
Date: December 10, 1946
Recorded:
Land Covered: The SE/4 of Section 17 and the NE/4
of Section 20, T-16-S, R-34-E, Lea
County, New Mexico
Royalty: 1/8 on oil and gas
Overriding
Royalty: to be completed later.

V. ADDRESSES OF THE PARTIES TO THIS AGREEMENT FOR PURPOSES OF NOTIFICATION:

- 1) OGR Operating Company, Inc.
1140 Two First City Center
Midland, Texas 79701
- 2) Marathon Oil Company
P. O. Box 552
Midland, Texas 79702

THERE IS NO EXHIBIT "B"

20288
60110

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated April 1, 1984, by and between OGR Operating Co., Inc., as Operator and Marathon Oil Company, et al, as Non-Operators, covering the Kemnitz Prospect, Lea 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 greater, 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%), or the percentage most recently recommended by the Council of Petroleum Accountants Societies of North America.

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 * per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property. *The prime rate of interest as set by the First City National Bank of Midland, Texas, on the 1st day of the month.
- B. In lieu of charges in Paragraph A 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:

- (XX) 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 ~~(--)~~ not (X) 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 \$ 5,000.00
Producing Well Rate \$ 500.00

- (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, redrilling, 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 \$ _____ * :

A. _____ * % of total costs if such costs are more than \$ _____ * but less than \$ _____ * ; plus

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

C. _____ * % 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.

*To be negotiated.

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 ~~exchange~~ weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point ~~or nearest the Joint Property~~ 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 that certain Operating Agreement dated April 1, 1984, by and between OGR Operating Co., Inc., as Operator and Marathon Oil Company, et al, as Non-Operators, covering the Kemnitz Prospect, Lea County, New Mexico

At all times during the conducting of operations hereunder, Operator shall maintain in force the following insurance:

- A. Worker's Compensation to satisfy the requirements of any State or Federal Worker's Compensation Act applicable to operation conducted by the Operator for the Joint Account, including Employer's Liability Insurance, with limits sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D of this Section.
- B. Comprehensive General Liability, including Contractual Liability, for bodily injury and property damage, with limits of liability not less than \$300,000.00 covering injury to or death of one person, and not less than \$300,000.00 covering injury to or death or more than one person by reason of one accident, and Property Damage Liability Insurance with limits of not less than \$100,000.00 for each accident and \$100,000.00 in the aggregate and sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D of this Section.
- C. Comprehensive Automobile Liability, including liability arising out of non-owned and hired cars, for bodily injury and property damage with limits of liability sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D of this Section.
- D. Umbrella Excess Liability with a limit of \$10 million.
- E. Operator's Extra Expense -- Control of Well, as respects drilling, deepening, or workover wells, including (1) the cost of control of a well in the event of a blowout; (2) Bodily Injury or Property Damage Liability caused by pollution, seepage or contamination; (3) pollution cleanup; (4) extinguishing of an oil or gas well fire; and (5) redrilling/recompletion of the well, with a limit of \$3,000,000 for wells less than 10,000 feet in depth and \$5,000,000 for wells in excess of 10,000 feet in depth.

All premiums paid on such insurance shall be charged to the Joint Account. Except by mutual consent of the parties, no other insurance shall be maintained for the Joint Account and all losses not covered by such insurance shall be charged to the Joint Account.

The failure of the above described policies to cover any loss that may occur, or the insolvency of the insurance carrier selected by the Operator, shall not be deemed negligence of the Operator or lack of due diligence upon the part of Operator.

In the event any insurance on this Exhibit is not available (or becomes unavailable) at reasonable premium rates in the judgment of the Operator, then the Operator shall not be required to obtain or continue such insurance in force.

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated April 1, 1984, by and between OGR Operating Co., Inc., as Operator and Marathon Oil Company, et al, as Non-Operators, covering the Kemnitz Prospect, Lea County, New Mexico

GAS STORAGE AND BALANCING AGREEMENT

- (1) During the period or periods when any party hereto has no market for, or its purchaser is unable to take, or if any party fails to take, its share of gas (such a party or parties called individually or collectively "under produced party"), the other party or parties (called individually or collectively "over produced party") shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and such overproduced party shall have the right to take all of the share of the underproduced party, subject to the provisions hereof, until such underproduced party shall exercise its rights to take its share of such gas production. All parties hereto shall share in and own all the condensate as actually recovered at the surface in accordance with their respective interests, but the overproduced party taking all such gas may sell and deliver all such gas to its purchaser(s), subject to the provision hereof. Thereafter each underproduced party shall be credited with gas in storage equal to its share of the gas produced, less its share of gas used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto monthly statements show the total quantity of gas produced, used in lease operation, vented or lost, and the total quantity of condensate recovered.
- (2) After notice to Operator and the overproduced party, and underproduced party may begin taking and/or delivering its share of the gas produced. In addition to its share, each underproduced party, until it has recovered its gas in storage and balances its gas account, shall be entitled to take or deliver a volume of gas equal to thirty-seven and one-half percent (37-1/2%) of the overproduced party's share of gas produced. If "underproduced party" constitutes more than one party entitled to the additional gas produced, such parties shall divide such additional gas in accordance with their shares of Unit participation.
- (3) At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interests, and other like payments for which it is responsible (referred to collectively as "royalty") as if each party were actually taking or delivering to a purchaser its share, and its share only, of such gas production, provided that during any period of imbalance, the overproduced party shall remit to the underproduced party the royalty share of production proceeds of the underbalanced party's Unit share of gas being taken by the overproduced party. In lieu of making payment's Unit share of gas being taken by the overproduced party. In lieu of making payment of such royalty share of proceeds to the underproduced party, the overproduced party may, if it so elects, make payment directly to the royalty owners of the underproduced party.
- (4) Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

EXHIBIT "E"

Page 2

- (5) When the gas sales from a reservoir in a gas well permanently cease, Operator shall be responsible for determining the final account of underproduction and overproduction. Each overproduced party shall compensate each under produced party in accordance with said accounting with a sum of money equal to the amount actually received from the sale of underproduced party's share of gas by such overproduced party during each period of overproduction not theretofore recovered by underproduced party pursuant to Paragraph (2) above, less applicable taxes, on a cumulative basis. Payment for such overproduction shall be in the order of accrual with actual recovery of underproduced gas by underproduced party prior to such cessation of production being accounted for as to storage and withdrawal on a first in - first out basis. If such overproduced party has paid the royalties attributable to such overproduction, the amount of such royalties shall be deducted from such payment.
- (6) The provisions of this agreement shall be separately applicable to each well and each reservoir within each well to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs or gas wells.
- (7) Nothing herein contained shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in joint operations as its share thereof is set forth in the above described Operating Agreement.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated April 1, 1984, by and between OGR Operating Co., Inc., as Operator and Marathon Oil Company, et al, as Non-Operators, covering the Kemnitz Prospect, Lea County, New Mexico

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, sex, or national origin. The Operator will take affirmative action to ensure that application are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. 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 form of compensation; and selection for training including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and application 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, sex or national origin.
- 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 provision of Executive Order 11246 of September 24, 1965, and 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.

EXHIBIT "F"

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- 6) In the event of Operator's non-compliance with the non-discrimination clauses of this contract or with any such rules, regulations, or order, 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 rules, regulations, or order of the Secretary of Labor, or as otherwise provided by law.
- 7) The Operator will include the provisions of paragraph (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 subcontract 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 the appropriate agency 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 it 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 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.

EXHIBIT "F"

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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 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.

Attached to and made a part of that certain Operating Agreement
dated April 1, 1984, by and between OGR Operating Co., Inc., as Operator
and Marathon Oil Company, et al, as Non-Operators,
covering the Kemnitz Prospect, Lea County, New Mexico

MEMORANDUM OF OPERATING AGREEMENT,
SECURITY AGREEMENT AND FINANCING AGREEMENT

STATE OF New Mexico }
 }
COUNTY OF Lea }

Reference is here made to that certain Model Form Operating Agreement, A.A.P.L. Form 610-1982, dated the 1st day of April, 1984 wherein OGR Operating Company, Inc., 1140 Two First City Center, Midland, Texas 79701, is named as OPERATOR and each of the undersigned are named as NON-OPERATORS and covering the Contract Area consisting of lands located in Lea County, New Mexico more particularly described on Exhibit 1(A) attached hereto and made a part hereof.

Article VII.B, of the above-referenced Operating Agreement grants to the Operator and each of the undersigned Non-Operator hereby grants to Operator a lien upon its oil and gas rights in the above-described Contract Area and grants to Operator a security interest in its share of oil and/or gas when produced and its interest in all personal property and equipment now or hereafter used or obtained in connection with the above-described Contract Area, to secure payment of its share of expenses, together with interest, for development and operation of the above-described Contract Area as provided in said Operating Agreement. The interest of each of the undersigned Non-Operators in the above-described Contract Area is set forth on Exhibit , and their respective addresses are set forth on Exhibit

Each of the undersigned Non-Operators agree that to the extent Operator has a security interest under the Uniform Commercial Code of the State of Texas, Operator shall be entitled to exercise the rights and remedies of a secured party under the Uniform Commercial Code, and that a copy hereof signed by a Non-Operator may also serve as a financing statement under the Uniform Commercial Code.

Each of the undersigned Non-Operators agree that upon default in the payment of its share of the expense of developing and operating the Contract Area as provided in the above-referenced Operating Agreement, that notice by Operator to any purchaser of the oil and gas or proceeds from said property, without further joinder by such a defaulting Non-Operator, shall be an order on such purchaser and authority to such purchaser to deliver to Operator any oil and gas attributable to the interest of such defaulting Non-Operator or any sums of money or credits due to the interest of such defaulting Non-Operator until the amount owed by such defaulting Non-Operator, plus interest has been paid.

Without in any manner limiting the generality of any of the foregoing provisions hereof, portions of the personal property (i.e., tanks, lines, casing and other tangible personal property), described or to which reference is made herein are, or are to become fixtures on the land described in Exhibit and the hydrocarbons, (minerals, including oil and gas), or accounts will be financed at the wellhead or minehead located on the lands described in Exhibit and this instrument is to be filed for record and/or indexed as a financing statement in the Real Estate Records of each of the counties shown in Exhibit

Each of the undersigned Non-Operators agree, at Operator's request, to join Operator in executing one or more copies of this instrument at any time and from time to time whenever filing or recording of this instrument is deemed by Operator to be necessary or desirable.

All of the terms and provisions of the above-described Operating Agreement are incorporated in and made a part hereof.

This Memorandum of Operating Agreement, Security Agreement, and Financing Statement may be executed in multiple counterparts by all of the undersigned, and Operator is hereby authorized to assemble such counterparts into one document.

Dated and effective as the date of the above described Operating Agreement.

OPERATOR

OGR OPERATING COMPANY, INC.

BY: Sal J. Pagano, Manager

NON-OPERATORS

MARATHON OIL COMPANY

BY: _____

Acknowledgement Page to that Certain Memorandum of Operating Agreement, Security Agreement, and Financing Agreement covering that certain Operating Agreement dated April 1, 1984, by and between OGR Operating Co., Inc., as Operator, and Marathon Oil Company, et al, as Non-Operators, covering the Kemnitz North Prospect, Lea County, New Mexico

STATE OF TEXAS §

COUNTY OF MIDLAND §

 This instrument was acknowledged before me on this the _____ day of April, 1984 by Sal J. Pagano on behalf of OGR Operating Co., Inc.

NOTARY PUBLIC
STATE OF TEXAS
Donna Blanscett-Spain

My Commission expires on the 18th day of April, 1988.

STATE OF TEXAS §

COUNTY OF MIDLAND §

 This instrument was acknowledged before me on this the _____ day of _____, 1984 by _____
_____ on behalf of Marathon Oil Company.

NOTARY PUBLIC
STATE OF TEXAS

Print Name:

My Commission expires on the _____ day of _____ 198__.

EXHIBIT 1 (A)

Attached to that certain Memorandum of Operating Agreement,
Security Agreement and Financing Agreement covering that
certain Operating Agreement dated April 1, 1984, by and between
OGR Operating Company, Inc., as Operator, and
Marathon Oil Company, as Non-Operator, covering the
Kemnitz North Prospect, Lea County, New Mexico

I. LANDS SUBJECT TO THIS AGREEMENT:

The East Half (E/2) of Section 17,
Township 16 South, Range 34 East
Lea County, New Mexico

II. RESTRICTIONS:

None

III. PERCENTAGES OF PARTICIPATION OF THE PARTIES TO THIS AGREEMENT:

OGR Operating Company, et al	50.00%
Marathon Oil Company	50.00%
	<u>100.00%</u>

IV. ADDRESSES OF THE PARTIES TO THIS AGREEMENT FOR PURPOSES OF NOTIFICATION:

- 1) OGR Operating Company, Inc.
1140 Two First City Center
Midland, Texas 79701
- 2) Marathon Oil Company
P. O. Box 552
Midland, Texas 79702