

CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
J. SCOTT HALL
PETER N. IVES
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RECEIVED
GUADALUPE PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

January 23, 1986

R. L. Stamets, Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87504-2088

Re: Case 8818: Application of Yates Petroleum Corporation
for a Pressure Maintenance Project, Eddy County, New
Mexico.

Dear Mr. Stamets:

Enclosed please find our Entry of Appearance on behalf of
Yates Petroleum Corporation for filing in the above-referenced
case.

Very truly yours,


William F. Carr

WFC/cv
enclosure

cc: Mr. David Lanning
(w/enclosure)

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF YATES PETROLEUM CORPORATION FOR
A PRESSURE MAINTENANCE PROJECT,
EDDY COUNTY, NEW MEXICO.

Case 8818

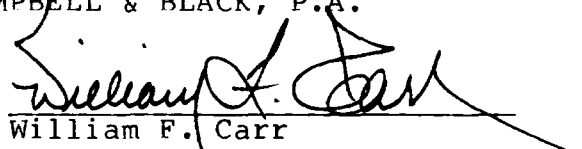
ENTRY OF APPEARANCE

Comes now, CAMPBELL & BLACK, P.A., and hereby enters its
appearance in the above-referenced cause for Yates Petroleum
Corporation.

Respectfully submitted,

CAMPBELL & BLACK, P.A.

By


William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
(505) 988-4421

ATTORNEYS FOR YATES PETROLEUM
CORPORATION

CAMPBELL & BLACK, P.A.

LAWYERS

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February 13, 1986

Mr. David Catanach
Hearing Examiner
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87504-2088

Re: Case 8818: Application of Yates Petroleum Corporation
for a Pressure Maintenance Project, Eddy County, New
Mexico.

Dear Mr. Catanach:

Pursuant to your request, please find enclosed three
copies of revised pages 6-8 of OCD Form C-108 offered in the
above-referenced case. As you will note, these new pages include
the cement tops of each of the wells for which you requested this
information.

If you need further information from Yates Petroleum
Corporation to proceed with your decision in this case, please
advise.

Very truly yours,



William F. Carr

WFC/cv
enclosures

cc: Mr. David Lanning

PART VI C-108
DETAILS OF WELLS WITHIN ONE-HALF MILE OF PROPOSED INJECTION WELL

WELL NAME & LOCATION	SPUD DATE	COMPLETION DATE	TYPE	ID	CONSTRUCTION	TOC	COMPLETION RECORD
Federal DS #1 29-205-28E 990' FSL & 330' FML	8-28-74	11-01-74	Abn.	670'	8 5/8" 285'/200 sx	clrc.	Released to rancher for water well. Temporarily abandoned.
Federal DC #1 29-205-28E 1980' FSL & 660' FML	Re-Spud 4-16-78	9-02-78 5-14-84	Gas Shut-In	OTD 640' 11,540'	8 5/8" 285'/200 sx 13 3/8" 585'/550 sx 8 5/8" 2845'/1840 sx 5 1/2" 11,495'/650 sx	clrc. clrc. clrc. 7700' temp.	Perf. 10,524-10,634', A/1500 gal. Sgz. 10624-10634' R/C 11227-11276', A/2500 gal.
Stonewall MM State #1 30-205-28E 560' FSL & 1980' FEL	2-16-83	6-02-83	Oil Producer	4,953'	20" 40'/sec 10 3/4" 545'/500 sx 8 5/8" 2485'/1350 sx 5 1/2" 4953'/700 sx	clrc. clrc. clrc. 1475' CBL	Perf. 2587-2680', A/3000 gal. SMF 40000 gal. + 52000#
Stonewall MM State #2 30-205-28E 480' FSL & 990' FEL	9-20-83	8-07-84	Gas Shut-In	5,450'	13 3/8" 546'/550 sx 8 5/8" 2410'/1050 sx 5 1/2" 4960'/750 sx	clrc. clrc. 1806' CBL	PB OH 5216', A/2000 gal. SMF 40000 gal. + 80000#
Stonewall MM State #3 30-205-28E 330' FSL & 1980' FML	6-14-83	7-22-83	Oil Shut-In	4,865'	13 3/8" 545'/650 sx 8 5/8" 2470'/550 sx 5 1/2" 4864'/500 sx	clrc. clrc. 2100' CBL	Perf. 2530-2622', 3422-3602' A/15500 gal., SMF 27000 gal. + 1621 MCF N2 + 117500#
Stonewall MM State #4 30-205-28E 330' FSL & 990' FML	8-29-83	11-28-83	Oil Producer	4,866'	13 3/8" 535'/500 sx 8 5/8" 2642'/1300 sx 5 1/2" 4860'/750 sx	clrc. clrc. 600' CBL	Perf. 2524-3671', A/4500 gal. SMF 36000 gal. + 45000# A/7000 gal. SMF 40000 gal. + 52000#
Stonewall MM State #5 30-205-28E 1650' FSL & 1980' FML	9-15-83	11-10-83	Oil Shut-In	4,900'	13 3/8" 535'/600 sx 8 5/8" 2404'/1355 sx 5 1/2" 4900'/700 sx	clrc. clrc. 1215' CBL	Perf. 3360-3367', 3487-3515', 3570-3576' A/10000 gal., Frac 10000 gal. wtr. + 9000 ga Meth + 70000 gal. N2 Foam + 91000#
Stonewall MM State #6 30-205-28E 1650' FSL & 990' FML	11-04-83	12-27-83	Oil Producer	4,860'	20" 40'/sec 13 3/8" 535'/550 sx 8 5/8" 2410'/800 sx 5 1/2" 4860'/800 sx	clrc. clrc. 2410' CBL	Perf. 3349-3527', A/8500 gal. SMF 60000 gal. + 78000#

DETAILS OF WELLS
Page -2-

WELL NAME & LOCATION	SPUD DATE	COMPLETION DATE	TYPE	TD	CONSTRUCTION	TOC	COMPLETION RECORD
Stonewall EP State Com #1 30-205-28E 1980' FNL & 1980' FNL	7-17-75	9-25-75	Gas Producer	11,478'	13 3/8" 612'/550 sx 8 5/8" 2799'/1650 sx 5 1/2" 11,380'/1300 sx	clrc. clrc. 4800' temp.	Perf. 11250-11258', Natural 9/75 Perf. 8880-8908' 9/75 Perf. 11054-11226', A/4000 gal. Sqz. 8880-8908' 7/82
Stonewall EP State Com #4 30-205-28E 1980' FNL & 660' FEL	5-28-78 R/C 10-19-81	7-20-78	Gas Producer	11,572'	13 3/8" 626'/500 sx 9 5/8" 2800'/1840 sx 5 1/2" 11,525'/475 sx	clrc. clrc. 8300' temp.	Perf. 11136-11181', Natural Perf. 10553-10575'
Stonewall EP State #5 30-205-28E 2310' FNL & 990' FNL	11-20-83	3-14-84	Oil Shut-In	4,870'	13 3/8" 553'/500 sx 8 5/8" 2420'/1600 sx 5 1/2" 4870'/800 sx	clrc. clrc. 256' CBL	Perf. 4336-4346', A/1500 gal. Perf. 4252-4304', A/4000 gal. Perf. 4142-4183', A/3500 gal. Frac 70000 gal. 70% Foam + 97500# Perf. 3361-3730', A/10000 gal. Frac 160000 gal. 75% Foam + 222000#
Stonewall EP State #8 30-205-28E 2310' FNL & 1980' FNL	2-26-84	4-04-84	Oil Producer	5,300'	13 3/8" 540'/425 sx 8 5/8" 2404'/950 sx 5 1/2" 5303'/750 sx	clrc. clrc. 1886' CBL	Perf. 3384-3688', A/6700 gal. Frac 60000 gal. 75% Foam + 195000#
Yates Federal C #1 31-205-28E 660' FNL & 1980' FNL	3-25-82	6-19-82	Gas Producer	11,470'	13 3/8" 584'/950 sx 9 5/8" 3154'/985 sx 7" 10,395'/550 sx 5" 9901-11,467'/160 sx	clrc. clrc. 7650' est. 10000' est.	Perf. 11040-11110', Natural
Yates Federal C #3 31-205-28E 660' FNL & 1980' FEL	9-21-82	10-20-82	Oil Producer	4,702'	8 5/8" 605'/425 sx 5 1/2" 4702'/1050 sx	clrc. 1730' temp.	Perf. 3400-3608', A/6000 gal. SMF 23000 gal. + 106000#, CIBP @ 3350' w/ 30' cnt. Perf. 2546-2626', Frac 64000 gal. 75% Foam + 68000# Sqz. 2546-2626', CO to 3900' Prod. thru 3400-3608'
Yates Federal C #4 31-205-28E 660' FNL & 660' FEL	12-01-82	1-06-83	Oil Producer	4,701'	8 5/8" 618'/400 sx 5 1/2" 4701'/1050 sx	clrc. clrc.	Perf. 2574-2818', SMF 78000 gal. + 102000#

not with 1/2 mil

DETAILS OF WELLS
Page -3-

<u>WELL NAME & LOCATION</u>	<u>SPUD DATE</u>	<u>COMPLETION DATE</u>	<u>TYPE</u>	<u>TD</u>	<u>CONSTRUCTION</u>	<u>TOC</u>	<u>COMPLETION RECORD</u>
Yates Federal C #17 31-205-28E 760' FNL @ 1980' FNL	8-28-83	9-13-83	011 Producer	3,897'	13 3/8" 606'/1050 sx 8 5/8" 2482'/930 sx 5 1/2" 3887'/775 sx	clrc. clrc. clrc.	Perf. 3562-3626', A/2500 gal., SWF 32000 gal. + 34000# CIBP @ 3500' w/30' cmt. Perf. 2568-2605', A/2500 gal., Frac 32000 gal 75% Foam + 34000#



207 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1331

S. P. YATES
PRESIDENT
MARTIN YATES, III
VICE PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. TREAS.

February 25, 1986

Dave Catanach
NMOCD
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Catanach:

Re: NMOCD Case #8818

In NMOCD Case #8818, Yates Petroleum sought authority to start a pressure maintenance project in the Avalon Delaware pool by injecting water into the Stonewall "YE" State #1 located in Unit J of Section 30-20S-28E. The appropriate project area should be the S/2 of Section 30 plus the S/2 of the NW/4 of Section 30. The project area contains about 400 acres in all. Yates operates the following Avalon Delaware wells within this project area:

Stonewall "EP" State #5	E 30-20S-28E
Stonewall "EP" State #8	F 30-20S-28E
Stonewall "WM" State #1	O 30-20S-28E
Stonewall "WM" State #3	N 30-20S-28E
Stonewall "WM" State #4	M 30-20S-28E
Stonewall "WM" State #5	K 30-20S-28E
Stonewall "WM" State #6	L 30-20S-28E
Stonewall "YE" State #1	J 30-20S-28E

I hope this information allows you to process Case #8818.

Sincerely,

DAVID F. BONEAU
Engineering Manager

DFB/cvg

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
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April 3, 1986

HAND DELIVERED

Mr. David Catanach
Hearing Examiner
Oil Conservation Division
New Mexico Department of
Energy and Minerals
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case 8818: Application of Yates Petroleum Corporation
for a Pressure Maintenance Project, Eddy County, New
Mexico.

Dear Mr. Catanach:

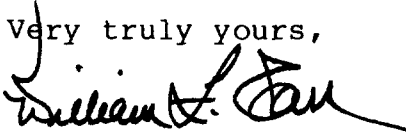
In response to certain questions raised during our March 28, 1986 meeting concerning the designation of a project area for Yates' proposed pressure maintenance project in the above-referenced case, I enclose a copy of the Operating Agreement for the Stonewall Unit. As you will note, this is a working interest unit operated by Yates Petroleum Corporation (see page 3) covering the following described acreage in Eddy County, New Mexico:

Township 20 South, Range 28 East, N.M.P.M.
Section 19: S/2
Section 20: All
Section 29: SW/4, S/2 SE/4, NW/4 SE/4
Section 30: All
(Exhibit A to Unit Agreement)

Yates Petroleum Corporation requests that this area be designated the project area for the pressure maintenance project in the above-referenced case, and that the enclosed Operating Agreement be incorporated into and made a part of the record in Case 8818.

Mr. David Catanach
April 3, 1986
Page Two

If you need additional information from Yates in this case,
please advise.

Very truly yours,

William F. Carr

WFC/cv
enclosure

cc: (w/o enclosure)
Mr. Randy Patterson
Mr. David Lanning
Yates Petroleum Corporation
207 South Fourth Street
Artesia, New Mexico 88210

15

Ex. 210 B

MODEL FORM OPERATING AGREEMENT—1956

~~Non-Federal Lands~~

STONEWALL UNIT
OPERATING AGREEMENT

DATED

November 1, 1973

FOR UNIT AREA IN TOWNSHIP 20 SOUTH, RANGE 28 EAST

EDDY COUNTY, STATE OF NEW MEXICO

Published and for Sale by
ROSS-MARTIN CO.

Box 800
Tulsa, Oklahoma

Form 610

(Revised)

Copy of AFE's - all 4
Copy of Exhibit "A" +
Copy of AFE Procedures
To Eddie Williams
12-7-73

(SK)

TABLE OF CONTENTS

Paragraph Number	Title	Page
1.	Definitions	1
2.	Title Examination, Loss of Leases and Oil and Gas Interests	1
3.	Unleased Oil and Gas Interests	2
4.	Interests of Parties	2
5.	Operator of Unit	3
6.	Employees	3
7.	Test Well	3
8.	Costs and Expenses	3
9.	Operator's Lien	4
10.	Term of Agreement	4
11.	Limitation on Expenditures	4
12.	Operations by Less Than All Parties	5
13.	Right to Take Production in Kind	6
14.	Access to Unit Area	7
15.	Drilling Contracts	7
16.	Abandonment of Wells	7
17.	Delay Rentals and Shut-in Well Payments	8
18. /	Sale By Operator Preferential Right to Purchase	8
19.	Maintenance of Unit Ownership	9
20.	Resignation of Operator	9
21.	Liability of Parties	9
22.	Joint Loss Renewal or Extension of Leases	9
23.	Surrender of Leases	10
24.	Acreage or Cash Contributions	10
25.	Provision Concerning Taxation	10
26.	Insurance	11
27.	Claims and Lawsuits	11
28.	Force Majeure	11
29.	Notices	11
30. /	Test Wells Other Conditions	12
31.	Rights Earned by Operator	13
32.	Gas Storage Agreement	13
33.	Casing Point Election	14
34.	Hereafter Created Burdens	14
35.	Designation of Successor Operator	14
36.	Partition	15
37.	Binding Effect	15

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 1st day of November, 19 73, between YATES PETROLEUM CORPORATION, a New Mexico corporation,

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

WITNESSETH, THAT:

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

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.
- (9) Yates Petroleum Corporation, Mesa Petroleum Company, Claremont Corporation, Edward R. Hudson, Jr., William A. Hudson II and Mary Hudson Ard are also referred to as "Paying Parties," and the other parties hereto are also referred to as "Contributing Parties."

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

A. Title Examination:

The parties hereby accept title to the oil and gas leases covering all of Section 20, Township 20 South, Range 28 East, N.M.P.M., upon which the test well provided for in Section 7 is to be drilled.

No well except the Initial Test Well shall be drilled until the drillsite title and form of lease covering said drillsite has been accepted by the parties participating in the drilling of the well. In connection with such drillsite all abstracts, title opinions and curative work presently in the possession of any party shall, on request, be furnished to any other party, without charge, and such other party shall have a reasonable time to examine same.

B. Failure of Title:

Should any oil and gas lease, or interest therein, or oil and gas interests, be lost through failure of title (provided, such loss shall not be deemed a failure of title should the party whose lease or interest is affected by such failure of title secure a new lease or title covering the same interest and subject same to this agreement within a period of 90 days, commencing on the date it is determined finally that title failure has occurred) then this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

- (1) The party whose 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, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and
- (2) 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 Unit Area by the amount of the interest lost; and
- (3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit 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 interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (4) 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, or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and
- (5) 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 parties in the same proportions in which they shared in such prior production.

C. Loss of Leases for Causes Other Than Title Failure:

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

4. INTERESTS OF PARTIES

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

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

5. OPERATOR OF UNIT

Yates Petroleum Corporation shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from ^{willful} breach of the provisions of this agreement.

6. EMPLOYEES

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

7. TEST WELL

The provisions governing the drilling of the Initial Test Well, the Substitute Test Well and the Optional Test Wells are set forth in Section 30 hereof. As used in this agreement, the phrases "Test Well" and "Test Well provided for in Section 7," are deemed to include the said "Initial Test Well," the "Substitute Test Well" and the "Optional Test Wells." The objective depth for these wells is set forth in Section 30.

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 26th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ^{ten} ~~five~~ percent (10%) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ~~sixty (60)~~ ^{sixty (60)} days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ~~sixty (60)~~ ^{sixty (60)} days after abandonment of such well or wells. It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; except as provided in Section 33 hereof. (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten Thousand and No/100 Dollars (\$ 10,000.00), except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 5,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

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

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

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

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

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

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

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

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

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

13. RIGHT TO TAKE PRODUCTION IN KIND

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

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale. Any contract made by Operator specifically for the sale of non-taking party's share of Unit production shall not be for a term longer than is commensurate with the minimum needs of the industry under the circumstances and shall in no event be for a term exceeding one year.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, within 15 days after receipt of notice of abandonment, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

19. MAINTENANCE OF UNIT OWNERSHIP

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

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

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

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

20. RESIGNATION OF OPERATOR

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

21. LIABILITY OF PARTIES

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

JOINT LOSS

22. RENEWAL OR EXTENSION OF LEASES

the loss of which would be a joint loss under Section 2 hereof, If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease if exercised within 30 days after receipt of such notice, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

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

Each party who participates in the purchase of a renewal lease shall be given an assignment/without warranty of its proportionate interest therein by the acquiring party.

The provisions of this section shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any new or 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 new or renewal lease and shall not be subject to the provisions of this section.

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

23. SURRENDER OF LEASES

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

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

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

24. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly ~~execute~~ ^{tender} an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and ^{if such tender is accepted by all parties} 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. Nothing herei shall apply to an acreage contribution for Initial Test Well.

25. PROVISION CONCERNING TAXATION

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

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

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

26. INSURANCE

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. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

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

27. CLAIMS AND LAWSUITS

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

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

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

28. FORCE MAJEURE

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

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

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

29. NOTICES

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

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

30. TEST WELLS

30.1 On or before December 15, 1973, Operator shall either take over the drilling of a well commenced with cable tools on June 13, 1973, in the SE/4 SW/4 of Section 20, Township 20 South, Range 28 East, N.M.P.M., or commence the actual drilling of another well at a lawful location of its selection in said 40-acre subdivision, and thereafter prosecute the drilling of said well ("Initial Test Well") with due diligence and in a good and workmanlike manner, to a depth sufficient to adequately test the Morrow series of the Pennsylvanian system (the "Objective Depth"), estimated to be 11,600 feet below the surface. In the drilling of the Initial Test Well and all other wells drilled under this agreement, Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil or gas in quantities sufficient to test.

30.2 If, in the drilling of the Initial Test Well Operator loses the hole or encounters mechanical difficulties rendering it impracticable in the opinion of Operator to drill the well to the Objective Depth, then Operator shall have the option of commencing a "Substitute Test Well" at a lawful location of its selection on the Unit Area, provided, however, if the Initial Test Well has not been completed as a producer of oil or gas in paying quantities prior to reaching Objective Depth, the Substitute Test Well shall be located in the W/2 of said Section 20. The Substitute Test Well shall actually be commenced within 30 days after the completion of the lost hole and drilled to the Objective Depth in the same manner as provided for the Initial Test Well.

30.3 Within 90 days after the completion of the Initial and, if drilled, Substitute Test Well, as a dry hole, Operator shall have the option of commencing an "Optional Test Well" at a lawful location of its selection in the Unit Area. The Optional Test Well shall be drilled to the Objective Depth in the same manner as provided for the Initial Test Well.

30.4 On or before November 30, 1973, Operator shall commence the actual drilling of the "Shallow Test Well" at a lawful location of its selection on the NW/4 SW/4 of Section 29, Township 20 South, Range 28 East, N.M.P.M., and thereafter prosecute the drilling of said well in a good and workmanlike manner so that diligent drilling operations are being conducted over the expiration of the oil and gas lease on November 30, 1973, and so that such well will be drilled to a depth sufficient to adequately test the Yates sand.

30.5 The Paying Parties, in the proportions set forth in Exhibit "A" hereto, shall bear the entire cost, risk and expense of drilling and completing or plugging and abandoning the Initial Test Well and the Substitute Test Well provided for in 30.1 and 30.2 hereof. Operator shall bear the entire cost, risk and expense of drilling and completing or plugging and abandoning the Shallow Test Well provided for in 30.4 hereof. The Paying Parties, other than Operator, for a period of 15 days after receipt of the A.F.E. from Operator, shall severally have the options of not participating in the cost of drilling the

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

30. TEST WELLS

30.1 On or before November 15, 1973, Operator shall either take over the drilling of a well commenced with cable tools on July 13, 1973, in the SE/4 SW/4 of Section 20, Township 20 South, Range 28 East, N.M.P.M., or commence the actual drilling of another well at a lawful location of its selection in said 40-acre subdivision, and thereafter prosecute the drilling of said well ("Initial Test Well") with due diligence and in a good and workmanlike manner, to a depth sufficient to adequately test the Morrow series of the Pennsylvanian system (the "Objective Depth"), estimated to be 11,600 feet below the surface. In the drilling of the Initial Test Well and all other wells drilled under this agreement, Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil or gas in quantities sufficient to test.

30.2 If, in the drilling of the Initial Test Well Operator loses the hole or encounters mechanical difficulties rendering it impracticable in the opinion of Operator to drill the well to the Objective Depth, then Operator shall have the option of commencing a "Substitute Test Well" at a lawful location of its selection on the Unit Area, provided, however, if the Initial Test Well has not been completed as a producer of oil or gas in paying quantities prior to reaching Objective Depth, the Substitute Test Well shall be located in the W/2 of said Section 20. The Substitute Test Well shall actually be commenced within 30 days after the completion of the lost hole and drilled to the Objective Depth in the same manner as provided for the Initial Test Well.

30.3 Within 90 days after the completion of the Initial and, if drilled, Substitute Test Well, as a dry hole, Operator shall have the option of commencing an "Optional Test Well" at a lawful location of its selection in the Unit Area. The Optional Test Well shall be drilled to the Objective Depth in the same manner as provided for the Initial Test Well.

30.4 On or before November 30, 1973, Operator shall commence the actual drilling of the "Shallow Test Well" at a lawful location of its selection on the NW/4 SW/4 of Section 29, Township 20 South, Range 28 East, N.M.P.M., and thereafter prosecute the drilling of said well in a good and workmanlike manner so that diligent drilling operations are being conducted over the expiration of the oil and gas lease on November 30, 1973, and so that such well will be drilled to a depth sufficient to adequately test the Yates sand.

30.5 The Paying Parties, in the proportions set forth in Exhibit "A" hereto, shall bear the entire cost, risk and expense of drilling and completing or plugging and abandoning the Initial Test Well, the Substitute Test Well and the Shallow Test Well provided for in 30.1, 30.2 and 30.4 hereof. The Paying Parties other than Operator, for a period of 15 days after receipt of the A.F.E. from Operator, shall severally have the options of not participating in the cost of drilling the

Optional Test Well provided for in 30.3 hereof, but Paying Parties electing not to participate in such well shall be deemed to have farmed out to Operator their interest in the Unit Area upon the same basis as Contributing Parties.

31. RIGHTS EARNED BY OPERATOR

31.1 In consideration of the payment of the expenses set forth in 30.5 hereof, Operator shall earn (a) the entire present interest of Contributing Parties in the largest proration unit assigned by the New Mexico Oil Conservation Commission (the "Proration Unit") to the Initial, Substitute or Optional Test Well, whichever well is first completed as a producing oil or gas well, and (b) an undivided 1/2 of the present interest of Contributing Parties in the Unit Area outside of the Proration Unit. Contributing Parties, in proportion to their respective interests in the Unit Area, except and reserve from the Proration Unit an overriding royalty, subject to proportionate reduction, equal to 3/16ths of 8/8ths of all production.

31.2 "Payout" is defined to be the date on which the net income, exclusive of production, conservation, severance and sales taxes attributable to Operator's interest in the Proration Unit shall equal Operator's share of all expenditures for drilling, completing, equipping and re-working the well on the Proration Unit plus Operator's share of all costs of operating the well to produce such amount. In determining Payout, the overriding royalty reserved by Contributing Parties shall be deducted before determining the net income attributable to Operator. During Payout Operator shall furnish Contributing Parties with current monthly statements summarizing income and expenses properly chargeable to Payout. Within 30 days after Payout has occurred, Operator shall give Contributing Parties written notice of such fact and Contributing Parties shall have 30 days after receipt of the notice of Payout within which to severally elect to convert their respective overriding royalties into a working interest equal to 1/2 of Contributing Parties' present interest in the Proration Unit. The failure of a Contributing Party to make such written election within said 30-day period shall be deemed an election by that Contributing Party to continue its overriding royalty into force. The election to convert the overriding royalty shall be effective at 7:00 A.M. on the day next succeeding Payout.

31.3 Operator, out of the interest earned by it under this Section 31, shall pay to Mark D. Wilson and Robert E. Boling, in equal shares, an overriding royalty, not subject to proportionate reduction, equal to 4% of 8/8ths (a) effective at 7:00 A.M. on the day next succeeding Payout on the Proration Unit, and (b) effective on the Unit Area outside of the Proration Unit on the date Operator shall earn its interest therein pursuant to 31.1 hereof.

31.4 In the event production of oil or gas is not established in the Initial, Substitute or Optional Test Well, then Operator shall not earn any of Contributing Parties' interest in the Unit Area and this agreement shall ipso facto terminate. Within 15 days after Operator shall have earned an interest in the Unit Area pursuant to Section 31.1 hereof, and upon request of Operator, Contributing Parties shall execute and deliver the assignment or assignments of operating rights confirming the oil and gas operating rights earned by Operator. Except as herein this 31.4 provided, this agreement shall not be construed as effecting any cross-assignment or exchange of oil and gas leasehold interests or of oil and gas interests in the parties hereof.

32. GAS STORAGE AGREEMENT

In the event any of the parties hereto is not able to market its share of gas pursuant to Section 13 hereof, or has contracted to sell its share of gas produced from the Unit Area to a purchaser which is

unable at any time while this operating agreement is in effect to take the share of gas attributable to the interest of such parties, the gas storage agreement attached hereto, marked Exhibit "B" for identification, shall automatically become in force and effect between all parties hereto.

33. CASING POINT ELECTION

In spite of any provision to the contrary appearing in Sections 11 and 12 hereof, consent to the drilling of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operators. The parties receiving such notice shall have 48 hours (exclusive of Saturday or Sunday) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon the same at the expense of all of the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties. The provisions of this Section 33 shall not be applicable to a well drilled by Paying Parties pursuant to Section 31 hereof.

34. HEREAFTER CREATED BURDENS

Notwithstanding anything herein to the contrary, if any party hereto shall, subsequent to the execution of this agreement, create an overriding royalty, production payment or any other interest out of its working interest (hereinafter called "Subsequently Created Interest"), such Subsequently Created Interest shall be specifically made subject to all of the terms and provisions of this agreement. If the owner from which such Subsequently Created Interest is created (a) fails to pay when due its share of costs and expenses chargeable hereunder and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to abandon a well under Section 16 hereof, elects to surrender a lease under Section 23 hereof, elects not to participate in any operation pursuant to Section 12 hereof, or otherwise withdraws from this agreement, the party or parties entitled to receive the working interest production shall receive such production free and clear of any Subsequently Created Interest and the Subsequently Created Interest shall be chargeable with a prorata portion of all costs and expenses hereunder in the same manner as if such Subsequently Created Interest were a working interest, and Operator shall have the right to enforce against said Subsequently Created Interest a lien and all other rights granted in Section 9 hereof for the purpose of collecting costs and expenses chargeable to the Subsequently Created Interest.

35. DESIGNATION OF SUCCESSOR OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than 90 days given to all other parties. Operator shall be subject to removal by an affirmative vote for such removal of the majority according to interest of the owners of the working interest in the Unit Area; provided that, should one party to this agreement then own more than a majority of the working interest within the Unit Area, a concurring vote of one additional party shall be necessary to remove Operator. Such removal shall be effective upon giving 90 days' written notice thereof to Operator, executed by such majority of parties hereto so voting for removal, and

upon the acceptance in writing of the successor Operator of the duties and responsibilities as Operator.

In the event of either sale of its interest, resignation or removal of Operator, all parties to this contract shall select, by majority vote in interest, a new Operator who shall assume the responsibilities and duties and have the rights prescribed for Operator by this agreement; provided that, should one party to this agreement then own more than a majority of the working interest within the Unit Area, a concurring vote of one additional party shall be necessary for selection of a new Operator. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

The resignation or removal of Operator under this agreement shall not terminate its rights, title or interest as the owner of a working interest under this agreement, but upon the resignation or removal of Operator become effective and the designation of a successor Operator, such Operator shall deliver possession of all equipment, material and appurtenances used in conducting the Unit Operations and owned by the working interest owners to the newly designated successor Operator or to the owners thereof if no such new Operator is selected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or appurtenances needed for the preservation of any wells.

36. PARTITION

All of the parties hereby waive, during the effective term of this agreement, the benefit of any and all laws of the State of New Mexico relating to partition of real and personal property subject to this agreement, and do hereby covenant during the existence of this agreement not to resort to any action to partition the real or personal property subject hereto.

37. BINDING EFFECT

The terms and provisions of this agreement shall be construed as covenants running with the land, and as such shall be binding upon and inure to the benefit of the parties hereto, their heirs, successors and assigns.

THIS AGREEMENT may be executed in counterpart, as of the day and year first hereinabove written.

ATTEST:

Assistant Secretary

YATES PETROLEUM CORPORATION

By:

President

"Operator"

SUN OIL COMPANY (DELAWARE)

By: _____
Agent and Attorney-in-Fact

ATTEST:

NESA PETROLEUM COMPANY

Assistant Secretary

By: _____
Vice President

MOBIL OIL CORPORATION

By: _____
Attorney-in-Fact

Edward R. Hudson, Jr., individually
and as Attorney-in-Fact for William
A. Hudson II and Betty C. Hudson,
his wife, and Mary Hudson Ard and
Julian Ard, her husband

Ann F. Hudson, wife of Edward R.
Hudson, Jr.

PENNZOIL COMPANY

By: _____
Agent and Attorney-in-Fact

ATTEST:

NORTH AMERICA ROYALTIES, INC.

Secretary

By: _____
Executive Vice President

ATTEST:

HONDO OIL & GAS COMPANY

Assistant Secretary

By: _____
Vice President

MARTIN, WILLIAMS & JUDSON, a
partnership

By: William H. Martin
Partner William H. Martin

By: R. Ken Williams
R. Ken Williams

By: Edward H. Judson
Edward H. Judson

SUN OIL COMPANY (DELAWARE)

By: _____
Agent and Attorney-in-Fact

ATTEST:

MESA PETROLEUM COMPANY

Assistant Secretary

By: _____
Vice President

MOBIL OIL CORPORATION

By: _____
Attorney-in-Fact

Edward R. Hudson, Jr., individually
and as Attorney-in-Fact for William
A. Hudson II and Betty C. Hudson,
his wife, and Mary Hudson Ard and
Julian Ard, her husband

Ann F. Hudson, wife of Edward R.
Hudson, Jr.

PENNZOIL COMPANY

By: W. C. Hayes 
Agent and Attorney-in-Fact

ATTEST:

NORTH AMERICA ROYALTIES, INC.

Secretary

By: _____
Executive Vice President

ATTEST:

HONDO OIL & GAS COMPANY

Assistant Secretary

By: _____
Vice President

MARTIN, WILLIAMS & JUDSON, a
partnership

By: _____
Partner

SUN OIL COMPANY (DELAWARE)

By: _____
Agent and Attorney-in-Fact

ATTEST:

MESA PETROLEUM COMPANY

Assistant Secretary

By: _____
Vice President

MOBIL OIL CORPORATION

By: _____
Attorney-in-Fact

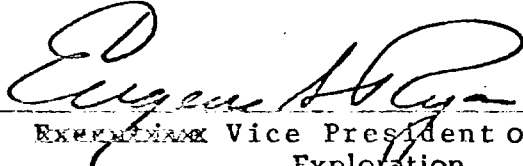

Edward R. Hudson, Jr., individually
and as Attorney-in-Fact for William
A. Hudson II and Betty C. Hudson,
his wife, and Mary Hudson Ard and
Julian Ard, her husband

Ann F. Hudson, wife of Edward R.
Hudson, Jr.

PENNZOIL COMPANY

By: _____
Agent and Attorney-in-Fact

NORTH AMERICA ROYALTIES, INC.

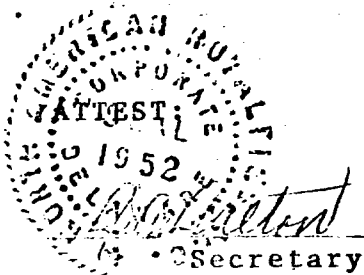
By: 
~~Executive~~ Vice President of
Exploration 

HONDO OIL & GAS COMPANY

By: _____
Vice President

MARTIN, WILLIAMS & JUDSON, a
partnership

By: _____
Partner



ATTEST:

Assistant Secretary

SUN OIL COMPANY (DELAWARE)

By: _____
Agent and Attorney-in-Fact

ATTEST:

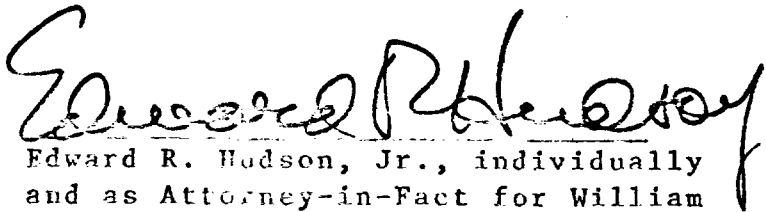
MESA PETROLEUM COMPANY

Assistant Secretary

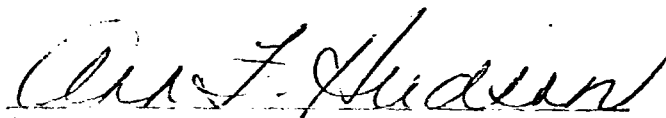
By: _____
Vice President

MOBIL OIL CORPORATION

By: _____
Attorney-in-Fact



Edward R. Hudson, Jr., individually
and as Attorney-in-Fact for William
A. Hudson II and Betty C. Hudson,
his wife, and Mary Hudson Ard and
Julian Ard, her husband



Ann F. Hudson, wife of Edward R.
Hudson, Jr.

PENNZOIL COMPANY

By: _____
Agent and Attorney-in-Fact

ATTEST:

NORTH AMERICA ROYALTIES, INC.

Secretary

By: _____
Executive Vice President

ATTEST:

HONDO OIL & GAS COMPANY

Assistant Secretary

By: _____
Vice President

MARTIN, WILLIAMS & JUDSON, a
partnership

By: _____
Partner

SUN OIL COMPANY (DELAWARE)

By: _____
Agent and Attorney-in-Fact

ATTEST:

MESA PETROLEUM COMPANY

Assistant Secretary

By: _____
Vice President

MOBIL OIL CORPORATION

By: J. J. Wright Jr.
Attorney-in-Fact

Edward R. Hudson, Jr., individually
and as Attorney-in-Fact for William
A. Hudson II and Betty C. Hudson,
his wife, and Mary Hudson Ard and
Julian Ard, her husband

Ann F. Hudson, wife of Edward R.
Hudson, Jr.

PENNZOIL COMPANY

By: _____
Agent and Attorney-in-Fact

ATTEST:

NORTH AMERICA ROYALTIES, INC.

Secretary

By: _____
Executive Vice President

ATTEST:

ONDO OIL & GAS COMPANY

Assistant Secretary

By: _____
Vice President

MARTIN, WILLIAMS & JUDSON, a
partnership

By: _____
Partner

SUN OIL COMPANY (DELAWARE)

By: _____
Agent and Attorney-in-Fact

MESA PETROLEUM CO. ~~CO.~~

By: Frank R. Davis ✓
Vice President

MOBIL OIL CORPORATION

By: _____
Attorney-in-Fact

Edward R. Hudson, Jr., individually
and as Attorney-in-Fact for William
A. Hudson II and Betty C. Hudson,
his wife, and Mary Hudson Ard and
Julian Ard, her husband

Ann F. Hudson, wife of Edward R.
Hudson, Jr.

PENNZOIL COMPANY

By: _____
Agent and Attorney-in-Fact

ATTEST:

NORTH AMERICA ROYALTIES, INC.

By: _____
Executive Vice President

Secretary

ATTEST:

HONDO OIL & GAS COMPANY

By: _____
Vice President

Assistant Secretary

MARTIN, WILLIAMS & JUDSON, a
partnership

By: _____
Partner



SUN OIL COMPANY (DELAWARE)

By: _____
Agent and Attorney-in-Fact

ATTEST:

MESA PETROLEUM COMPANY

Assistant Secretary

By: _____
Vice President

MOBIL OIL CORPORATION

By: _____
Attorney-in-Fact

Edward R. Hudson, Jr., individually
and as Attorney-in-Fact for William
A. Hudson II and Betty C. Hudson,
his wife, and Mary Hudson Ard and
Julian Ard, her husband

Ann F. Hudson, wife of Edward R.
Hudson, Jr.

PENNZOIL COMPANY

By: _____
Agent and Attorney-in-Fact

ATTEST:

NORTH AMERICA ROYALTIES, INC.

Secretary

By: _____
Executive Vice President

ATTEST:

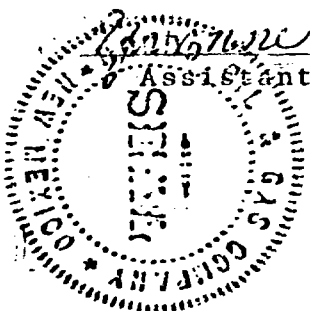
HONDO OIL & GAS COMPANY

By: Stanley L. Smith
Vice President

MARTIN, WILLIAMS & JUDSON, a
partnership

By: _____
Partner

E. Brooks
Assistant Secretary



Signature page to be attached to Operating Agreement dated November 1, 1973,
Stonewall Unit, Eddy County, New Mexico.

SUN OIL COMPANY (DELAWARE)

By: [Signature]
Agent and Attorney-in-Fact

1857
775
R.F.M.

MESA PETROLEUM COMPANY

By: _____
Vice President

MOBIL OIL CORPORATION

By: _____
Attorney-in-Fact

Edward R. Hudson, Jr., individually
and as Attorney-in-Fact for William
A. Hudson II and Betty C. Hudson,
his wife, and Mary Hudson Ard and
Julian Ard, her husband

Ann F. Hudson, wife of Edward R.
Hudson, Jr.

PENNZOIL COMPANY

By: _____
Agent and Attorney-in-Fact

NORTH AMERICA ROYALTIES, INC.

By: _____
Executive Vice President

HONDO OIL & GAS COMPANY

By: _____
Vice President

MARTIN, WILLIAMS & JUDSON, a
partnership

By: _____
Partner

ATTEST:

Assistant Secretary

ATTEST:

Secretary

ATTEST:

Assistant Secretary

ATTEST:

CLAREMONT CORPORATION

Secretary

By: _____
President

ATTEST:

FLAG-REDFERN OIL COMPANY

Assistant Secretary

By: _____
President

Rosalind Redfern

John J. Redfern, Jr.

"Non-Operators"

STATE OF NEW MEXICO)
: ss.
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by S. P. YATES, President of YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires: _____

Notary Public

STATE OF TEXAS)
: ss.
COUNTY OF DALLAS)

The foregoing instrument was acknowledged before me this 4th day of December, 1973, by JOHN W. STOREY, Agent and Attorney-in-Fact for SUN OIL COMPANY (DELAWARE), a Delaware corporation, on behalf of said corporation.

My commission expires: _____

Bettie Layfield
Notary Public

STATE OF TEXAS)
: ss.
COUNTY OF POTTER)

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, Vice President of MESA PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires: _____

Notary Public

ATTEST:

CLAREMONT CORPORATION

Secretary

By:

President

FLAG-REDFERN OIL COMPANY

By:

President

Assistant Secretary

Rosalind Redfern

John J. Redfern, Jr.

"Non-Operators"

STATE OF NEW MEXICO)

: ss.

COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by S. P. YATES, President of YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF TEXAS)

: ss.

COUNTY OF DALLAS)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Agent and Attorney-in-Fact for SUN OIL COMPANY (DELAWARE), a Delaware corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF TEXAS)

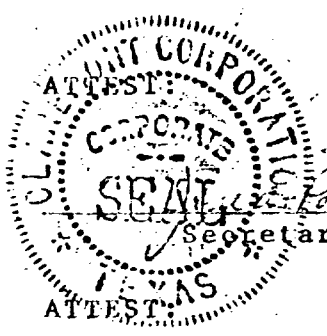
: ss.

COUNTY OF POTTER)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Vice President of MESA PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires:

Notary Public



CLAREMONT CORPORATION

By: Charles W. Pollock
President

FLAG-REDFERN OIL COMPANY

By: _____
President

Assistant Secretary

Rosalind Redfern

John J. Redfern, Jr.

"Non-Operators"

STATE OF NEW MEXICO)
: ss.
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by S. P. YATES, President of YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

STATE OF TEXAS)
: ss.
COUNTY OF DALLAS)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Agent and Attorney-in-Fact for SUN OIL COMPANY (DELAWARE), a Delaware corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

STATE OF TEXAS)
: ss.
COUNTY OF POTTER)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Vice President of MESA PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

ATTEST:

CLAREMONT CORPORATION

Secretary

By: _____
President

ATTEST:

FLAG-REDFERN OIL COMPANY

Assistant Secretary

By: _____
President

Rosalind Redfern

John J. Redfern, Jr.

"Non-Operators"

STATE OF NEW MEXICO)
 : ss.
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by S. P. YATES, President of YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:

Notary Public

[illegible]

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Agent and Attorney-in-Fact for SUN OIL COMPANY (DELAWARE), a Delaware corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF POTTER)

The foregoing instrument was acknowledged before me this 26th day of August, 1973, by Frank R. Davis, Vice President of MESA PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires:

Virginia L. Bernier
Notary Public

ATTEST:

CLAREMONT CORPORATION

Secretary

By: _____
President

ATTEST:

FLAG-REDFERN OIL COMPANY

Assistant Secretary

By: _____
President

Rosalind Redfern

John J. Redfern, Jr.

"Non-Operators"

STATE OF NEW MEXICO)

: ss.

COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 27th day of November, 1973, by JOHN A. YATES, Vice President of YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires: September 30, 1975

William L. Richardson
Notary Public

STATE OF TEXAS)

: ss.

COUNTY OF DALLAS)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Agent and Attorney-in-Fact for SUN OIL COMPANY (DELAWARE), a Delaware corporation, on behalf of said corporation.

My commission expires: _____

Notary Public

STATE OF TEXAS)

: ss.

COUNTY OF POTTER)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Vice President of MESA PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires: _____

Notary Public

STATE OF)
 : ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Attorney-in-Fact for MOBIL OIL CORPORATION, a New York corporation, on
behalf of said corporation.

My commission expires: _____

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by EDWARD R. HUDSON, JR., individually and
as Attorney-in-Fact for WILLIAM A. HUDSON II and BETTY C. HUDSON, his
wife, and MARY HUDSON ARD and JULIAN ARD, her husband, and by ANN F.
HUDSON, wife of Edward R. Hudson, Jr.

My commission expires: _____

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 19th day
of November, 1973, by M. C. Hayes,
Agent and Attorney-in-Fact for PENNZOIL COMPANY, a Delaware corporation,
on behalf of said corporation.

My commission expires: _____
6-1-75

Marjorie L. Matthews
Notary Public
MARJORIE L. MATTHEWS

STATE OF TENNESSEE)
 : ss.
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Executive Vice President of NORTH AMERICA ROYALTIES, INC., a Delaware
corporation, on behalf of said corporation.

My commission expires: _____

Notary Public

STATE OF)
 : ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Attorney-in-Fact for MOBIL OIL CORPORATION, a New York corporation, on behalf of said corporation.

My commission expires: _____

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by EDWARD R. HUDSON, JR., individually and as Attorney-in-Fact for WILLIAM A. HUDSON II and BETTY C. HUDSON, his wife, and MARY HUDSON ARD and JULIAN ARD, her husband, and by ANN F. HUDSON, wife of Edward R. Hudson, Jr.

My commission expires: _____

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Agent and Attorney-in-Fact for PENNZOIL COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires: _____

Notary Public

STATE OF TENNESSEE)
 : ss.
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this 30th day of October, 1973, by Eugene S. Ryan, Vice President of Exploration, ~~Executive Vice President~~ of NORTH AMERICA ROYALTIES, INC., a Delaware corporation, on behalf of said corporation.

My commission expires: _____

Notary Public



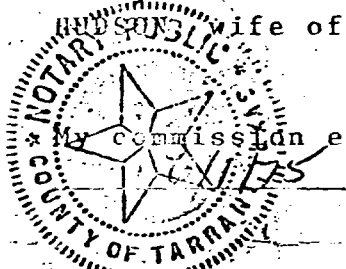
STATE OF)
 : ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Attorney-in-Fact for MOBIL OIL CORPORATION, a New York corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this 18 day of October, 1973, by EDWARD R. HUDSON, JR., individually and as Attorney-in-Fact for WILLIAM A. HUDSON II and BETTY C. HUDSON, his wife, and MARY HUDSON ARD and JULIAN ARD, her husband, and by ANN F. HUDSON, wife of Edward R. Hudson, Jr.



My commission expires: _____
Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Agent and Attorney-in-Fact for PENNZOIL COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

STATE OF TENNESSEE)
 : ss.
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Executive Vice President of NORTH AMERICA ROYALTIES, INC., a Delaware corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

STATE OF Texas)
 : ss.
COUNTY OF Midland)

The foregoing instrument was acknowledged before me this 21st day
of November, 1973, by E. S. Wright, Jr.,
Attorney-in-Fact for MOBIL OIL CORPORATION, a New York corporation, on
behalf of said corporation.

My commission expires:
6-1-75

Manda Phillips
Notary Public

M. A. Phillips, Notary Public
in and for Midland County, Texas

STATE OF TEXAS)
 : ss.
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by EDWARD R. HUDSON, JR., individually and
as Attorney-in-Fact for WILLIAM A. HUDSON II and BETTY C. HUDSON, his
wife, and MARY HUDSON ARD and JULIAN ARD, her husband, and by ANN F.
HUDSON, wife of Edward R. Hudson, Jr.

My commission expires:

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Agent and Attorney-in-Fact for PENNZOIL COMPANY, a Delaware corporation,
on behalf of said corporation.

My commission expires:

Notary Public

STATE OF TENNESSEE)
 : ss.
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Executive Vice President of NORTH AMERICA ROYALTIES, INC., a Delaware
corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Vice President of HONDO OIL & GAS COMPANY, a New Mexico corporation, on
behalf of said corporation.

My commission expires: _____
Notary Public

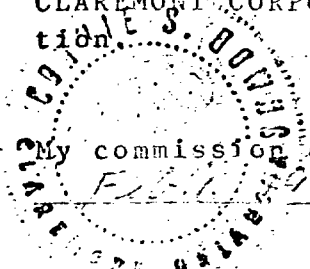
STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Partner, on behalf of MARTIN, WILLIAMS & JUDSON, a partnership composed
of William H. Martin, R. Ken Williams and Edward H. Judson.

My commission expires: _____
Notary Public

✓ STATE OF OKLAHOMA)
 : ss.
COUNTY OF *Nowata*)

The foregoing instrument was acknowledged before me this 18 day
of November, 1973, by FRANK W. PODPECHAN, President of
CLAREMONT CORPORATION, a Texas corporation, on behalf of said corpora-
tion.



My commission expires: _____
Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by JOHN J. REDFERN, JR., President of
FLAG-REDFERN OIL COMPANY, a Delaware corporation, on behalf of said
corporation.

My commission expires: _____
Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Vice President of HONDO OIL & GAS COMPANY, a New Mexico corporation, on
behalf of said corporation.

My commission expires: _____
Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Partner, on behalf of MARTIN, WILLIAMS & JUDSON, a partnership composed
of William H. Martin, R. Ken Williams and Edward H. Judson.

My commission expires: _____
Notary Public

STATE OF OKLAHOMA)
 : ss.
COUNTY OF _____)

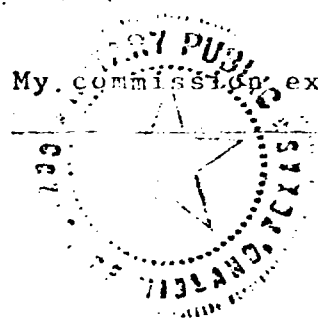
The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by FRANK W. PODPECHAN, President of
CLAREMONT CORPORATION, a Texas corporation, on behalf of said corpora-
tion.

My commission expires: _____
Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 23rd day
of November, 1973, by JOHN J. REDFERN, JR., President of
FLAG-REDFERN OIL COMPANY, a Delaware corporation, on behalf of said
corporation.

My commission expires: _____
Notary Public



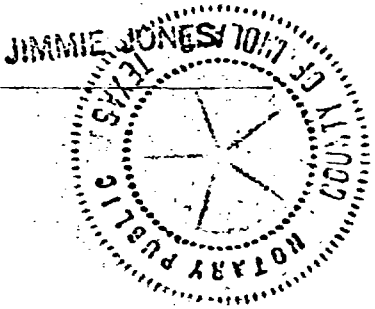
Sarah Vanderford
Notary Public
SARAH VANDERFORD - Notary Public
Midland County, Texas
My Commission Expires June 1, 1975

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 19th day of October, 1973, by Stanley L. Smith, Vice President of HONDO OIL & GAS COMPANY, a New Mexico corporation, on behalf of said corporation.

My commission expires:
June 1, 1975

Jimmie Jones
Notary Public



STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by _____, Partner, on behalf of MARTIN, WILLIAMS & JUDSON, a partnership composed of William H. Martin, R. Ken Williams and Edward H. Judson.

My commission expires:

Notary Public

STATE OF OKLAHOMA)
 : ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by FRANK W. PODPECHAN, President of CLAREMONT CORPORATION, a Texas corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day of _____, 1973, by JOHN J. REDFERN, JR., President of FLAG-REDFERN OIL COMPANY, a Delaware corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by _____,
Vice President of HONDO OIL & GAS COMPANY, a New Mexico corporation, on
behalf of said corporation.

My commission expires:

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 21st day
of November, 1973, by William H. Martin, R. Ken Williams & Edward H. Judson,
Partner, on behalf of MARTIN, WILLIAMS & JUDSON, a partnership composed
of William H. Martin, R. Ken Williams and Edward H. Judson.

My commission expires:

JUANITA MORELAND
Juanita Moreland

Notary Public

STATE OF OKLAHOMA)
 : ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by FRANK W. PODPECHAN, President of
CLAREMONT CORPORATION, a Texas corporation, on behalf of said corpora-
tion.

My commission expires:

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

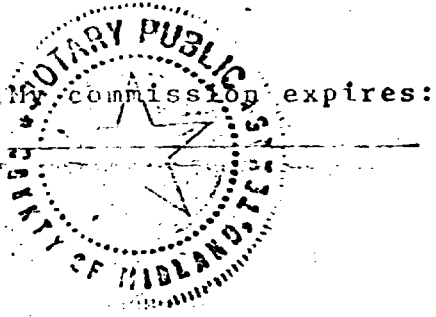
The foregoing instrument was acknowledged before me this ____ day
of _____, 1973, by JOHN J. REDFERN, JR., President of
FLAG-REDFERN OIL COMPANY, a Delaware corporation, on behalf of said
corporation.

My commission expires:

Notary Public

STATE OF TEXAS)
 : ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 23rd day
of November, 1973, by ROSALIND REDFERN and JOHN J. REDFERN, JR.,
her husband.



Sarah Vanderford
Notary Public

SARAH VANDERFORD - Notary Public
Midland County, Texas
My Commission Expires June 1, 1975

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF
STONEWALL UNIT OPERATING AGREEMENT
ENTERED INTO AS OF NOVEMBER 1, 1973,
BETWEEN YATES PETROLEUM CORPORATION, AS
OPERATOR, AND THE NON-OPERATORS

1. a) Lands subject to contract.

Township 20 South, Range 28 East, N.M.P.M.

Section 19: Lots 3, 4 (W/2 SW/4), E/2 SW/4, SE/4
Section 20: W/2, SE/4, 5% interest under NE/4
Section 29: SW/4, S/2 SE/4, NW/4 SE/4
Section 30: Lots 1, 2, 3, 4 (W/2 W/2), E/2 W/2,
E/2. (All)

containing 1,738.52 acres, more or less.

b) Depth restriction.

The Unit Area only covers the lands in 1.a) from the
surface to the top of the Solid Mississippian Lime.

2. The percentage interests under agreement and addresses of
parties to which notices should be sent:

<u>Paying Parties</u>	<u>Initial Well Until Payout</u>	<u>Initial Well After Payout & Subsequent Wells</u>
Yates Petroleum Corporation	15.0000%	7.50000%
Yates Drilling Company	15.0000%	7.50000%
MYCO Industries, Inc.	15.0000%	7.50000%
ABO Petroleum Corporation	5.0000%	2.50000%
207 South Fourth Street Artesia, New Mexico 88210		
Coquina Oil Corporation	26.2597%	13.12985%
Building of the Southwest Midland, Texas 79701		
Mesa Petroleum Company	13.9619%	13.96190%
904 Gihls Tower West Midland, Texas 79701		
Claremont Corporation	.5752%	.57520%
Post Office Box 549 Claremore, Oklahoma 74017		
Edward R. Hudson, Jr., indi- vidually and as Attorney-in- Fact for William A. Hudson II and Mary Hudson Ard	9.2032%	9.20320%
1000 First National Bank Building Fort Worth, Texas 76102		

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF
STONEWALL UNIT OPERATING AGREEMENT
ENTERED INTO AS OF NOVEMBER 1, 1973,
BETWEEN YATES PETROLEUM CORPORATION, AS
OPERATOR, AND THE NON-OPERATORS

1. a) Lands subject to contract.

Township 20 South, Range 28 East, N.M.P.M.

Section 19: Lots 3, 4 (W/2 SW/4), E/2 SW/4, SE/4
Section 20: W/2, SE/4, 5% interest under NE/4
Section 29: SW/4, S/2 SE/4, NW/4 SE/4
Section 30: Lots 1, 2, 3, 4 (W/2 W/2), E/2 W/2,
E/2. (All)

containing 1,738.52 acres, more or less.

b) Depth restriction.

The Unit Area only covers the lands in 1.a) from the
surface to the top of the Solid Mississippian Lime.

2. The percentage interests under agreement and addresses of parties to which notices should be sent:

<u>Paying Parties</u>	<u>Initial Well Until Payout</u>	<u>Initial Well After Payout & Subsequent Wells</u>
Yates Petroleum Corporation 207 South Fourth Street Artesia, New Mexico 88210	(76.2597%) * See Below *	(38.12985%)
Mesa Petroleum Company 904 Gihls Tower West Midland, Texas 79701	13.9619%	13.96190%
Claremont Corporation P. O. Box 549 Claremore, Oklahoma 74017	.5752%	.57520%
Edward R. Hudson, Jr., indi- vidually and as Attorney-in- Fact for William A. Hudson II and Mary Hudson Ard 1000 First National Bank Building Fort Worth, Texas 76102	9.2032%	9.20320%
* Yates Petroleum Corp.	15.0000%	7.50000%
Yates Drilling Co	15.0000%	7.50000%
MYCO Industries, INC	15.0000%	7.50000%
ABO Petroleum Corp	5.0000%	2.50000%
Coquina Oil Corp Building of the Southwest Midland, Texas 79701	26.2597%	13.12985%

<u>Contributing Parties</u>	<u>Initial Well Initial Well Until Payout</u>	<u>After Payout & Subsequent Wells</u>
Sun Oil Company (Delaware) P. O. Box 1861 Midland, Texas 79701	117	18.63050%
Mobil Oil Corporation P. O. Box 633 Midland, Texas 79701	100 units 30	9.20325%
Flag-Redfern Oil Company P. O. Box 23 Midland, Texas 79701		.55455% ¹⁰
Rosalind Redfern P. O. Box 23 Midland, Texas 79701		.53835% ¹⁰
Pennzoil Company P. O. Drawer 1828 Midland, Texas 79701	117	3.45120%
Martin, Williams & Judson 413 First National Bank Building Midland, Texas 79701	117	1.15040%
North American Royalties, Inc. 1604 Wilco Building Midland, Texas 79701	117	2.30080%
Hondo Oil & Gas Company P. O. Box 1610 Midland, Texas 79701	117	2.30080%

3. Leasehold interests of parties and party contributing the interest:

a) Contributed by Sun Oil Company (Delaware):

State of New Mexico Oil and Gas Lease K-5115, dated July 20, 1965, and covering Lots 3 and 4, E/2 SW/4, SE/4, Section 19, and Lots 1 and 2, E/2 NW/4, NE/4 Section 30, containing 647.79 acres.

b) Contributed by Mobil Oil Corporation:

State of New Mexico Oil and Gas Lease K-3402, dated July 16, 1963, and covering W/2 Section 20, containing 320 acres.

c) Contributed by Mesa Petroleum Company:

State of New Mexico Oil and Gas Lease K-6854, dated April 18, 1967, and covering Lots 3 and 4, E/2 SW/4 and S/2 SE/4 Section 30, containing 242.73 acres.

- d) Contributed by Flag-Redfern Oil Company, Rosalind Redfern and Claremont Corporation:

State of New Mexico Oil and Gas Lease K-6599, dated December 20, 1966, and covering NE/4 SE/4 Section 20, containing 40 acres.

- e) Contributed solely by Claremont Corporation:

An undivided 5% interest in State of New Mexico Oil and Gas Lease K-6599, dated December 20, 1966, and covering NE/4 Section 20, containing 160 acres. Flag-Redfern Oil Company and Rosalind Redfern expressly withhold from commitment to this agreement their undivided 95% interest in this lease.

- f) Contributed by Edward R. Hudson, Jr., individually and as Attorney-in-Fact for William A. Hudson II and Mary Hudson Ard:

Federal Oil and Gas Lease NM 17100, formerly NM 041842, dated July 1, 1963, and covering S/2 SW/4, NE/4 SW/4, NW/4 SE/4 Section 29, containing 160 acres.

- g) Contributed by Pennzoil Company:

State of New Mexico Oil and Gas Lease L-1611, dated November 19, 1968, and covering W/2 SE/4, SE/4 SE/4 Section 20, containing 120 acres.

- h) Contributed by North American Royalties, Inc. and Martin, Williams & Judson:

Federal Oil and Gas Lease NM 0455458, dated December 1, 1963, and covering NW/4 SW/4 Section 29, containing 40 acres; subject to a 3% of 8/8ths overriding royalty, 1/2 of which shall be borne by the parties contributing the lease and 1/2 of which shall be borne by Operator; and

State of New Mexico Oil and Gas Lease K-4590, dated December 15, 1964, and covering N/2 SE/4 Section 30, containing 80 acres.

- i) Contributed by Hondo Oil & Gas Company:

Fee lease dated July 15, 1954 (now HBP) from Keystone Corporation and Kansas City Minerals to Malco Refineries, Inc., recorded Book 66, Page 239, covering S/2 SE/4 Section 29, and containing 80 acres.

EXHIBIT "B"

ATTACHED TO AND MADE A PART OF
STONEWALL UNIT OPERATING AGREEMENT
ENTERED INTO AS OF NOVEMBER 1, 1973,
BETWEEN YATES PETROLEUM CORPORATION, AS
OPERATOR, AND THE NON-OPERATORS

GAS STORAGE AGREEMENT

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from any unit well to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from any unit well, or its purchaser is unable to take its share of gas produced from any unit well, the other parties shall be entitled to produce each month 100% of the allowable gas production assigned to such well by the New Mexico Oil Conservation Commission and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.

At all times while gas is produced from unit wells, Operator will make settlement with the owners of the royalties, overriding royalties, production payments and other similar interests. Each party selling gas from a unit well will furnish or cause to be furnished to Operator a statement each month showing the volume and value of gas utilized and the volume of gas sold and the proceeds therefrom. Each of the parties hereto shall reimburse Operator for their respective and proportionate shares as set forth under the terms of the Operating Agreement. Each party hereto agrees to hold Operator harmless from any and all claims for said payments asserted by said owners.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from any unit well. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to 25% of the overproduced party or parties' share of gas produced from the unit well. If two or more parties are entitled to the 25% of the overproduced party or parties' share of gas produced, they shall divide such 25% in accordance with their percentage of participation under the Operating Agreement.

In the event production of gas from any unit well permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement as between the parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties equal to that which the overproduced party or parties received, less applicable taxes theretofore paid, for the latest delivery of a volume of gas equal to that for which settlement is made.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser. Each party shall at all times use its best efforts to regulate its takes and deliveries from said well so that said well will not be shut-in for overproducing the allowable assigned thereto by the New Mexico Oil Conservation Commission.

This agreement shall be considered as a separate and distinct agreement with respect to each separate common source of supply for each separate unit well.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from any unit well. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to 25% of the overproduced party or parties' share of gas produced from the unit well. If two or more parties are entitled to the 25% of the overproduced party or parties' share of gas produced, they shall divide such 25% in accordance with their percentage of participation under the Operating Agreement.

In the event production of gas from any unit well permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement as between the parties. Such settlement shall be based upon the price received by the overproduced party or parties for the overproduced gas which was sold by such party in the order of accrual.

This agreement shall be considered as a separate and distinct agreement as to each separate unit well.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

EXHIBIT " C "

ATTACHED TO AND MADE A PART OF
STONEWALL UNIT OPERATING AGREEMENT
ENTERED INTO AS OF NOVEMBER 1, 1973,
BETWEEN YATES PETROLEUM CORPORATION, AS
OPERATOR, AND THE NON-OPERATORS

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

A. ☐ 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.

B. ☒ Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

2. Statements and Billings

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

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

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

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

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 ten per cent (10%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser.

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 the Joint Property as provided for in Section VII.

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 accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided however, the making of an audit shall not extend the time for the taking of written exception to and the 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 Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators 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 employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.
- (3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.
- (4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.
- D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:

- A. ☐ Operator's actual cost.
- B. ☒ Operator's actual cost not to exceed fifteen per cent (15%).

4. Material

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

5. Transportation

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

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

6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. Legal Expense

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

9. Taxes

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

10. Insurance

Net premiums paid for insurance required to be carried on the Joint Property 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 therefor on the following basis:

11. Other Expenditures

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

III. INDIRECT CHARGES

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

OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

- ☐ Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
☒ Paragraph 2. (Combined Rates - Well Basis)
☐ Paragraph 3. (Combined Rates - Percentage Basis)

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 Operator and Non-Operators as a direct charge to the Joint Account.

THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

- A. ☐ shall ☒ shall not include salaries and personal expenses of first-level supervisors in the field.
B. ☐ shall ☒ shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.
C. ☒ shall ☐ shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

1. District Expense, Administrative Overhead and Warehousing**A. District Expense**

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's _____ office located at or near _____

(or a comparable office if location changed); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1) ☐ Well Basis**RATE PER WELL PER MONTH**

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

(2) ☐ Percentage Basis**PERCENTAGE BASIS****Development:**

_____ Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

_____ Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 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.

C. Operator's Warehouse Operating and Maintenance Expense

- ☐ Included in district expense
☒ No charge either direct or indirect
☐ Percentage basis (describe fully) _____

2. Combined Rates - Well Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

Well Depth	RATE PER WELL PER MONTH			
	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
0 - 5,000'	\$ 700.00	\$100.00	\$ 85.00	\$ 75.00
5,000 - 12,000'	1,200.00	165.00	135.00	120.00

3. Combined Rates - Percentage Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. Development:

_____ Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 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 8 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.

4. Application of Administrative Overhead or Combined Rates - Well Basis

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

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

B. The status of wells shall be as follows:

- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflood-ing operations and salt water disposal wells shall be considered the same as producing oil wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.
- (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.
- (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allow-able production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.
- (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- (6) Wells completed in multiple horizons, shall be considered as a producing well for each separately pro- ducing horizon, providing each completion is considered a separate well by governmental or other state- wide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

D. 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 preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

5. Application of Administrative Overhead or Combined Rates - Percentage Basis

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 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 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 6 of this Section III. All other costs shall be considered as Operating.

6. Major Construction Overhead

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Section III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:

- A. Total cost less than \$25,000, no charge. *To be negotiated
- B. Total cost more than \$25,000, but less than \$100,000,*.....% of total cost.
- C. Total cost of \$100,000 or more,*.....% of the first \$100,000 plus*.....% of all over \$100,000 of total cost.

Total cost shall mean the total 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 wells shall be excluded.

7. Amendment of Rates

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

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

1. Purchases

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

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

A. New Material (Condition "A")

- (1) Tubular goods, except line pipe, shall be priced on a maximum carload and/or barge load weight basis regardless of quantity transferred and equalized to the lowest prevailing price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available effective at date of transfer.
- (2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.
- (3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.
- (5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:
 - (a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.
 - (b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.
- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 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.

5. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed ~~xxx~~ ^{ten} per cent ~~xxx~~ ^(10%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

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

V. DISPOSAL OF MATERIAL

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

1. Material Purchased by the Operator or Non-Operators.

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.

3. Sales to Outsiders

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

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

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

4. Other Used Material

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

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

5. Bad-Order Material

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

6. Junk Material

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

7. Temporarily Used Material

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

VII. INVENTORIES

The Operator shall maintain detailed records of 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 inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators 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 Operator and Non-Operators.

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF
STONEWALL UNIT OPERATING AGREEMENT
ENTERED INTO AS OF NOVEMBER 1, 1973,
BETWEEN YATES PETROLEUM CORPORATION, AS
OPERATOR, AND THE NON-OPERATORS

ADDITIONAL INSURANCE PROVISIONS

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

- (A) Workmen's Compensation Insurance as contemplated by the laws of the state in which operations will be conducted, and Employers' Liability Insurance with limits of not less than \$100,000.00 per employee;
- (B) Public Liability (Bodily Injury) Insurance with limits of not less than \$250,000.00 for each person, and \$500,000.00 for each accident, and Public Liability (Property Damage) Insurance with limits of \$100,000.00 for one accident and \$100,000.00 for any number of accidents;
- (C) Automobile Public Liability Insurance covering all automotive equipment used under this agreement, with limits of not less than \$250,000.00 for bodily injury for one person and \$500,000.00 for more than one person in any one accident, and \$50,000.00 for property damage in any one accident. (If automotive equipment used is owned exclusively by Operator, no charge will be made to the joint account for premiums for this coverage except as provided in Section IV, Paragraph 5 of the Accounting Procedure - Exhibit "C".)

Except as authorized by Section 26 and by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
J. SCOTT HALL
PETER N. IVES
JOHN H. BEMIS

GUADALUPE PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

April 22, 1986

HAND DELIVERED

R. L. Stamets, Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case No. 8818: Application of Yates Petroleum
Corporation for a Pressure Maintenance Project,
Eddy County, New Mexico.

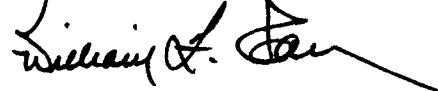
Dear Mr. Stamets:

Following our conversation of this date, I have reviewed the problems with the application of Yates Petroleum Corporation in the above-referenced case, and am authorized to request on behalf of Yates Petroleum Corporation that this case be readvertised as an application for salt water disposal well. If the matter could be included on the Examiner hearing docket scheduled for May 14, 1986, it would be appreciated inasmuch as Yates has immediate need for this well.

It is further our understanding that if there is no objection or opposition to this application at the May 14 hearing, the record of the February 5, 1986 hearing will be incorporated into this case by reference and the case taken under advisement.

Your attention to this matter is appreciated.

Very truly yours,



William F. Carr

WFC/cv

cc: Mr. Randy Patterson

Case 8818
WFC
RECEIVED
APR 22 1986
OIL CONSERVATION DIVISION

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
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POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

May 13, 1986

HAND DELIVERED

Richard L. Stamets, Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

RECEIVED

MAY 13 1986

OIL CONSERVATION DIVISION

Re: Oil Conservation Division Case 8818: Application of
Yates Petroleum Corporation for Salt Water Disposal,
Eddy County, New Mexico.

Dear Mr. Stamets:

Yates Petroleum Corporation hereby requests that the
above-referenced case scheduled for hearing on May 14, be
continued to the Examiner hearings scheduled for May 28, 1986.

Your attention to this request is appreciated.

Very truly yours,

William F. Carr
William F. Carr

WFC/cv

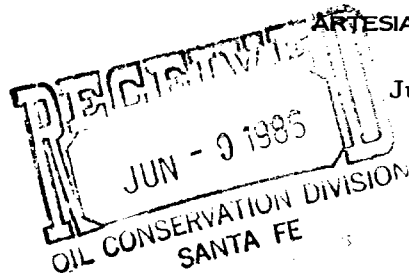
cc: Mr. Randy Patterson

ROBERT E. BOLING

EXPLORATION CONSULTANT

305 SOUTH FIFTH STREET

ARTESIA, NEW MEXICO - 88210



June 6, 1986

M.S.
DEC

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

Attention: Mr. Michael E. Stogner

Re: Case No. 8818, at June 12,
1986 hearing

Gentlemen:

This is to advise that I plan to object to the disposal of produced salt water into the No. 1 Stonewall "YE" well, 1650' FS & 1980' FEL of Section 30, T20S R28E, Eddy County, New Mexico. It is respectfully requested that the case be set for hearing on June 12, 1986.

Yours very truly,

Robert E. Boling
Robert E. Boling

REB:scp

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

Mr. Ernest Padilla
P. O. Box 2523
Santa Fe, New Mexico 87504



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

July 28, 1986

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. William F. Carr
Campbell & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Re: CASE NO. 8818
ORDER NO. R-8265

Applicant:

Yates Petroleum Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

R. L. STAMETS
Director

RLS/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Ernest L. Padilla



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

December 3, 1987

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Attention: James S. Brown

RE: Injection Pressure Increase
Stonewall "YE" State No. 1
Eddy County, New Mexico

Dear Sir:

Reference is made to your request dated November 20, 1987, to increase the surface injection pressure on the Stonewall "YE" State Well No. 1. This request is based on a step rate test conducted on this well on November 17, 1987. The results of this test have been reviewed by my staff and we feel an increase in injection pressure on this well is justified at this time.

You are therefore authorized to increase the surface injection pressure on the following well:

<u>WELL & LOCATION</u>	<u>MAXIMUM INJECTION SURFACE PRESSURE</u>
Stonewall "YE" State No. 1 1650 FSL & 1980 FEL (Unit J) Section 30, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico	670 PSIG

The Division Director may rescind this injection pressure increase if it becomes apparent that the injected water is not being confined to the injection zone or is endangering any fresh water aquifers.

Sincerely,

William J. LeMay

xc: OCD-Artesia
D. McDonald
D. Catanach
[REDACTED]



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

S. P. YATES
PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC. - TREAS.

November 20, 1987

Mr. David Catanach
Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

RE: Request for SWD Injection Pressure Increase
Stonewall "YE" State #1 J Sec 30 T20S R28E
Eddy County, New Mexico
Order No. R-8265

Dear Mr. Catanach:

The subject well was limited to 519 psig surface injection pressure by Order No. R-8265. Pursuant to Rule 704-C, a step-rate test was conducted on November 17, 1987, and was witnessed by Mr. Johnny Robinson of the Artesia District Office. The test was done by B & D Well Testers, Hobbs, New Mexico (see attached report). The fracture pressure, as determined by B & D Well Testers, is 720 psig surface flowing tubing pressure.

Yates Petroleum Corporation respectfully requests an increase in the pressure limit to 670 psig.

Thank you for your consideration in this matter.

Sincerely,

A handwritten signature in cursive script that reads "James S. Brown".

James S. Brown
Engineer

Attachments

xc: Mr. Mike Williams - NMOC D Artesia

JSB/cvg

B & D WELL TESTERS

Step Rate Test

Phone (505) 397-3914

Hobbs, New Mexico 88240

Company Yates Petroleum							Unit
Test Date 11-17-87							Lease Stonewall "Y.E." St.
Total Depth 3800'		Plug Back TD		Elevation			Well # 1
Csg size 5 1/2" Wt 15.5# d		Set at		Perfs: From 2595 To 3685			Sec 30 Twp-Blk 20 Rge 28
Tbg size 2 7/8 Wt d		Set at		Perfs: From To			County Eddy State New Mexico
Producing thru				Packer set at 2524			Co. Rep Jim Brown
Time of Reading	Elap Time Hrs.	Well Information					Remarks
		Rate BBLS Per Day	Total BBLS Per Rate	Surface PSIG	Surface PSI Cor for Friction	BHP	
8:45	S.I.			370			
9:00	Start	180		370			
9:05		180		390			
9:10		180		395			Total BBLS
9:15	:15	180	1.8	400			1.8
9:20		670		410			
9:25		670		410			
9:30	:30	670	6.7	415			8.5
9:35		1000		430			
9:40		1000		430			
9:45	:45	1000	10.5	435	- 9	426	19.4
9:50		1500		460			
9:55		1500		470			
10:00	1:00	1500	15.6	470	- 17	453	35.0
10:05		2000		500			
10:10		2000		510			
10:15	1:15	2000	20.6	515	- 33	482	55.6
10:20		2500		535			
10:25		2500		540			
10:30	1:30	2500	26.0	540	- 46	494	81.6
10:35		3000		575			
10:40		3000		610			
10:45	1:45	3000	31.2	620	- 60	560	112.8
10:50		3500		655			
10:55		3500		670			
11:00	2:00	3500	36.4	680	- 85	595	149.3
11:05		4000		695			
11:10		4000		710			
11:15	2:15	4000	41.6	710	-106	604	190.9
See Page #2							

Phone (505) 397-3914

Hobbs, New Mexico 88240

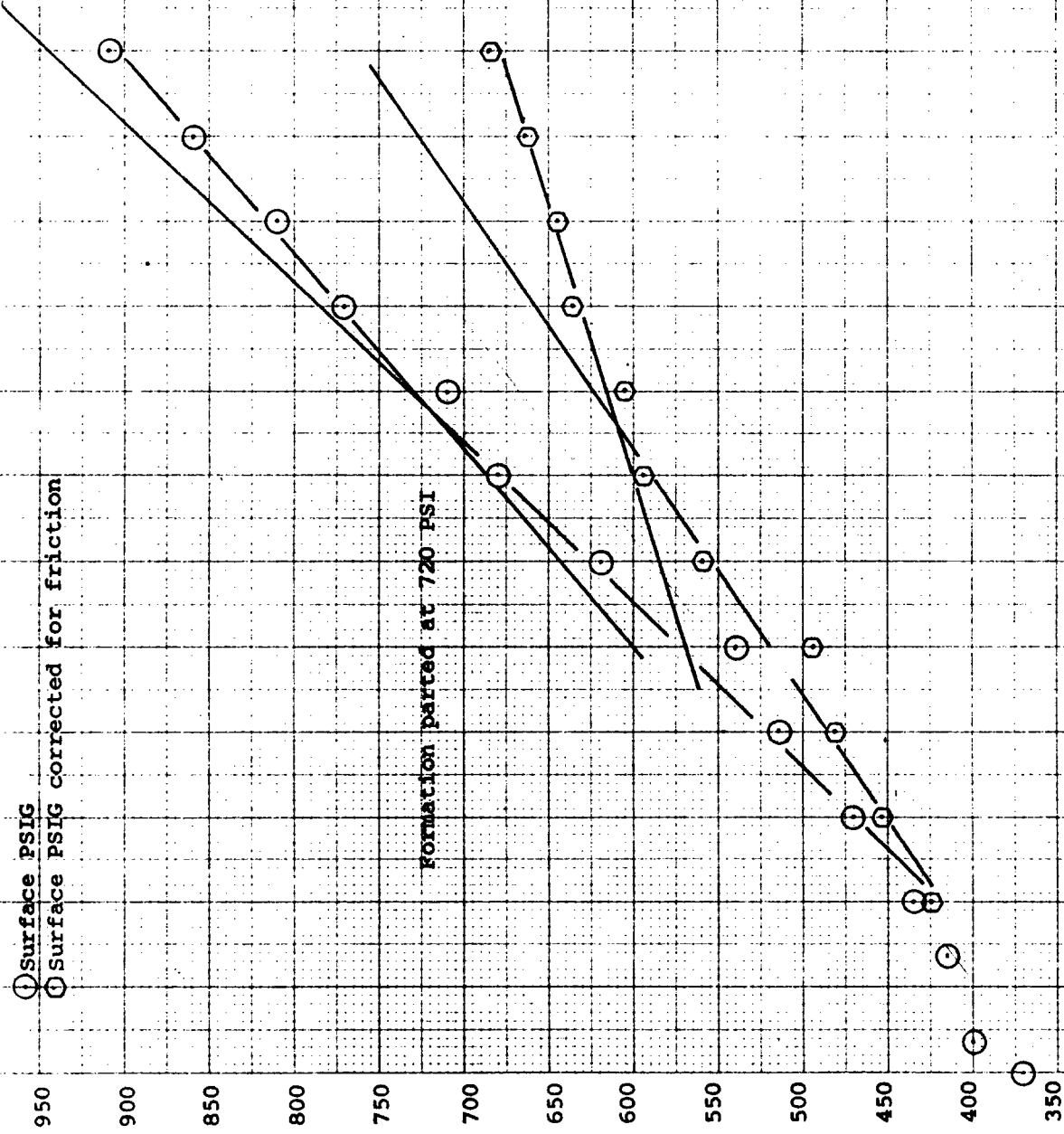
Phone (505) 397-3914

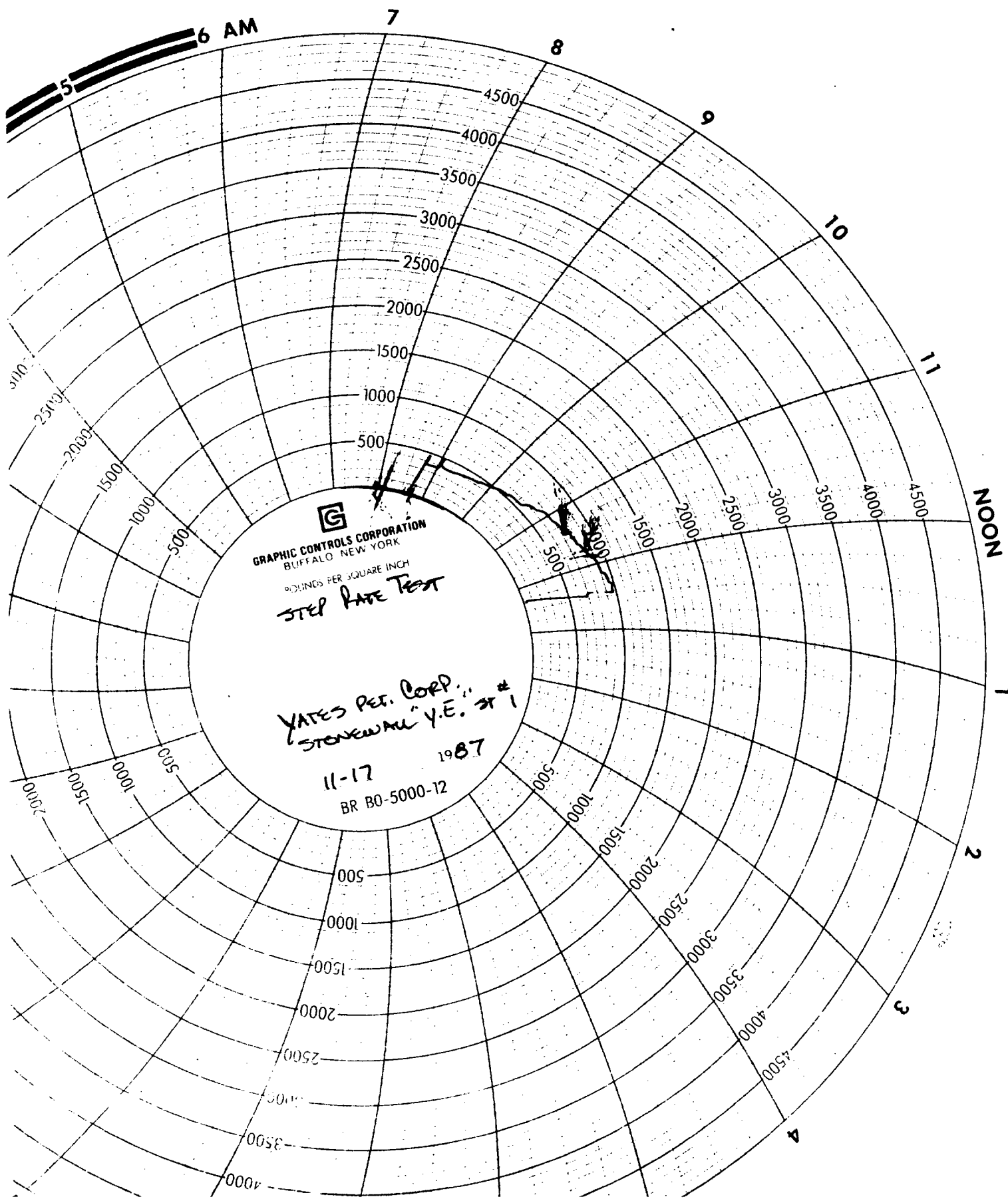
① Surface PSIG

① Surface PSIG corrected for friction

Formation parted at 720 PSI

BWPD





GRAPHIC CONTROLS CORPORATION
BUFFALO, NEW YORK

POUNDS PER SQUARE INCH

STEP RATE TEST

YATES PER. CORP.
STONEWALL Y.E. #1

11-17 1987

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