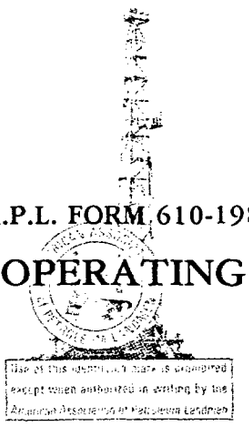
A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT



TXO PRODUCTION CORP.
Case Nos. 9455 and 9479
9/14/88 Examiner Hearing
Exhibit No. 2

OPERATING AGREEMENT

DATED

September 1, 19 88,

OPERATOR TXO Production Corp.

CONTRACT AREA E/2 SE/4 Section 13, T-17-S, R-37-E

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

NORRIS "B" #1 WELL

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blanks as applicable.

2. Preamble, Page 1 - Enter name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article III.B. - Interests of Parties in Costs and Production - Enter royalty fraction as agreed to by parties.

5. Article IV.A. - Title Examination - Select option as agreed to by the parties.

6. Article IV.B. - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.E. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
   (d) Article X. - Add as the concluding sentence - "All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto."

7. Article V - Operator - Enter name of Operator.

8. Article VI.A - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

9. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

10. Article VI.C. - Taking Production in Kind - If a Gas Balancing Agreement is not in existence nor attached hereto as Exhibit "E", then use Alternate Page 8.

11. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

12. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

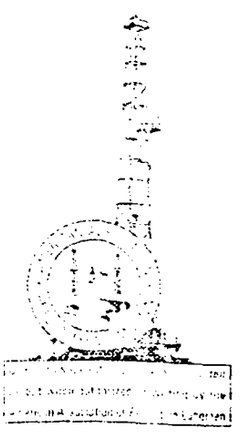
13. Article IX. - Internal Revenue Code Election - Delete this article in the event the agreement is a Tax Partnership and Exhibit "G" is attached.

14. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

15. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

16. Article XIV.B - Governing Law - Enter state as agreed to by parties.

17. Signature Page - Enter effective date.



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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between TXO Production Corp. _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes. /notice requirements

☒ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

☒ G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of One-eighth (1/8) which shall be borne as hereinafter set forth.

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

ARTICLE IV
continued

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

have the option but not the obligation to

On or before the 1st day of December, 1988, Operator shall commence the drilling of a well for oil and gas at the following location:

1310' FSL and 660' FEL Section 13, T-17-S, R-37-E, N.M.P.M.
Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 11,900' or to a depth sufficient to adequately test the Atoka Formation, whichever is the lesser.

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

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

ARTICLE VI
continued

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

B. Subsequent Operations:

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

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

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

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

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

ARTICLE VI
continued

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

(a) 300% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(b) 400 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 400 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well or the completing of a well pursuant to Article VII.D.1., option 2, infra, shall be deemed an election not to participate in any reworking or plugging back or subsequent deepening operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back or subsequent deepening operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties four hundred percent (400%) of that portion of the costs of the reworking or plugging back or subsequent deepening operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back or subsequent deepening operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well. The recoupment period shall be deemded to end as of 7:00 a.m. on the first day of the month following the month during which said recoupment was completed.

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

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

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

ARTICLE VI
continued

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

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

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

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

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

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

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

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

C. TAKING PRODUCTION IN KIND:

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

ARTICLE VI
continued

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

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto.* If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

*Provided, however, any party who receives notice of a proposal to plug and abandon a well shall have the right within forty-eight (48) hours after receipt of the notice to take over the well for additional testing by any method at such party's sole cost and expense. After such testing, if the party elects to plug and abandon the well, the well shall be returned to the Operator, but the testing party shall be responsible for any excess costs of plugging and abandonment caused by such testing operations.

ARTICLE VI
continued

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

~~[illegible]~~

C. Payments and Accounting:

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

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

SEE ARTICLE XV.D. FOR ADDITIONAL PROVISIONS

D. Limitation of Expenditures:

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

*, the proceeds from sale of said oil and/or gas.

ARTICLE VII
continued

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

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

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

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of fifteen thousand and no/100---- Dollars ($15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of fifteen thousand and no/100----- Dollars ($15,000.00) but less than the amount first set forth above in this paragraph.

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

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

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

F. Taxes:

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

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

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

ARTICLE VII
continued

G. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

SEE ARTICLE XV.C. FOR ADDITIONAL PROVISIONS.

C. Acreage or Cash Contributions:

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

ARTICLE VIII
continued

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

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

D. Maintenance of Uniform Interest:

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

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

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

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

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

E. Waiver of Rights to Partition:

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

~~F. Preferential Right to Purchase:~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Four Thousand and no/100 Dollars ($4,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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

*If the well described in Article VI.A. is not timely commenced, this agreement shall terminate one day after the designated commencement date, or as may be extended.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

A. BILLING ADDITIONAL INTERESTS:

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

1. Written notice of the conveyance and photostatic or certified copies of the assignments, by which the transfer was made.

2. The name of the assignee to be billed and a written statement signed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof; and, further, consents to handle any necessary sub-billings in the event it does not own the entire interest credited to Selling Party on Exhibit "A".

B. DISBURSEMENT OF ROYALTIES:

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declines to make disbursements of all royalties, overriding royalties, working interest, and other payments out of, or with respect to, production revenues which are payable on the Contract Area, Operator may, at its option, from time to time, make disbursements on behalf of any Non-Operator who requests in writing that Operator do so. Each Non-Operator for whom such disbursement is made shall furnish Operator with the following:

1. Such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas or other hydrocarbons directly from the purchaser thereof.

2. An initial list of names, addresses, and interests (to a seven place decimal), on a tract, unit, purchase contract, or other such basis as, in the opinion of Operator, is necessary for efficient administration, for all royalty, overriding royalty and other interest owners who are entitled to proceeds from the sale of production attributable to such Non-Operator's interest. Also, any changes to the initial list shall be furnished promptly to Operator in writing.

Operator will use its best efforts to make disbursements correctly, but will be liable for incorrect disbursement only in the event of gross negligence or willful misconduct. Any Non-Operator for whom such disbursements are made hereby agrees to indemnify and hold harmless Operator for any loss, including court costs and attorney's fees, which may be incurred as a result of Operator's making such disbursements in the manner prescribed by Non-Operator.

C. ARTICLE VIII.B. ADDITION:

Notwithstanding anything to the contrary contained herein, each party committing a lease or leases to this agreement shall have the option upon the expiration of each lease to renew or extend such lease and to bear the renewal or extension costs and expenses and thereby retain its original interest and title in said lease. By exercising such option, the parties' working interests shall remain unchanged. If the original lease owner does not exercise its option within sixty (60) days after the expiration date of the original lease, the renewal or extension lease will then be subject to the terms of this article as written above. If any working interest owner other than the original lease owner renews or extends the lease, the renewing or extending party shall furnish the original lease owner an itemized statement of the complete renewal or extension costs and expenses of such lease. The original lease owner shall have sixty (60) days after the receipt of such itemized statement to reimburse the renewing or extending party in full. Failure of the original lease owner to do so shall result in the forfeiture of its option hereunder. The provisions hereof shall only apply to leases or portions of leases located in the Contract Area.

D. RELATIONSHIP OF PARTIES:

This Operating Agreement is not intended to create, and nothing contained herein shall be construed to create, an association, a trust, a joint venture, a mining partnership or other partnership or entity of any kind, nor constitute the Operator the agent of the Non-Operators.

E. PREPAYMENTS:

If any party fails or refuses to make a prepayment for drilling, deepening, plugging back, sidetracking, completing or reworking costs when properly requested by Operator under Article VII.C. of the agreement, within 30 days after such invoice is received, then said non-paying parties shall be deemed to have elected to go non-consent on the proposed operations under the terms of Article VI of this agreement. Nothing in this provision shall alter the lien granted under Article VII.B. The request for prepayment under Article VII.C. may be satisfied by furnishing Operator with a letter of credit or other evidence of ability to pay, which shall be in a form satisfactory to Operator.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19_____.

OPERATOR

TXO PRODUCTION CORP.

_____

_____
R. A. Varela
Vice President

NON-OPERATORS

LOUISIANA LAND & EXPLORATION

BY: _____

A. H. 1980 PROGRAM, INC.
%Amerada Hess

BY: _____

DAVID PETROLEUM CORP.

BY: _____

_____
Colin R. McMillan

_____
Nadine Prideaux Loveless Smith

_____
Fred J. Schlicher

_____
Carolyn Loveless Schlicher

_____
Lucinda Loveless Herschenhorn

STATE OF §
§
COUNTY OF §

The foregoing instrument was acknowledged before me this ___ day of _____, 1988 by R. A. Varela, Vice President of TXO Production Corp., a Delaware corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public, State of Texas

STATE OF §
§
COUNTY OF §

The foregoing instrument was acknowledged before me this ____ day of _____ 1988 by _____, _____ of Louisiana Land & Exploration, a _____ corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public, State of _____

STATE OF §
§
COUNTY OF §

The foregoing instrument was acknowleged before me this ___ day of _____, 1988 by _____, _____ of David Petroleum Corp., a _____ corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public, State of _____

STATE OF §
§
COUNTY OF §

The foregoing instrument was acknowledged before me this ___ day of _____, 1988 by Colin R. McMillan.

My Commission Expires:

_____ _____
Notary Public, State of _____

STATE OF §
§
COUNTY OF §

The foregoing instrument was acknowldged before me this ____ day of _____, 1988 by Nadine Prideaux Loveless Smith.

My Commission Expires:

_____ _____
Notary Public, State of _____

STATE OF TEXAS §
§
COUNTY OF §

The foregoing instrument was acknowledged before me this____day of_____, 1988 by_____, _____of A. H. 1980 Program, Inc., a_____corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public, State of_____

STATE OF §
§
COUNTY OF §

The foregoing instrument was acknowledged before me this____day of_____, 1988 by Fred J. Schlicher.

My Commission Expires:

_____ _____
Notary Public, State of_____

STATE OF §
§
COUNTY OF §

The foregoing instrument was acknowledged before me this____day of_____, 1988 by Carolyn Loveless Schlicher.

My Commission Expires:

_____ _____
Notary Public, State of_____

STATE OF §
§
COUNTY OF §

The foregoing instrument was acknowledged before me this____day of_____, 1988 by Lucinda Loveless Herschenhorn.

My Commission Expires:

_____ _____
Notary Public, State of_____

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated September 1, 1988 by and between TXO Production Corp., as Operator, and Louisiana Land & Exploration, et al, as Non-Operator

I. Contract Area:
E/2 SE/4 Section 13, T-17-S, R-37-E, Lea County, New Mexico

II. Such lands are subject to the following restrictions as to depths or formations:

From the surface to the base of the Atoka formation

III. Names, Addresses and Working Interest Percentages of the Parties:

SEE ATTACHED

IV. Overriding Royalty, Production Payments or other Burdens Payable out of Production:

Name and Address of of Owner	Working Interest Owner Burdened	Percentage of Unit Production

V. Oil and Gas Leases and/or Oil and Gas Interests subject to this Agreement:

To be completed at a later date

ATTACHMENT TO EXHIBIT "A"

III. Names, Addresses and working interest percentages of the parties:

TXO Production Corp. .5133
900 Wilco Bldg.
Midland, TX 79701

Louisiana Land & Exploration .1802525 - May Join
2950 N. Loop West, Suite 1200
Houston, TX 77092

Amerada protective joint

A. H. 1980 Program, Inc. .1612788
1200 Milam
Houston, TX 77002-5681

ADK Corp.

David Petroelum Corp. .04269141
116 W. 1st
Roswell, NM 88201

Colin R. McMillan .03557617
118 W. 1st
Roswell, NM 88201

Nadine Prideaux Loveless Smith .01323433
P. O. Box 566
Roswell, NM 88201

Fred J. Schlicher .0091075
P. O. Box 606
Roswell, NM 88201

Carolyn Loveless Schlicher .0066171
P. O. Box 606
Roswell, NM 88201

Lucinda Loveless Herschenhorn .0066171
419 W. Wellington #1
Chicago, IL 60657

Unleased Mineral Interest 2.5 Acres
- Rebel Oil Company -

EXHIBIT
TO
JOINT OPERATING AGREEMENT

NOTICES AND REPORTS

(West Texas District)

A. In drilling any well hereunder, Operator agrees:

1. To conduct all operations in accordance with approved and accepted practices prevailing in the field where the well is drilled.

2. To make adequate evaluation and tests as a prudent Operator to determine if the well is capable of producing oil or gas from any formations encountered.

3. To accord Non-Operators the freedom of the derrick floor and full and free access to the well at their sole risk and expense.

4. To give Non-Operators reasonable notice in sufficient time to have a representative present before spudding, any testing, coring or logging of a prospective oil or gas zone. Said notificiation shall be given by telephone to Non-Operator's office to:

	OFFICE PHONE	HOME PHONE

5. To advise Non-Operators before commencing operations, of the name and address of the geologist and/or engineer servicing the well.

6. To furnish Non-Operator the following reports, data, and information:

DURING THE DRILLING OF WELLS

a. Daily on each weekday morning a telephone drilling and completion report to _____, giving the nature of all work done and depth and formations penetrated, beginning with the date actual work is commenced at the location and continuing until initial daily potential has been established or, if a dry hole, the well has been plugged and abandoned.

b. Drilling Time Record.

c. Formation samples as requested. Said samples are to be mailed weekly, unless Non-Operators request that samples be saved at the well.

d. Water samples and water analyses.

e. Photoprint of forms required by the government office or body that has jurisdiction in the premises.

f. A log and history of the well (well record and formation record).

g. Field prints and final prints of an Induction-Electric Survey and of a Gamma Ray/Acoustic Log (or equivalent).

h. Mud Log (daily and final reports, if maintained).

i. Certified copy of photoprint of the plugging record required by the government office or body having jurisdiction in the premises, if the test is a dry hole.

j. Core analyses and core reports, if taken.

k. Any bottomhole pressure and surface pressure reports made.

l. Directional survey, if run.

m. Drill Stem tests, if taken.

n. Gas/oil ratio tests.

o. One copy of open flow potential and shut-in tests, if gas well.

p. Gas analyses.

B. The following information shall be sent to Non-Operators at the following address and in the number of copies specified:

COPIES	
1	Government forms, permits and Correspondence
2	Field Prints of logs and survey (IES or equivalent, GR/Acoustic or equivalent)
2	Final print logs
2	Mud log (daily and final prints, if maintained)
1	Drill Stem Test reports, if run
1	Core analyses, if taken
1	Any bottom hole pressure and surface pressure reports
1	Gas and water analyses
1	Drill cutting samples (only if samples are not delivered to Midland Sample Library)

C. All other notices and reports shall be made to:

Office Phone:
Home Phone:

Producers 88—TXO Form 110 - Revised 4/79
With Pooling Clause

EXHIBIT "B"

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made and entered into this _____ day of _____, 19_____, between _____

_____

_____, hereinafter called "lessor" (whether one or more), whose post office address

is _____.

and _____.

hereinafter called "lessee", whose post office address is _____.

1. Lessor, in consideration of _____ Dollars ($_____) in hand paid, receipt of which is hereby acknowledged, of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets, exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, mining and operating for and producing oil, gas and all other minerals, injecting gas, waters, other fluids, air and other gaseous substances into subsurface strata, laying pipe lines, storing oil, building tanks, power stations, electric transmission lines, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land

in _____ County, Texas, to-wit:

Notwithstanding any particular description, it is nevertheless the intention of lessor to include within this lease, and lessor does hereby lease, not only the land so described but also any and all other land owned or claimed by lessor in the herein named survey or surveys, or in adjoining surveys, and adjoining the herein described land up to the boundaries of the abutting landowners,

the leased lands being hereinafter referred to as "said land". For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of ten (10) years from this date (called "primary term"), and as long thereafter as oil, gas or other mineral is produced from said physical land or land with which said land or any part thereof is pooled, or this lease is maintained by virtue of some other provision hereof.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, one-eighth of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected with lessor's interest in either case bearing its proportion of any expenses for treating oil to make it marketable as crude and lessee having the option, at any time or from time to time, to purchase lessor's oil at the well, paying therefor the lawful market price on the date of purchase for oil of like grade and gravity prevailing for the field nearest where such oil is produced; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold, one-eighth of the amount realized from such sale; (c) on gas, including casinghead gas and all gaseous substances, produced from said land and used off said land by lessee and not benefitting lessor, the market value at the mouth of the well of one-eighth of the gas so used off said land; (d) on all other minerals mined and marketed, one-eighth, either in kind or value at the well or mine, at lessee's election, except that on sulphur the royalty shall be One Dollar ($1.00) per long ton; and (e) if at any time while there is a gas well or wells on the said land or land pooled therewith (for the purposes of this clause (e) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate or any gaseous substance and wells classified as gas wells by any governmental authority) and such well or wells are shut-in, this lease shall continue in force for a period of either: (1) ninety (90) days from the date such well or wells are shut-in; (2) ninety (90) days from the effective date for inclusion of said land or a portion thereof within a unit on which is located a shut-in gas well; (3) the date this lease ceases to be maintained by the payment of annual delay rentals, or (4) ninety (90) days from the date this lease ceases to be otherwise maintained as provided herein, whichever is the later date, and before the expiration of any such period lessee or any assignee hereunder may pay or tender an advance annual royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and if such payment or tender is made, this lease shall continue in force and it shall be considered that gas is being produced from said land in paying quantities within the meaning of Paragraph 2 hereof for one (1) year from the date of such payment, and in like manner subsequent advance annual royalty payments may be made or tendered and this lease shall continue in force and it will be considered that gas is being produced from said land in paying quantities within the meaning of said Paragraph 2 during any annual period for which such royalty is so paid or tendered, such advance annual royalty may be paid or tendered in the same manner and to the same depository as provided herein for the payment or tender of delay rentals; royalty accruing to the owners thereof on any production from said land during any annual period for which advance annual royalty is paid may be credited against such advance payment.

4. If operations for drilling or mining are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless

on or before one (1) year from said date lessee shall pay or tender to lessor a rental of _____

Dollars ($ _____) which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payment or tenders, annually, the commencement of said operations may be further deferred for successive periods of the same number of months, each during the primary term. Payment or tender of

rental may be made to lessor or to the _____ Bank, _____, which bank, or any successor thereof, shall continue to be the agent for lessor and lessor's heirs, representatives, successors and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another method of payment or tender. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor or either lessor if more than one, on or before the rental paying date, and the payment or tender will be deemed made when the check or draft is so delivered or mailed. If lessee shall, on or before any rental or advance annual royalty payment date, make a bona fide attempt to pay or deposit a rental or advance annual royalty payment to a lessor or royalty owner entitled thereto under this lease according to lessee's records at the time of such payment, and if such payment or deposit shall be erroneous in any regard, lessee shall be obligated to pay to such lessor or royalty owner the rental or advance annual royalty payment properly payable for the period involved, but this lease shall be maintained in the same manner as if such erroneous payment or deposit had been properly made, provided that lessee shall correct such erroneous payment within thirty (30) days following receipt by lessee of written notice from such lessor or royalty owner of the error accompanied by any documents and other evidence necessary to enable lessee to make proper payment.

5. Lessee is hereby given the power and right, as to all or any part of said land and as to any one or more of the formations thereunder and the minerals therein or produced therefrom, at its option and without lessor's joinder or further consent, to at any time, and from time to time, either before or after production, pool and unitize the leasehold estate and the lessor's royalty estate created by this lease with the rights of third parties, if any, in all or any part of said land and with any other land, lands, leases, mineral and royalty rights, or any of them adjacent, adjoining, or located within the immediate vicinity of said land, whether owned by lessee or some other person, firm or corporation, so as to create by such pooling and unitization one or more drilling or production units, when to do so would, in the sole judgment of lessee, promote the conservation of oil, gas or other mineral. Each such drilling or production unit, when limited to any one or more formations and to any one or more of the minerals therein or produced therefrom, may from time to time be enlarged and extended by lessee to additionally include any other formation or formations and any other mineral or minerals therein or produced therefrom. Also, any such unit may be altered or enlarged by lessee at any time so long as the total acreage therein does not exceed the maximum hereinafter specified. Each such drilling or production unit shall not exceed forty (40) acres, plus an acreage tolerance not to exceed ten per cent (10%) of forty (40) acres, when created for the purpose of drilling for or producing oil therefrom and six hundred forty (640) acres, plus an acreage tolerance not to exceed ten per cent (10%) of six hundred forty (640) acres, when created for the purpose of drilling for or producing gas, condensate or any combination of such minerals therefrom; provided, however, if the maximum drilling or production unit fixed or allowed by the regulatory authority, Federal or State, having jurisdiction in the premises, as a basis for the development and operation of or the production from the field in which said land is located, be more than said maximum, then each such unit created hereunder may conform substantially in size with those so prescribed or permitted and in force in the field at the time such unit is created. As to each such unit so created by lessee, there shall be allocated to the acreage covered by this lease, and included in the pooled unit, such portion of the production from said unit as the number of acres out of this lease placed in any such unit, as such unit from time to time may be constituted, bears to the total number of acres included in such unit, and lessor agrees to accept and shall receive the royalties (advance or other kind) elsewhere specified in this lease, based upon the production so allocated to this lease or the proceeds therefrom. The commencement, drilling, completion of, reworking of or production from a well on any portion of the unit created hereunder shall have the same effect upon the terms of this lease as if a well were commenced, drilled, completed, reworked or producing on the land embraced by this lease. Lessee may place and use on each unit created hereunder common measuring and reworking tanks for production from such unit. If lessee does create any such unit or units under the rights herein granted, then lessee shall execute in writing and record in the county or counties in which each such unit or units created hereunder may be located an instrument identifying and describing each such unit or units so created. The development of and production from each such unit shall be in accordance with the valid orders, rules and regulations of the lawful authority, either Federal or State, having jurisdiction in the premises. Any such unit created by lessee in accordance with the terms hereof may be released and dissolved by lessee by a release filed for record in the county or counties in which such unit is located at any time after the completion of a dry hole or the cessation of production on such unit. The provisions of this paragraph shall be construed as a covenant running with the land and shall inure to the benefit of and be binding upon the parties hereto, their heirs, representatives, successors and assigns.

6. If, prior to discovery of oil, gas or other mineral on said land or land pooled therewith, lessee should drill and abandon a dry hole or holes thereon, or if, after discovery of oil, gas or other mineral, the production thereof should cease from any cause, this lease shall not terminate if lessee commences additional drilling, mining or reworking operations within ninety (90) days thereafter, or (if it be within the primary term) commences or resumes the payment or tender of rentals on or before the rental paying date next ensuing after the expiration of three (3) months from date of completion and abandonment of said dry hole or holes or the cessation of production. If, at the expiration of the primary term, oil, gas or other mineral is not being produced from said land or land pooled therewith but lessee is then engaged in operations for drilling, mining or reworking of any well or mine thereon, this lease shall remain in force so long as such operations or additional operations are commenced and prosecuted (whether on the same or successive wells) with no cessation of more than ninety (90) consecutive days, and, if they result in production, so long thereafter as oil, gas or other mineral is produced from said land or land pooled therewith. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within two hundred (200) feet of and draining said land, lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances. The judgment of the lessee, when not fraudulently exercised, in carrying out the purposes of this lease shall be conclusive.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, including repressuring, pressure maintenance, cycling and secondary recovery operations, and the royalty shall be computed after deducting any so used. Any structures and facilities placed on said land by lessee for operations hereunder and any well or wells on said land drilled or used for the injection of salt water or other fluids may also be used for lessee's operations on other lands in the same area. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without lessor's consent.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, representatives, successors and assigns, but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of lessee. No such change or division in the ownership of the land, rentals or royalties shall be binding upon lessee for any purpose until such person acquiring any interest has furnished lessee with the instrument or instruments, or certified copies thereof, constituting the chain of title from the original lessor. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of this lease, such default shall not affect this lease insofar as it covers a part of said land upon which lessee or any assignee thereof shall make payment of said rentals. Should more than six parties become entitled to royalties hereunder, lessee may require the appointment of a single agent to receive payment for all and may withhold payment until such appointment has been made.

9. When drilling or other operations are delayed or interrupted by storm, flood or other act of God, fire, war, rebellion, insurrection, riot, strikes, differences with workmen, unavailability of material or equipment, failure of carriers to transport or furnish facilities for transportation, some order, requisition or necessity of the government or as a result of any cause whatsoever beyond the control of the lessee, the time of such delay or interruption shall not be counted against lessee, anything in this lease to the contrary notwithstanding. All express or implied covenants of this lease shall be subject to all Federal and State laws, Executive orders, rules or regulations and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages for failure to comply therewith if compliance is prevented by, or if such failure is the result of, any such law, order, rule or regulation. If from such causes lessee is prevented from conducting drilling or reworking operations on, or producing oil or gas from said land or land pooled therewith, the time while lessee is so prevented shall not be counted against lessee, and this lease shall be extended for a period of time equal to that during which such lessee is so prevented from conducting drilling or reworking operations on, or producing oil or gas from said land or land pooled therewith, notwithstanding any other provision hereof.

10. The breach by lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event lessor considers that operations are not at any time being conducted in compliance with this lease, lessor shall notify lessee in writing of the facts relied upon as constituting a breach hereof, and lessee, if in default, shall have sixty (60) days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil, gas or other mineral in paying quantities on said land, lessee shall reasonably develop the acreage retained hereunder, but in discharging this obligation it shall in no event be required to drill more than one (1) well per forty (40) acres, plus an acreage tolerance not to exceed ten per cent (10%) of forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one (1) well per six hundred forty (640) acres, plus an acreage tolerance not to exceed ten per cent (10%) of six hundred forty (640) acres of the area retained hereunder and capable of producing gas or other mineral in paying quantities.

11. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage or other lien upon said land in the event of default of payment by lessor, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty in the event of failure of title, it is agreed that, if lessor owns an interest in said land less than the entire fee simple estate, whether stated hereinabove as a whole or partial interest, then the royalties and rentals to be paid lessor shall be reduced proportionately. Should any one or more of the parties named hereinabove as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

12. Lessee, its successors and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or lessor's heirs, representatives, successors and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated, thereupon lessee shall be relieved from all obligations, express or implied, of this agreement as to the acreage so surrendered, and thereafter the rentals or advance annual royalties payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written

_____ _____

_____ _____

_____ _____

INDIVIDUAL ACKNOWLEDGMENT

THE STATE OF TEXAS)(
)(
COUNTY OF_____)(

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared _____

_____

known to me to be the person(s) whose name(s) is (are) subscribed to the foregoing instrument, and acknowledged to me that he (she) (they) executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND OFFICIAL SEAL, this _____ day of _____, A. D. 19____.

My Commission Expires:

_____

_____
Notary Public in and for

_____County, Texas

INDIVIDUAL ACKNOWLEDGMENT

THE STATE OF TEXAS)(
)(
COUNTY OF_____)(

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared _____

_____

known to me to be the person(s) whose name(s) is (are) subscribed to the foregoing instrument, and acknowledged to me that he (she) (they) executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND OFFICIAL SEAL, this _____ day of _____, A. D. 19____

My Commission Expires:

_____

_____
Notary Public in and for

_____County, Texas

CORPORATE ACKNOWLEDGMENT

THE STATE OF TEXAS)(
)(
COUNTY OF_____)(

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared _____.

known to me to be the person whose name is subscribed to the foregoing instrument and known to me to be the_____of

_____,

a corporation and acknowledged to me that he (she) executed said instrument for the purposes and consideration therein expressed, and as the act of said corporation.

GIVEN UNDER MY HAND AND OFFICIAL SEAL, this _____day of _____, A. D. 19____

My Commission Expires:

_____

_____
Notary Public in and for

_____County, Texas

CERTIFICATE OF RECORDING

THE STATE OF TEXAS)(
)(
COUNTY OF_____)(

I,_____, Clerk of the County Court of said County, do hereby certify that the foregoing instrument of writing, with its certificate of authentication, was filed for record in my office on the_____day of _____, A.D. 19_____, at_____ o'clock _____ M., and was duly recorded by me on the _____day of _____, A.D. 19_____, in Volume _____, Page_____, of the_____Records of said County.

GIVEN UNDER MY HAND AND OFFICIAL SEAL, this _____ day of_____, A. D. 19____.

_____Clerk, County Court, _____County, Texas

BY_____, DEPUTY

AFTER RECORDING, RETURN TO:_____

EXHIBIT "C"

Attached to and made a part of Joint Operating Agreement dated September 1, 1988
by and between TXO Production Corp., as Operator and Louisiana Land & Exploration, et al
as Non-Operator

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.
"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.
"Operator" shall mean the party designated to conduct the Joint Operations.
"Non-Operators" shall mean the Parties to this agreement other than the Operator.
"Parties" shall mean Operator and Non-Operators.
"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.
"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.
"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of the 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 maximum legal rate permitted by the applicable usury laws in the state in which the joint property is located; or, if the maximum legal permitted rate is less than eighteen percent (18%) per annum and such rate may be modified as agreed between the parties, then, in such event, the unpaid balance shall bear interest monthly at the rate of eighteen percent (18%) per annum. However, pursuant to either rate, attorney's fees, court costs, and all other costs incurred in connection with the collection of these unpaid amounts shall be recoverable.

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

5. **Audits**

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within ~~180~~ 60 days after receipt of such report.

6. **Approval By Non-Operators**

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.
Except where specifically provided to the contrary, the failure of a Non-Operator to respond to the Operator's proposal within ten (10) days after receipt of the proposal, shall be agreement or approval of the proposal.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. **Rentals and Royalties**

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

3. **Labor**

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

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

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

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. **Employee Benefits**

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. **Material**

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

6. **Transportation**

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

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

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

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

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

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

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

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or
( ) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( ) shall be covered by the overhead rates, or
( ) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 5500
(Prorated for less than a full month)

Producing Well Rate $ 550

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

(a) Drilling Well Rate

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

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

(b) Producing Well Rates

(1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

(2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

(3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

(4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

(5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

A. 5 % of first $100,000 or total cost if less, plus

B. 3 % of costs in excess of $100,000 but less than $1,000,000, plus

C. 2 % of costs in excess of $1,000,000.

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

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. 5 % of total costs through $100,000; plus

B. 3 % of total costs in excess of $100,000 but less than $1,000,000; plus

C. 2 % of total costs in excess of $1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2⅜ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2⅜ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

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

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

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Inventories

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

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

SCHEDULE OF INSURANCE

Operator shall carry the following insurance covering operations under this agreement at the expense and for the benefit of the parties hereto to-wit:

1. Worker's Compensation and Employer's Liability Insurance as required by the laws of the state where the property is located.

2. Comprehensive General Liability Insurance covering both bodily injury liability and property damage liability with a Combined Single Limit of $500,000.00 for each occurrence.

3. Comprehensive Automobile Public Liability and Property Damage Insurance with a Combined Single Limit of $500,000.00 for each occurrence.

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of that certain operating agreement dated _____ _____ by and between _____, Operator and other signatories thereto as Non-Operators.

WHEREAS, one or more of the parties may from time to time be unable and/or unwilling to take and/or to deliver their full percentage share of gas to a gas purchaser, and;

WHEREAS it is the desire of the parties to enter into this gas balancing agreement to govern the relationship one to the other as that relationship will be affected from time to time by virtue of any party's not taking its percentage share of gas and, therefore, becoming out-of-balance, and;

WHEREAS it is the desire of the parties hereto that no party hereto shall ever be able to unjustly enrich itself at the expense of another party by virtue of over-production or under-production;

Now, therefore, in consideration of each party's right to share proportionately by Pricing Category in the total cumulative gas and of the additional covenants and agreements herein contained to be kept and performed by each of the parties hereto, said parties agree as follows:

A. DEFINITIONS

1. "Operating Agreement" shall mean the operating agreement to which this exhibit is attached.

2. "Joint Account Well" shall mean each well governed by the terms and provisions of the Operating Agreement.

3. "Gas" shall mean natural gas produced from Joint Account Wells, either produced as gas or obtained by primary field separation from oil wells.

4. "Wellhead Liquids" shall mean liquid hydrocarbons obtained from primary field separation.

5. "Percentage Ownership" shall mean the percentage interest of each party in the wells as set forth in the Operating Agreement.

6. "Overproduced Party" shall mean a party who has Cumulative Overproduction.

7. "Underproduced Party" shall mean a party who has Cumulative Underproduction. The same party may be both an Overproduced Party and an Underproduced Party, but not in the same Pricing Category.

8. "Pricing Category" shall mean a category for natural gas production under the Natural Gas Policy Act of 1978; and, in addition, Gas produced from wells which have been price deregulated.

9. "MER" shall mean the total daily maximum efficient rate of hydrocarbon withdrawal from each separately produced reservoir, which, if exceeded for a sustained period of time, would lead to underground waste in the form of reduced ultimate recovery from such reservoir.

10. "Disposable Production" shall mean Gas produced in a Pricing Category less Gas in that Pricing Category used in operations, vented or lost. Disposable Production may be cumulative or for a period.

11. "Cumulative Underproduction" shall mean the amount by which the cumulative volume of Gas in a Pricing Category taken by a party is less than the volume of gas obtained by multiplying that party's Percentage Ownership by cumulative Disposable Production.

12. "Cumulative Overproduction" shall mean the amount by which the cumulative volume of Gas in a Pricing Category taken by a party exceeds the volume of Gas obtained by multiplying that party's Percentage Ownership by cumulative Disposable Production.

B. OWNERSHIP AND SALE OF PRODUCTION

1. Ownership of Production: Each party shall own and have the right and obligation to take its Percentage Ownership in Disposable Production in each Pricing Category in kind and separately to utilize or market its Disposable Production.

2. Sale of Production: If it any time fewer than all the parties are utilizing or marketing their full Percentage Ownership in Disposable Production, the parties who are utilizing or marketing Gas shall have the right and option, but not the obligation hereunder, to produce at the current MER and utilize or market all of the Gas so produced. All parties shall be entitled to own and market the Wellhead Liquids, as produced, in proportion to their Percentage Ownerships irrespective of the fact that one or more parties may not be utilizing or marketing Gas. It is agreed that Gas which is attributable to the Percentage Ownership of any party but which was not utilized or marketed by that party shall be deemed stored in the reservoir for production at a later time and no current payment with respect to such stored gas shall be required from the parties utilizing or marketing gas.

C. MAINTENANCE OF BALANCE

1. If there is more than one purchaser or more than one disposition of the Gas, each Party in contemplation of its respective gas purchase contract commitment, or other disposition will endeavor to maintain, as near as possible, the balance between the volume of Gas obtained by multiplying that party's Percentage Ownership by cumulative Disposable Production and the actual cumulative volume of Gas in a Pricing Category taken by the party. A party will be in balance when such party has utilized or sold its Percentage Ownership in the Disposable Production.

2. The Operator shall make a good faith effort to determine the point in time at which the remaining estimated cumulated production of each Pricing Category will be depleted and shall give notice to each of the parties at least 30 days before the first day of the month nearest the estimated date on which the remaining estimated cumulated production is equal to the total Cumulative Overproduction of all parties. Then, as of such first day of the month, each Underproduced Party shall be entitled to take 100% of Gas of such Pricing Category until it shall have recovered as much of its Cumulative Underproduction of such Pricing Category as remains in the reservoir(s). After receipt of such notice from the Operator and prior to such first day of the month, any Overproduced Party may elect to balance in cash and continue to market its Percentage Ownership of disposal product by giving written notice to each of the parties. Actual payment of cash must then be made within sixty (60) days after giving the notice of election. Any Overproduced Party may elect to balance in cash and continue to market its Percentage Ownership of disposable product.

3. As of the day preceding the day that a Pricing Category becomes deregulated and not subject to pricing controls, the Overproduced Party may at his option settle for such Pricing Category between that Overproduced Party and any Underproduced Party (a) by balancing in cash, or (b) by balancing in kind with gas from the same reservoir(s). As of the day that production of Gas from a Pricing Category is permanently discontinued, settlement for such Pricing Category for overproduction prior to deregulation shall be made between each Overproduced and Underproduced Party by balancing in cash. After such settlement for a Pricing Category, all parties will be in balance and there will no longer be any Overproduced or Underproduced Parties for that Pricing Category.

4. In addition, any Overproduced Party may settle for any Pricing Category by balancing in cash not more often than once a year during the anniversary month of this Operating Agreement and effective as of the 1st of such month, if the Overproduced Party desires to do so.

D. BALANCING IN KIND

For the purpose of balancing gas production as soon as practical, each Overproduced Party shall make available to each Underproduced Party a portion of the Overproduced Party's Disposable Production at the current MER or allowable, whichever is less, but not to exceed 25% of the Overproduced Party's Disposable Production. In the absence of any other agreement, the Overproduced Parties shall be liable to an Underproduced Party under this paragraph under the conditions provided in Section C.3 hereof. If at any time more than one Underproduced Party is taking Gas in excess of its Percentage Ownership in the same Pricing Category in order to balance its gas production, then each such Underproduced Party shall be entitled to a share of the Gas required to be made available hereunder by the Overproduced Parties in the ratio that the Percentage Ownership of such Underproduced Party in the Pricing Category bears to the total Percentage Ownership of all Underproduced Parties who are taking Gas in excess of their Percentage Ownership in the same Pricing Category.

E. BALANCING IN CASH

1. If any Overproduced Party balances in cash, the Overproduced Party shall remit to the Operator for the account of all Underproduced Parties the "value", less (a) all severance or other production taxes and (b) all royalties which have been paid with respect to such production, of such Overproduced Party's Cumulative Overproduction in the Pricing Category. For purposes of this section, "value" shall be calculated as the weighted average price received by the Overproduced Party.

2. All such payments shall be made by the Overproduced Parties to the Operator, who shall be charged with the duty of distributing the funds received proportionately to each Underproduced Party based on the "value", calculated as described in "1" immediately above, of its share of the total Cumulative Underproduction, but the Operator shall have no liability with respect to the correctness of the amounts received by it from any Overproduced Party (other than Operator) for distribution, being entitled to rely on such statements as may be furnished by each such Overproduced Party.

F. OPERATOR'S STATEMENTS

On or before the end of each calendar month, Operator shall furnish each party hereto a statement showing the total volume of Gas in each Pricing Category taken by each party during the preceding month, the cumulative volume in each Pricing Category taken by each party as of the end of that month, and the Cumulative Overproduction or Underproduction, if any, of each party as of the end of that month. The volumes to be used in the calculations for these statements shall be the same volumes used to account for production, sale and disposition to the applicable regulatory agency and royalty owners.

G. GAS PLANT LIQUIDS

It is contemplated that some of the parties may arrange to have their gas processed in a gas processing plant for the recovery of liquefiable hydrocarbons. This Agreement is not intended to afford a basis for balancing any liquefiable hydrocarbons recovered from a gas processing plant.

H. PAYMENT OF PRODUCTION TAXES

Where parties hereto are selling gas in the same Pricing Category to different purchasers or to the same purchaser at a different price, then each party utilizing or marketing gas shall pay severance and production taxes on that production.

I. REFUND OBLIGATION

If any portion of a price per Mcf used to determine value is or has been collected subject to refund, upon orders of the Federal Energy Regulatory Commission (FERC) unless the Underproduced Party furnishes a corporate undertaking agreement to hold the Overproduced Party harmless from financial loss, including interest at FERC prescribed rates, due to action by the Federal Energy Regulatory Commission, then that portion of the price subject to refund shall be withheld by the Overproduced Party and shall not be paid unless and until such refundable portion of said price is ultimately approved by the Federal Energy Regulatory Commission and no longer subject to further appeal.

J. DELIVERABILITY TESTS

Nothing herein shall be construed to deny any party the right from time to time, to produce and take or deliver to its purchaser an entire well stream, if necessary, for a deliverability test not to exceed Seventy-two (72) hours duration required under such party's gas sales contract.

K. TERM

This Agreement shall terminate as to a Pricing Category, when production from the Pricing Category permanently ceases and the parties accounts are in balance according to this Agreement.

L. INDEMNITY

If and only to the extent that Sections D and E of this Agreement are implemented, each party hereby indemnifies and agrees to defend the other parties hereto against all liability for all claims which may be asserted by third parties under a contract with less than all parties, whether now or hereafter existing, between said third party and such indemnifying party arising out of the operation of this Agreement or activities of any party under its provisions, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

M. OPERATOR'S LIABILITY

The Operator under the Operating Agreement is authorized to carry out the provisions of this Agreement, but shall not be liable for its failure to do so as long as it acts in good faith and as would a reasonably prudent Operator in the same or similar circumstances.

N. SEPARATE AGREEMENTS

This Agreement shall be construed as a separate agreement as to each separate Pricing Category in the consent Joint Account Wells and in each separate non-consent Joint Account Well.

O. SUCCESSORS AND ASSIGNS

The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. The parties hereto agree to make any subsequent contract for the sale of Gas subject to the Operating Agreement and to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest in any Pricing Category subject to the terms of this Agreement.

EXHIBIT "F"

NONDISCRIMINATION AND CERTIFICATION OF NONSEGREGATED FACILITIES

A. Equal Opportunity Clause (41 CFR 60-1.4.)
(Applicable only to contracts or purchase orders for more than $10,000.00)

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

(1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising, layoff or terminations, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

(2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executiive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

(6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Operator will include the provisions of paragraph (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor.

The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

B. Certification of Nonsegregated Facilities (41 CFR 60-1.8.)
(Applicable only to contracts or purchase orders which are not exempt from the provisions of the Equal Opportunity Clause set out above.)

The Operator certifies that it does not, and will not, maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not, and will not, permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Operator agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract or purchase order. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directions or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom or otherwise. The Operator further agrees that (except where is has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certificate of Nonsegregated Facilities must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provsions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually).

C. Affirmative Action Compliance Program (41 CFR 60-1.40.)
(Applicable only if (a) the Operator has 50 or more employees and (b) the contract or purchase order is for $50,000 or more.)

The Operator shall develop a written affirmative action program for each of its establishments, and, within 120 days from the effectiveness of this contract or purchase order, shall maintain a copy of separate programs for each establishment, including evaluations of utilization of minority group personnel and the job classification tables, at each local office responsible for the personnel matters of such establishment.

D. Employer Information Report (41 CFR 60-1.7.)
(Applicable only if (a) the Operator has 50 or more employees, (b) the Operator is not exempt (pursuant to Section 60-1.5 of Title 41 of the Code of Federal Regulations) from the requirement for filing Employer Information Report EEO-1, and (c) the contract or purchase order is for $50,000 or more.)

The Operator agrees to file with the appropriate Federal agency annually, on or before the 31st day of March, complete and accurate reports on Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress or such form as may hereafter be promulated in its place.

E. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era (41 CFR 60-250)
(Applicable only to contracts or purchase orders for $10,000 or more.)

The affirmative action clause prescribed in Section 60-250.4 of Title 41 of the Code of Federal Regulations is incorporated herein by reference (as permitted by Section 60-250.22 of said Regulations) as if set out in full at this point. If the Operator (a) has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, then within 120 days from the effectiveness of this contract or purchase order, the Operator shall prepare and maintain an affirmative action program at each establishment which shall set forth the Operator's policies, practices and procedures in accordance with Section 60-250.6 of said Regulations.

F. Affirmative Action for Handicapped Workers (41 CFR 60-741.4)
(Applicable only to contracts or purchase orders for $2,500 or more.)

The affirmative action clause prescribed in Section 60-741.4 of Title 41 of the Code of Federal Regulations is incorporated herein by reference (as permitted by Section 60-741.22 of said Regulations, as if set out in full at this point. If the Operator (a) has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, then, within 120 days of the effectiveness of this contract or purchase order, the Operator shall prepare and maintain an affirmative action program at each establishment, which program shall set forth the Operator's policies, practices and procedures in accordance with Section 60-741.6 of said Regulations.

G. Utilization of Minority Business Enterprises (Federal Procurement Regulations 1-1.13)
(Applicable only to contracts or purchase orders which may exceed $10,000.)

(1) It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.

(2) The Operator agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American-Aleuts. Contractors may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

EXHIBIT "G"

TO_____AGREEMENT

DATED_____

BETWEEN TXO PRODUCTION CORP. AND

_____

PROVISIONS CONCERNING TAXATION

SECTION I.

The Parties recognize that this agreement creates a partnership for Federal and State income tax purposes and such Parties do hereby agree not to elect to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the United States Internal Revenue Code of 1986, as amended (hereinafter referred to as "the Code"), or any similar State Statute. The necessary Federal and State partnership income tax returns shall be filed covering operations under this agreement and Operator agrees to use its best efforts in the preparation and filing of the partnership tax returns and in making any appropriate elections on such returns, acting on behalf of itself and the other Parties hereto, but in so doing Operator shall incur no liability to any other Party with regard to such returns or elections and shall make no charges for performance of any administrative or professional service in connection with the keeping of records or the filing of returns. Each Party agrees to provide Operator with all information readily available from regularly maintained accounting records. Operator shall submit copies of all returns to the other Parties 45 days before the due date (including extensions) to permit review and approval prior to filing. Operator is hereby granted authority to make the following elections under the Code and regulations and any similar State Statutes:

A. To elect to adopt the calendar year as the annual accounting period;

B. To elect to adopt the accrual method of accounting;

C. To elect to expense intangible drilling and development costs to the full extent allowable under the Code;

D. To elect to compute the allowance for depreciation or cost recovery utilizing the maximum allowable rate and shortest life permissable under the Code;

E. To make such other elections as may be approved by the Parties;

F. To elect to reduce investment credit in lieu of basis adjustment under §48(g)(4) of the code.

SECTION II. Individual Capital Accounts.

Each party shall have a capital account consisting of the adjusted basis of its original contribution of either cash or properties to the joint operation, if any. Each Party's capital account shall be increased by the adjusted basis of additional capital contributions of property or cash and by the amount of all income and gain allocated to the Party; and decreased by the adjusted basis of property or cash distributed to the Party and all losses, expenses, and deductions allocated to the Party pursuant to this agreement.

The depletion allowance computed by the Parties individually rather than by the joint operation, as prescribed by §613A(c)(7)(D) of the Code, shall be deemed to adjust the individual capital accounts of the Parties; however, percentage depletion deductions in excess of a Party's depletable basis in a property shall not reduce such Party's capital account. The capital account will also be unaffected by a working interest assignment by one Party to another pursuant to any drilling or exploration undertaken as part of this agreement.

SECTION III. Allocations.

The Parties further agree that for Federal and State income tax purposes, the gains and losses from sales, abandonments, and other dispositions of pro-

perty and all classes of costs, expenses and credits, including depreciation and depletion, shall be shared and accounted for as follows:

1. All production and intangible drilling and development costs and all other classes of costs and expenses shall be allocated as deductions to each Party in accordance with its respective contributions to such costs;

2. Depreciation on tangible equipment shall be allocated to each Party in accordance with its contributions to the adjusted basis of such equipment, as such adjusted basis is defined in the Code and any similar State Statute;

3. Depletion on each separate oil and gas property is to be computed separately by each party, as provided in Code section 613A(c)(7)(D). Each party shall be considered to own and shall be allocated that portion of the adjusted basis (as defined in section 1011 of the Code) of each oil and gas property as of the date such property becomes subject to the Agreement equal to the ratio that its respective contribution to such adjusted basis bears to the total contributions to all parties thereto. Each party shall separately keep records of its share of the adjusted basis in each oil and gas property, adjust such share of the adjusted basis for any cost or percentage depletion taken on such property, and use such adjusted basis each year in the computation of its cost depletion and in the computation of its gain or loss on the disposition of such property. Upon the request of any party, each party shall advise the others of its adjusted basis in each oil and gas property, as computed in accordance with the provisions of this paragraph, and the depletion taken with respect thereto.

4. Any investment in property giving rise to a credit under §38 of the Code shall be allocated to the Parties in accordance with their respective contributions to the cost thereof.

5. Any other credits shall be allocated to the Parties in accordance with their respective contributions to the costs giving rise thereto.

6. Gains and losses from each sale, abandonment, or other disposition of property (other than oil, gas, or other hydrocarbon substances) will be allocated to the Parties in such manner as will reflect the gains and losses that would have been includable in their respective Income Tax Returns if such property were held by the Parties outside this agreement. The computations shall take into account each Party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the Parties' respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits, or other deductions which have been allocated to each Party with respect to such property as provided in this paragraph of this agreement.

7. Any recapture of intangible drilling and development costs, depreciation or investment tax credit shall be allocated to the Party who was allocated the deduction or credit.

8. All costs and expenses not described in subsections 1 through 7 above shall be allocated among the parties in accordance with their respective contributions to such costs and expenses.

9. Income from the production of oil and gas shall be allocated among the parties in accordance with their relative interests in the production (as specified in this agreement) giving rise to the income. Notwithstanding this subsection 9, however, each of the parties reserves the right to take in kind his respective share of production from the partnership's properties as provided in the operating agreement to which this election to be taxed as a Partnership is attached.

SECTION IV. Partnership Tax Audits.

1. Designation of Tax Matters Partner. Operator is designated tax matters partner (hereinafter in this Section IV referred to as "TMP") as defined in §6231(a)(7) of the Code. In the event of any change in TMP, the Party serving as TMP for a given taxable year shall continue as TMP with respect to all matters concerning such year. The TMP and other Parties shall use their best efforts to comply with the responsibilities outlined in this section and in §§6222 through 6232 of the

Code (including any Treasury regulations promulgated thereunder) and in do so shall incur no liability to any other Party. Notwithstanding TMP's obligation to use its best efforts in the fulfillment of its responsibilities, TMP shall not be required to incur any expenses for the preparation for or pursuance of administrative or judicial proceedings unless the Parties agree on a method for sharing such expenses.

2. Notice. The Parties shall furnish TMP with such information (including information specified in §6230(e) of the Code) as it may reasonably request to permit it to provide the Internal Revenue Service with sufficient information to allow proper notice to the Parties in accordance with §6223 of the Code.

3. Inconsistent Treatment of Partnership Item. If any Party intends to file a notice of inconsistent treatment under §6222(b) of the Code, such Party shall, at least 30 days prior to the filing of such notice, notify the other Parties of such intent and the manner in which the Party's intended treatment of a partnership item is (or may be) inconsistent with the treatment of that item by the partnership.

4. Extensions of Limitation Periods. The TMP shall not enter into any extension of the period of limitations for making assessments on behalf of any other Party without first obtaining the written consent of that Party.

5. Requests for Administrative Adjustments. No Party shall file, pursuant to §6227 of the Code, a request for an administrative adjustment of partnership items for any partnership taxable year without first notifying all other Parties. If all other Parties agree with the requested adjustment, the TMP shall file the request for administrative adjustment on behalf of the partnership. If unanimous consent is not obtained within 30 days from such notice, or within the period required to timely file the request for administrative adjustment, if shorter, any Party, including the TMP, may file a request for administrative adjustment on its own behalf.

6. Judicial Proceedings. Any Party intending to file a petition under §§6226, 6228 or other sections of the Code with respect to any partnership item, or other tax matters involving the partnership, shall notify the other Parties of such intention and the nature of the contemplated proceedings. In the case where the TMP is the Party intending to file such petition, such notice shall be given within a reasonable time to allow the other Parties to participate in the choosing of the forum in which such petition will be filed. If the Parties do not agree on the appropriate forum, then the appropriate forum shall be decided by majority vote. Each Party shall have a vote in accordance with its percentage interest in the venture for the year under audit. If a majority cannot agree, the TMP shall choose the forum. If any Party intends to seek review of any court decision rendered as a result of a proceedings instituted under the preceding part of this subsection 6 such Party shall notify the other Parties of such intended action.

7. Settlements. The TMP shall not bind any other Party to a settlement agreement without obtaining the written concurrence of any such Party who would be bound by such agreement. Any other Party who enters into a settlement agreement with the secretary of the Treasury with respect to any partnership items, as defined by §6231(a)(3) of the Code, shall notify the other Parties of such settlement agreement and its terms within 90 days from the date of settlement.

8. Windfall Profit Tax. The Parties agree to take appropriate action under §6232(c) of the Code and any Treasury regulations thereunder to assure that items required to compute the windfall profit tax are not treated as partnership items.

9. Survival. The provisions of this section (Partnership Audits) shall survive the termination of the partnership or the termination of any Party's interest in the partnership and shall remain binding on the Parties for a period of time necessary to resolve with the Internal Revenue Service of the Department of the Treasury any and all matters regarding the federal income taxation of the partnership.

SECTION V. Termination.

This partnership shall terminate with the written consent of all Parties hereto or when joint lands are discontinued and the Operating Agreement to which those lands are subject terminates. All Parties agree that they will not transfer or assign their interests in partnership income and capital in a manner to cause a termination of the partnership under §708(b)(1)(B) of the Code without written consent of all Parties hereto.

SECTION VI. Distribution Upon Dissolution.

Upon any actual dissolution of the joint operation, the business of the joint operation shall be wound-up and concluded, and the assets of the joint operation shall be distributed as described below:

1. Debts of the joint operation, other than to Parties, shall be paid; then

2. Debts owed by the joint operation to Parties shall be paid; then

3. All remaining assets of the joint operation shall be distributed to the Parties as follows:

   a. All cash on hand representing unexpended contributions by each Party shall be returned to the respective contributor, then

   b. Any property contributed by a Party in which no interest has been earned by any other Party shall be returned to such contributing Party, then

   c. If the capital accounts of the Parties as adjusted by any transactions described in subparagraphs 1, 2, and 3 a and b above are not equal to each Party's ownership interest in the partnership, the Parties hereby agree and obligate themselves as follows:

      (1) Any Party who has a negative capital account, that is, one whose balance is less than zero, shall contribute cash to the partnership sufficient to achieve a zero balance capital account.

      (2) Following the contribution pursuant to Subparagarph (1) of this paragraph, if the capital accounts of each and every Party (stated as a percentage of the capital accounts of all Parties) are not in the same ratio as each such Party's ownership interest in the partnership then the partnership shall be deemed to have sold all the property of the partnership for an amount equal to its fair market value at the time of termination. The Parties shall agree upon the fair market value of the property of the partnership; provided, however, in the event that the Parties fail to agree, Operator shall cause a nationally recognized independent engineering firm to decide the fair market value of such property. The gain or loss deemed to result from such deemed sales shall be allocated to the Parties' respective capital accounts (with no deemed distribution of the proceeds) pursuant to Subparagraph 6 under Allocations above.

      (3) If the capital accounts of the Parties, as adjusted to reflect their allocable share of gain or loss on the deemed sale under Subparagraph (2) of this paragraph, are not equal to each and every Party's ownership interest in the partnership, then all nonequal Parties shall contribute a sufficient amount of cash or other property (valued at fair market value) to the partnership to cause such Parties' capital accounts and their ownership interest to be in parity.

      (4) Following the adjustments and contributions under Subparagraphs a, b, and c above, all remaining properties of the partnership shall be distributed to the Parties in accordance with their capital accounts.

SECTION VII.

It is the intent of the Parties that these provisions be limited in their application to matters relating to Federal and State taxes based on income. It is not the purpose or intention of the Parties hereto to create any partnership, mining partnership, or association other than as above provided, and neither this agreement nor the authorizations hereunder shall be construed as creating any such relationship. Furthermore, nothing in this agreement shall be construed as providing directly or indirectly, for any joint or cooperative refining or marketing or sale of any Party's interest in oil and gas or the products therefrom.