CASE 7243: HARVEY E. YATES COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

Case No.

7243

Application

Transcripts

Small Exhibits

ETC

HEYCO

PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY

P. O. BOX 1933 SUITE 300, SECURITY NATIONAL BANK BUILDING 505/623-6601

ROSWELL, NEW MEXICO 88201

RECEIVED
JUN 11 1981
OIL CONSERVATION DIVISION
SANTA FE

June 9, 1981

Mr. Joe D. Ramey, Director
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 7243
Order No. R-6697

Dear Mr. Ramey:

Enclosed is the AFE required by Requirement Number 3 of Order No. R-6697 dated June 2, 1981.

Sincerely,

Thomas J. Hall III

TJH:ds

Enclosure

LEASE McDonald Unit WELL NUMBER

LOCATION 660' FSL & 990' FEL, Section 33, T-13S, R-36E

COUNTY Lea DEPTH 14,700' PRODUCING FORMATION Devonian

RECEIVED
JUN 11 1981
OIL CONSERVATION DIVISION
SANTA FE

	Producing Well Cost	Dry Hole Cost
Drilling and completion costs:		
Intangible drilling costs:		
Location	$ 15,000	$ 15,000
Footage 10,000 @ $26.00/ft	260,000	260,000
Daywork 38 days @ $7,255/day	275,690	275,690
Surface casing service	4,000	4,000
Intermediate casing service	20,000	20,000
Mud, water	35,000	35,000
Company supervisor, engineer	8,000	8,000
Rentals, coring service	15,000	15,000
Miscellaneous	10,000	10,000
Total intangible drilling costs	642,690	642,690
Intangible formation evaluation cost		
Logs, CNL-D , DLL-Rxo ,	30,000	30,000
DST 10 @ 2,500/ea.	25,000	25,000
Geological mud logging service	12,000	12,000
Miscellaneous	5,000	5,000
Total intangible formation evaluation	72,000	72,000
Intangible completion costs:		
Unit cost 25 days @ $1,200/day	30,000	
Production casing service	20,000	
Completion fluid	3,000	
Perforating/production logging	36,000	
Treating	30,000	
Company supervision	7,500	
Plugging expense		
Miscellaneous	5,000	10,000
Total intangible completion costs	131,500	5,000
Tangible drilling costs and completion costs:		15,000
Surface casing: 375' of 13 3/8"	6,500	6,500
Intermediate casing: 4600' of 8 5/8"	58,000	46,300
Production casing: 14,700' of 5 1/2"	170,260	
Production tubing: 14,200' of 2 3/8"	60,400	
Casing head	5,000	
Tubing head	7,000	
Christmas tree	7,000	
Subsurface equipment	3,000	
Total tangible drilling costs and completion costs	317,160	52,800
Lease equipment:		
Tanks 2 , 210 bbl	8,000	
Separator	15,000	
Flow lines	3,000	
Meter runs	1,500	
Pumping unit		
Installation costs	3,500	
Total lease equipment	31,000	
Total intangible costs	846,190	729,690
Total tangible costs	317,160	52,800
Total lease equipment	31,000	
Administrative	6,500	4,500
TOTAL COSTS	$1,200,850	$ 786,990

Prepared by: Fred G. Yates Date: 2/4/81

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

APPROVED BY:

Company

Date

HEYCO

PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY

P. O. BOX 1933 SUITE 300, SECURITY NATIONAL BANK BUILDING 505/623-6601

ROSWELL, NEW MEXICO 88201

MAR 19 1982

OIL CONSERVATION DIVISION

SANTA FE

March 17, 1982

Case 7243
Nutter

Mr. Joe D. Ramey, Director
New Mexico Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

RE: Order No. R-6697
McDonald Unit
T-13S, R-36E, N.M.P.M.
Lea County, New Mexico
(HEYCO Ref. 9049)

Dear Mr. Ramey:

On June 2, 1981, you issued Order No. R-6697, which pooled all mineral interests in several formations in Section 33 of T-13S, R-36E. Part of the Order required us to complete the proposed well within 120 days after commencement of drilling or to show cause why the Order should not be rescinded.

Although we are currently well past the 120-day time specified for completion, we believe we have been diligent in our attempts to complete the proposed well, the McDonald Unit #1. The well was spudded on June 13, 1981. On September 24, 1981, day 104, the rig was moved off after drilling to a total depth of 14,593 feet. Since early October we have been testing the well through perforations. We tested the Devonian and the Mississippian formations without success. We are presently completing the well in the Atoka formation.

We would respectfully request that Order No. R-6697 not be rescinded for failure to complete the McDonald #1 well within 120 days after commencement of drilling.

Sincerely,

Thomas J. Hall, III
Attorney

TJH,III:j
cc: Order No. R-6697

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7243
Order No. R-6697

APPLICATION OF HARVEY E. YATES
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 20, 1981, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 2nd day of June, 1981, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Harvey E. Yates Company, seeks an order pooling all mineral interests in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests from the surface down through the Devonian formation underlying the SE/4 SE/4 of said Section 33 for an oil completion, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard oil well location thereon, being an unorthodox gas well location, previously approved.

(4) That there are interest owners in the proposed proration units who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each

interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil and gas underlying the aforesaid lands, the subject application should be approved by pooling all mineral interests, whatever they may be, within each of said units.

(6) That the applicant should be designated the operator of the subject well and units.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3500.00 per month while drilling and $500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1981, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests from the surface down through the Devonian formation underlying the SE/4 SE/4 of said Section 33 for an oil completion, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit and/or a standard 40-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location thereon, being a previously approved unorthodox gas well location.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of July, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Mississippian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of July, 1981, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Harvey E. Yates Company is hereby designated the operator of the subject well and units.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnihed to him, any non-consenting

working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $3500.00 per month while drilling and $500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

S E A L
fd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
20 May 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico.

CASE 7243

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: Robert Strand, Esq.
HEYCO
Roswell, New Mexico

MR. NUTTER: We'll call Case 7243 now.

MR. PADILLA: Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico.

MR. NUTTER: I believe this case has already been heard and readvertised.

Are there any appearances in Case Number 7243 at this time?

MR. STRAND: Mr. Examiner, Robert Strand attorney from Roswell, appearing for the applicant.

I have additional copies of what was designated at the last hearing as Exhibit Number Six, and also three additional exhibits, which Mr. Stamets requested, that I've designated Seven-A, Seven-B, and Seven-C.

And I have nothing further to enter into evidence in this case.

MR. NUTTER: And he asked that this additional stuff be submitted?

MR. STRAND: Yes.

MR. NUTTER: When it was readvertised.

MR. STRAND: Yes, he did.

MR. NUTTER: Are there any appearances in Case Number 7243?

We'll take Exhibits -- accept Exhibits Seven-A, Seven-B, and Seven-C in evidence in this case.

Does anyone have any comments on Case Number 7243?

We'll take the case under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7243 heard by me on 5/20 1981.

Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

20 May 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico.

CASE 7243

BEFORE: Daniel S. Nutter

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For the Oil Conservation Division: Ernest L. Padilla, Esq.
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State Land Office Bldg.
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For the Applicant: Robert Strand, Esq.
HEYCO
Roswell New Mexico

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And I have nothing further to enter into evidence in this case.

MR. NUTTER: And he asked that this additional stuff be submitted?

MR. STRAND: Yes.

MR. NUTTER: When it was readvertised.

MR. STRAND: Yes, he did.

MR. NUTTER: Are there any appearances in Case Number 7243?

We'll take Exhibits -- accept Exhibits Seven-A, Seven-B, and Seven-C in evidence in this case.

Does anyone have any comments on Case Number 7243?

We'll take the case under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7245, heard by me on 5/20 1981.

_____, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

June 3, 1981

Re: CASE NO. 7243
ORDER NO. R-6697

Mr. Robert H. Strand, Attorney
Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88201

Applicant:

Harvey E. Yates Company

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7243
Order No. R-6697

APPLICATION OF HARVEY E. YATES
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 20, 1981, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 2nd day of June, 1981, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Harvey E. Yates Company, seeks an order pooling all mineral interests in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests from the surface down through the Devonian formation underlying the SE/4 SE/4 of said Section 33 for an oil completion, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard oil well location thereon, being an unorthodox gas well location, previously approved.

(4) That there are interest owners in the proposed proration units who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each

interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil and gas underlying the aforesaid lands, the subject application should be approved by pooling all mineral interests, whatever they may be, within each of said units.

(6) That the applicant should be designated the operator of the subject well and units.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3500.00 per month while drilling and $500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1981, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests from the surface down through the Devonian formation underlying the SE/4 SE/4 of said Section 33 for an oil completion, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit and/or a standard 40-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location thereon, being a previously approved unorthodox gas well location.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of July, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Mississippian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of July, 1981, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Harvey E. Yates Company is hereby designated the operator of the subject well and units.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting

working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $3500.00 per month while drilling and $500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

SEAL
fd/

Dockets Nos. 17-81 and 18-81 are tentatively set for June 3 and 17, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 20, 1981

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for June, 1981, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for June, 1981, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7242: (Readvertised)

Application of Harvey E. Yates Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Wolfcamp-Mississippian location of its McDonald Well No. 1 to be drilled 660 feet from the South line and 990 feet from the East line of Section 33, Township 13 South, Range 36 East, the S/2 of said Section 33 to be dedicated to the well.

CASE 7243: (Readvertised)

Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests in the Pennsylvanian-Devonian formations underlying the SE/4 SE/4 of said Section 33 for an oil completion. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7253: Application of Bandera Energy Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 27, Township 16 South, Range 35 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7254: Application of Mesa Petroleum Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde formation underlying the W/2 of Section 15, Township 30 North, Range 11 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7255: Application of Gulf Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation underlying the W/2 of Section 28, Township 18 South, Range 32 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7256: Application of Petro-Lewis Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blinebry, Drinkard, and Abo production in the wellbore of its Gulf Sarkeys Well No. 2 located in Unit F of Section 25, Township 21 South, Range 37 East.

CASE 7257: (This case will be dismissed and a different well will be docketed for hearing later.)

Application of Cities Service Company for a salt water disposal well, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Entrada formation at approximately 5300 feet in its Federal "M" Well No. 1 in Unit P of Section 21, Township 19 North, Range 5 West.

CASE 7225: (Continued from April 22, 1981, Examiner Hearing)

Application of Knox Industries, Inc. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Morrow location of its Maddox Well No. 1 to be drilled 1980 feet from the South line and 660 feet from the West line of Section 12, Township 23 South, Range 34 East, Northeast Antelope Ridge Field, the S/2 of said Section 12 to be dedicated to the well.

CASE 7258: Application of HNG Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the S/2 of Section 32, Township 21 South, Range 35 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for the risk involved in drilling said well.

CASE 7086: (Continued from April 8, 1981, Examiner Hearing)

Application of Blackwood & Nichols Company, Ltd. for designation of a tight formation, San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Pictured Cliffs formation underlying portions of Townships 30 and 31 North, Ranges 6, 7, and 8 West, containing 33,500 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

CASE 7259: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit New Mexico State University and Fireman's Fund Insurance Company to appear and show cause why two certain geothermal wells, being the New Mexico State University Well No. TG-3 and Well No. DT-4, both located in the NW/4 SE/4 of Section 14, Township 29 South, Range 8 West, Luna County, New Mexico, should not be ordered plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7260: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, contracting vertical limits, and extending horizontal limits of certain pools in Eddy, Lea, and Roosevelt Counties, New Mexico:

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Atoka production and designated as the West Antelope Ridge-Atoka Gas Pool. The discovery well is Monsanto Company Back Basin Well No. 1 located in Unit I of Section 20, Township 23 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM
Section 20: E/2

(b) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Strawn production and designated as the Antelope Ridge-Strawn Gas Pool. The discovery well is Estoril Production Corporation Curry Federal Well No. 1 located in Unit I of Section 22, Township 23 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM
Section 15: S/2
Section 22: All

(c) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Montoya production and designated as the Fowler-Montoya Pool. The discovery well is Gulf Oil Corporation Lillie Well No. 1 located in Unit D of Section 23, Township 24 South, Range 37 East, NMPM. Said pool would comprise:

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM
Section 23: NW/4

(d) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Atoka production and designated as the Grama Ridge-Atoka Gas Pool. The discovery well is Minerals, Inc. Llano 33 State Well No. 1 located in Unit J of Section 33, Township 21 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 33: S/2

(e) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the McMillan-Wolfcamp Gas Pool. The discovery well is Harbob Energy Corporation State CJ Com Well No. 1 located in Unit G of Section 24, Township 20 South, Range 26 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 26 EAST, NMPM
Section 24: N/2

(f) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Bone Spring production and designated as the North Osudo-Bone Spring Pool. The discovery well is Jake L. Hamon Hamon-Samedan-Petty Well No. 1 located in Unit N of Section 8, Township 20 South, Range 36 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 36 EAST, NMPM
Section 8: SW/4

(g) CREATE a new pool in Eddy County, New Mexico, classified as an oil pool for Wolfcamp production and designated as the West Palmillo-Wolfcamp Pool. The discovery well is Bass Enterprises Production Company Palmillo State Well No. 1 located in Unit J of Section 1, Township 19 South, Range 28 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 1: NW/4 SE/4

(h) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Atoka production and designated as the Scoggin Draw-Atoka Gas Pool. The discovery well is Amoco Production Company Federal F Gas Com Well No. 1 located in Unit G of Section 3, Township 18 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 18 SOUTH, RANGE 27 EAST, NMPM
Section 3: E/2

(i) CREATE a new pool in Roosevelt County, New Mexico, classified as an oil pool for Cisco production and designated as the East Tanneyhill-Cisco Pool. The discovery well is Energy Reserves Group, Inc. El Paso State Well No. 1 located in Unit P of Section 8, Township 6 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 6 SOUTH, RANGE 34 EAST, NMPM
Section 8: SE/4

(j) ABOLISH the Carlsbad-Canyon Gas Pool in Eddy County, New Mexico, described as: (acreage to be added to East Carlsbad-Wolfcamp Gas Pool)

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 21: S/2

(k) ABOLISH the Carlsbad Permo-Pennsylvanian Gas Pool in Eddy County, New Mexico, described as: (acreage to be added to East Carlsbad-Wolfcamp Gas Pool)

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 15: All

(l) EXTEND the Baldridge Canyon-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 24 EAST, NMPM
Section 36: S/2

TOWNSHIP 23 SOUTH, RANGE 25 EAST, NMPM
Section 31: S/2

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPM
Section 1: E/2
Section 12: E/2

TOWNSHIP 24 SOUTH, RANGE 25 EAST, NMPM
Section 6: W/2
Section 7: N/2

(m) EXTEND the Baum-Upper Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 13 SOUTH, RANGE 33 EAST, NMPM
Section 30: SE/4

(n) EXTEND the Bull's Eye-San Andres Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM
Section 12: N/2 SE/4

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM
Section 7: NW/4 SW/4

(o) EXTEND the North Caprock-Mississippian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM
Section 5: SE/4

(p) EXTEND the East Carlsbad-Wolfcamp Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 14: N/2
Section 15: All
Section 16: E/2
Section 20: E/2
Section 21: All

(q) EXTEND the Catclaw Draw-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 26 EAST, NMPM
Section 33: E/2

(r) EXTEND the Comanche Stateline Tansill-Yates-Seven Rivers-Queen Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 26 SOUTH, RANGE 36 EAST, NMPM
Section 20: E/2 NE/4

(s) EXTEND the Diamond Mound-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 6: S/2

(t) EXTEND the Dublin Ranch-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 28 EAST, NMPM
Section 22: S/2
Section 27: N/2

(u) EXTEND the East Empire Yates-Seven Rivers Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM
Section 23: NW/4 SW/4

(v) EXTEND the Hare-San Andres Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM
Section 21: S/2

(w) EXTEND the South Kemnitz Atoka-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 34 EAST, NMPM
Section 30: E/2

(x) EXTEND the North McMillan-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 27 EAST, NMPM
Section 21: S/2

(y) EXTEND the Maljamar-Strawn Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 32 EAST, NMPM
Section 28: W/2

(z) EXTEND the Malaga-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM
Section 10: S/2
Section 23: N/2

(aa) EXTEND the North Peterson-Pennsylvanian Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM
Section 17: SE/4

(bb) EXTEND the South Salt Lake-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 32 EAST, NMPM
Section 5: Lots 1, 2, 3, 4, 5, 6, 7, and 8

(cc) CONTRACT the vertical limits of the Shugart-Pennsylvanian Gas Pool to include the Morrow formation only and redesignate said pool as Shugart-Morrow Gas Pool, and extend the horizontal limits of said pool to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM
Section 26: N/2

(dd) EXTEND the North Shugart-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM
Section 7: E/2
Section 18: All

(ee) EXTEND the East Weir-Blinebry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 7: N/2 N/2
Section 8: N/2 N/2
Section 9: W/2 NW/4

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
6 May 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico.

CASE 7243

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: Robert Strand, Esq.
HARVEY E. YATES COMPANY
Roswell, New Mexico

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Applicant Exhibit Six, Cross Section 14

MR. STAMETS: We'll call next Case 7243.

MR. PADILLA: Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico.

MR. STRAND: Mr. Examiner, we will have the same appearances and witnesses in this case.

MR. STAMETS: The record will show that Mr. Yates and Mr. Thompson have previously been sworn and qualified.

GEORGE YATES

being called as a witness and being previously sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STRAND:

Q. State your full name and your position and duties with the applicant.

A. My name is George Yates. I'm Vice-President of Harvey E. Yates Company.

My responsibilities include supervising all land and exploration operations.

Q. Mr. Yates, are you familiar with the application in Case Number 7243?

A. Yes, I am.

Q. Will you please state the purpose of the application?

A. The application is for the purpose of force pooling all mineral interest in the Pennsylvanian-Mississippian formations underlying the south half of Section 33, Township 13 South, Range 36 East, Lea County, for a gas well completion at an unorthodox location, and all mineral interests from the surface through the Devonian formation underlying the southeast-southeast of Section 33 for an oil well completion at a standard location.

Q. What is the location of the proposed well?

A. 660 feet from the south line; 990 feet from the east line of Section 33, 13, 36.

Q. What are the objective formations for this well?

A. The objective formations for potential gas production include the Austin-Mississippian and Pennsylvanian.

The potential -- or the primary oil objectives are Penn carbonates and the Devonian.

Q. I refer you to Exhibit Number One. Will you please describe that exhibit?

A. Yes. Exhibit Number One is a land plat,

which shows the location of the well. It also shows the two proration units which would be dedicated to that well, one being the southeast southeast of Section 33 for an oil completion; the other being the south half of 33 for a gas completion.

Q. Mr. Yates, was there previously an order entered allowing the unorthodox gas location in the south half?

A. Yes, there was. That was OCD Order R-6381. It was entered June 18th, 1980.

Q. Does the applicant own leasehold interest under both of the proposed proration units?

A. Yes, we do.

Q. What interest owners under the proposed proration units have not agreed to the drilling of this well?

A. J. M. Huber Corporation.

MR. STRAND: Off the record for just a moment. Back on the record.

Q. Mr. Yates, would you please describe the interests owned by J. M. Huber Corporation?

A. Yes. Huber owns an interest in the southwest southeast of Section 33. Now these rights are segregated and the rights that are owned by J. M. Huber are rights from 11,385 feet to 12,474 feet subsurface. They had

a leasehold interest of 14.532 net acres, which amounts to 36.33 percent of the described acreage.

Q. Will you please describe the additional interest owned by Huber under other areas covered by the south half of Section 33?

A. Yes. Huber additionally owns leasehold interest described as the northwest of the northwest of the southeast and the south half of the northeast of the northeast and the east half of the southeast of the southeast.

The leasehold is a net 18.165 acres, which covers rights from the surface to 12,474 feet subsurface.

Q. Mr. Yates, are these the applicant's best estimates of the interests owned by J. M. Huber Corporation after considering instruments of record in Lea County and also certain unrecorded operating agreements?

A. Yes, they are.

Q. Have all other working interest owners or leasehold owners agreed at least verbally to pool their interests under the southeast quarter of the southeast quarter and/or the south half of Section 33?

A. Yes. Now, let me say yes, that every -- every other mineral interest or leasehold interest under the south half has either committed their interest by ratifying our agreement, or committing verbally, or recommended to

management and we expect all other commitments to be forthcoming shortly.

Q. I refer you to Exhibit Number Two. Would you please describe that exhibit?

A. Well, Exhibit Number Two is an operating agreement, which covers our McDonald Unit.

Q. Does that include the south half of Section 33?

A. Yes, it does.

Q. Have the interest owners, again other than J. M. Huber Corporation, having an interest under the south half of 33, agreed to the terms of this agreement?

A. Yes, they have.

Q. What are the nonconsent penalties contained in this agreement?

A. The nonconsent penalty under the operating agreement is 300 percent.

Q. In your experience is this comparable to other agreements in the area covering similar wells?

A. Actually, the nonconsent penalties are somewhat low under this unit. We have several other operating agreements in the immediate area and all those operating agreements specify 500 percent penalty.

Q. In the COPAS form attached to the oper-

ating agreement as an exhibit, what drilling and producing overhead rates are set out?

A. $3500 a month drilling rate; $500 a month producing well rate.

Q. Again, in your experience are these comparable to other wells in the area?

A. Yes. Yes, they are.

Q. Mr. Yates, do you request that such overhead and supervision rates be a part of any order entered in this case in the same amounts?

A. Yes, I do.

Q. I refer you to Exhibit Number Three. Would you please describe that?

A. Exhibit Number Three is our AFE covering the costs of drilling McDonald Unit No. 1 at the -- at the requested location.

Q. Would you please state the estimated completed and dry hole costs?

A. The estimated dry hole cost is $786,990. The producing well cost is $1,200,850.

Q. Mr. Yates, do you request that any order entered in this case designate Harvey E. Yates Company as operator of the pool unit or units?

A. Yes, I do.

Q. Were Exhibits One through Three prepared by you or under your supervision?

A. Yes, they were.

MR. STRAND: I have no further questions of Mr. Yates.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Yates, what attempts have been made to get Mr. Huber to participate in this well?

A. Mr. Examiner, we -- we have worked with J. M. Huber Corporation over a period of almost two years. We received no indication from them of -- of non-cooperation until relatively recently. Up until then we had received some encouragement that they were going to do what others were going to do.

That process includes not only reviewing terms of the operating agreement, but reviewing the interest that is required to be allocated because of the rights that are segregated.

So we have, in my judgment, done everything that we can responsibly as operator to -- to bring them in either as a participant or as a farmout party.

Q. Are there copies of correspondence from

you to J. M. Huber requesting their commitment?

A. We certainly have those.

Q. And are there copies of correspondence from Huber indicating that they don't choose to join or at least that they received your application?

A. We have a negative verbal response. I don't believe we've got it in writing.

MR. STAMETS: We should have some copies of the correspondence indicating that for the record, and you may submit that subsequent to the hearing.

MR. STRAND: All right.

MR. STAMETS: And that would be true of any party who eventually is compulsory pooled under this order, even though you think you've got everybody lined up.

MR. STRAND: Okay.

Q. Exhibit Number Three, your AFE, is that the -- I see that's based on a producing Devonian well. Would the cost be seomwhat less if you had only a Mississippian gas well?

A. The cost would be less if we had a producing Mississippian well, particularly if we didn't drill down to the Devonian.

Our intention under this unit would be to drill and test the Mississippian and to drill into the

Lower Mississippian, which is a good marker, to see if we are running high and have a good chance of structure in the Devonian. At that point, if we are running high, or we're running as mapped, we'll take it down to the Devonian.

If we're not, we complete the well if we have found sufficient reason, and the cost of that well would be somewhat less.

Q. If you don't -- let's say that the well is completed in the Mississippian initially and the lower horizons are not tested, should the Division order expire as to those horizons not penetrated?

A. Well, I would -- the force pooled order would cover only the -- the penalty would be assessed only under what was productive from the well, and should we not test the Devonian, then -- then the Commission order, I would assume, would expire as to the Devonian.

MR. STAMETS: Is there anything further? Any other questions? The witness may be excused.

RODNEY THOMPSON

being called as a witness and being previously sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STRAND:

Q. State your full name and position with Harvey E. Yates Company.

A. My name is Rodney Thompson, Exploration and Development Geologist with HEYCO in Midland.

MR. STRAND: Is Mr. Thompson considered qualified?

MR. STAMETS: Yes.

Q. Mr. Thompson, are you familiar with the application in Case Number 7243?

A. Yes.

Q. Would you please describe Exhibit Number Four?

A. Okay.

Q. And its relevance to this application?

A. Okay. Exhibit Number Four is a structure map contoured at the top of the Pennsylvanian.

Now, in this McDonald area we have multi-pay horizons that -- that occur through the region. It's located on the south flank of the Tatum Basin in Lea County, New Mexico.

Our proposed location at the Wolfcamp is shown by this structure map to be located on the top of a

structural high at the Pennsylvanian. It's offset by two producing wells from -- production listed as Upper Pennsylvanian with the State, and we believe that we're in a very good position structurally to encounter productive hydrocarbons from these Upper Pennsylvanian carbonates.

These two wells offsetting our proposed well have produced a cumulative of 90,000 barrels of oil up to January of 1979, and we believe that we can gain a good -- a structural, good structural position to these wells at the Pennsylvanian.

Q. Will you please explain Exhibit Number Five?

A. Yes. Exhibit Number Five is a structure map contoured at the top of the Austin-Mississippian carbonate. It's an anticlinal -- it shows an anticlinal structure that trends along the same structural trend as the Austin-Mississippian Field, located to the southwest.

Now, not only do we have an indication -- we have -- this is a seismic and subsurface map combined, and it indicates that our anticline -- anticlinal structure at the -- at our proposed location occurs along the same upthrown side of the fault that bounds the Austin-Mississippian Field to the southwest.

And recent drilling activity has been

occurring to the northeast from the Austin-Mississippian Field toward our proposed location, and we feel that we have a good possibility of encountering productive Austin-Mississippian carbonates at this location, being that it were -- we've mapped it to be the structurally highest place at the Austin level.

At the same time I'd like to talk about Exhibit Six.

Q. Fine, would you please explain that?

A. Yes, Exhibit Six is a stratigraphic cross section that is hung on the top of the Wolfcamp as a datum marker and the cross section extends from the Austin-Mississippian Field to the southwest through, let's see, well, one deep well in between the Austin -- the Phillips Austin Well in Section -- what Section are we in -- yeah, Section 17, southwest quarter of the southwest quarter of Section 17, and the cross section begins at that well and extends up through our proposed location in the McDonald area and on up to the well located up in Section 26 of Township 13 South, Range 36 East.

And the main purpose of the cross section is to show the regional extent of the Austin-Mississippian carbonates in this area and show that the producing horizon does occur all through this trend.

Now, the best -- the discovery well for

the Austin-Mississippian Field to the south was the Phillips Austin No. 1, which was potentialed in 1957 for 10.3 million cubic feet of gas plus 150 barrels of condensate, and this well has produced a cumulative of 4.1 billion cubic feet of gas, plus 60,000 barrels of oil since 1957 up through January of 1979.

Now, in addition to the Austin-Mississippian and the Upper Pennsylvanian carbonates, we feel that we have a good chance of getting a productive, gas-producing Atoka Sands in the Atoka siliciclastic interval in the Pennsylvanian.

A good Atoka Sand was encountered in the Betenbough Superior Well in Section 32 of Township 13 South, Range 36 East, that was later completed by Harvey E. Yates Company. This sand on a drill stem test recovered 2000 feet of gas in the drill pipe, plus 20 feet of condensate, plus 285 feet of condensate and gas-cut mud. And this well has recently been completed and is flowing gas, as well as condensate from this Atoka Sand interval.

Now, as Mr. Yates said earlier, when we reach the top of the Austin-Mississippian pay zone and drill through it, we are going to check our structural position at that point and see how we're running structurally. If we're high, or at least even, for example, to the Phillips

Austin No. 1 Well down in Section 17, 14 South, 36 East, we'd like to take the well down to the Devonian because there's good possibilities we'd have structural closure at the Devonian if we're running high at the Mississippian.

Now the Devonian is productive in the area in the Gladiola and King Fields to the northeast. It's productive in the Caddo Field to the south, as well as the Denton Field to the east, and average cumulative reserves per well in these fields are around 500,000 barrels of oil.

And we think that we're in a similar structural situation as has been found in this -- in the Devonian production in the area.

To summarize, then, we're going to test a proven subsurface structure that shows indications of structure not only in the regional trend but also at the Wolfcamp, which indicates that there is a good chance of being a deep seated structure below the Wolfcamp where these reservoir quality Upper Pennsylvanian carbonates have developed.

And in addition to that, we have strong secondary objectives in the Atoka Sand of the Atoka siliciclastic interval, as well as the oil bearing Devonian carbonates. And we feel that the location we've chosen is the optimum location for the prospect and with the lowest risk involved.

Q. Mr. Thompson, in regard to risk, in your

experience has drilling any well to this depth been considered a rather risky proposition?

A. I think it's regarded as a risky proposition. The more horizons that are productive in the -- under the prospect lowers your risk considerably, but going to the Devonian is always risky, even if you have seismic that indicates you drew a structural high.

Q. Mr. Thompson, the Division has statutory authority to allow recovery of costs from nonconsenting interest owners, plus a reasonable pentalty for risk, up to 200 percent of cost of drilling and supervision. What would you recommend as a penalty in the order entered in this case?

A. I would say the maximum.

Q. 200 percent?

A. Yes.

Q. Mr. Thompson, in your opinion will approval of this application in Case Number 7243 prevent waste and promote conservation and protect correlative rights?

A. Yes, I believe it will.

Q. Were Exhibits Four, Five, and Six prepared by you or under your supervision?

A. Yes, under my supervision.

MR. STRAND: Mr. Examiner, I move admission of Exhibits One through Six.

MR. STAMETS: These exhibits will be admitted.

MR. STRAND: I have no further questions of Mr. Thompson.

MR. STAMETS: Mr. Thompson, or Mr. Yates, or anybody can answer this question, who has the answer.

What's the pool name for that Upper Pennsylvanian oil production?

A. That's, I believe, the McDonald Pool.

MR. YATES: Yeah, it's the McDonald.

MR. STAMETS: Okay, and what's the spacing for that?

A. I believe it's 40 acres. I'd have to check to be sure. It may be 80.

MR. STRAND: Mr. Examiner, I believe the two existing wells are on 40-acre spacing, to the best I've been able to determine.

MR. STAMETS: Okay. There would be, then, no ownership problem if it's on 40 with what you propose to be pooled with what's standard spacing in that Upper Penn spacing. Okay.

Any other questions of the witness? He may be excused.

Anything further in this case?

The case will be taken under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7243, heard by me on 5-6, 1981.

Richard L. Stamets, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
6 May 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico.

CASE 7243

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: Robert Strand, Esq.
HARVEY E. YATES COMPANY
Roswell, New Mexico

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GEORGE YATES

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Applicant Exhibit Two, Operating Agreement 7

Applicant Exhibit Three, AFE 8

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Applicant Exhibit Five, Structure Map 13

Applicant Exhibit Six, Cross Section 14

MR. STAMETS: We'll call next Case 7243.

MR. PADILLA: Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico.

MR. STRAND: Mr. Examiner, we will have the same appearances and witnesses in this case.

MR. STAMETS: The record will show that Mr. Yates and Mr. Thompson have previously been sworn and qualified.

GEORGE YATES

being called as a witness and being previously sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STRAND:

Q. State your full name and your position and duties with the applicant.

A. My name is George Yates. I'm Vice-President of Harvey E. Yates Company.

My responsibilities include supervising all land and exploration operations.

Q. Mr. Yates, are you familiar with the application in Case Number 7243?

A. Yes, I am.

Q. Will you please state the purpose of the application?

A. The application is for the purpose of force pooling all mineral interest in the Pennsylvanian-Mississippian formations underlying the south half of Section 33, Township 13 South, Range 36 East, Lea County, for a gas well completion at an unorthodox location, and all mineral interests from the surface through the Devonian formation underlying the southeast-southeast of Section 33 for an oil well completion at a standard location.

Q. What is the location of the proposed well?

A. 660 feet from the south line; 990 feet from the east line of Section 33, 13, 36.

Q. What are the objective formations for this well?

A. The objective formations for potential gas production include the Austin--Mississippian and Pennsylvanian.

The potential -- or the primary oil objectives are Penn carbonates and the Devonian.

Q. I refer you to Exhibit Number One. Will you please describe that exhibit?

A. Yes. Exhibit Number One is a land plat,

which shows the location of the well. It also shows the two proration units which would be dedicated to that well, one being the southeast southeast of Section 33 for an oil completion; the other being the south half of 33 for a gas completion.

Q. Mr. Yates, was there previously an order entered allowing the unorthodox gas location in the south half?

A. Yes, there was. That was OCD Order R-6381. It was entered June 18th, 1980.

Q. Does the applicant own leasehold interest under both of the proposed proration units?

A. Yes, we do.

Q. What interest owners under the proposed proration units have not agreed to the drilling of this well?

A. J. M. Huber Corporation.

MR. STRAND: Off the record for just a moment. Back on the record.

Q. Mr. Yates, would you please describe the interests owned by J. M. Huber Corporation?

A. Yes. Huber owns an interest in the southwest southeast of Section 33. Now these rights are segregated and the rights that are owned by J. M. Huber are rights from 11,385 feet to 12,474 feet subsurface. They had

a leasehold interest of 14.532 net acres, which amounts to 36.33 percent of the described acreage.

Q. Will you please describe the additional interest owned by Huber under other areas covered by the south half of Section 33?

A. Yes. Huber additionally owns leasehold interest described as the northwest of the northwest of the southeast and the south half of the northeast of the northeast and the east half of the southeast of the southeast.

The leasehold is a net 16.165 acres, which covers rights from the surface to 12,474 feet subsurface.

Q. Mr. Yates, are these the applicant's best estimates of the interests owned by J. M. Huber Corporation after considering instruments of record in Lea County and also certain unrecorded operating agreements?

A. Yes, they are.

Q. Have all other working interest owners or leasehold owners agreed at least verbally to pool their interests under the southeast quarter of the southeast quarter and/or the south half of Section 33?

A. Yes. Now, let me say yes, that every -- every other mineral interest or leasehold interest under the south half has either committed their interest by ratifying our agreement, or committing verbally, or recommended to

management and we expect all other commitments to be forthcoming shortly.

Q. I refer you to Exhibit Number Two. Would you please describe that exhibit?

A. Well, Exhibit Number Two is an operating agreement, which covers our McDonald Unit.

Q. Does that include the south half of Section 33?

A. Yes, it does.

Q. Have the interest owners, again other than J. M. Huber Corporation, having an interest under the south half of 33, agreed to the terms of this agreement?

A. Yes, they have.

Q. What are the nonconsent penalties contained in this agreement?

A. The nonconsent penalty under the operating agreement is 300 percent.

Q. In your experience is this comparable to other agreements in the area covering similar wells?

A. Actually, the nonconsent penalties are somewhat low under this unit. We have several other operating agreements in the immediate area and all those operating agreements specify 500 percent penalty.

Q. In the COPAS form attached to the oper-

ating agreement as an exhibit, what drilling and producing overhead rates are set out?

A. $3500 a month drilling rate; $500 a month producing well rate.

Q. Again, in your experience are these comparable to other wells in the area?

A. Yes. Yes, they are.

Q. Mr. Yates, do you request that such overhead and supervision rates be a part of any order entered in this case in the same amounts?

A. Yes, I do.

Q. I refer you to Exhibit Number Three. Would you please describe that?

A. Exhibit Number Three is our AFE covering the costs of drilling McDonald Unit No. 1 at the -- at the requested location.

Q. Would you please state the estimated completed and dry hole costs?

A. The estimated dry hole cost is $786,990. The producing well cost is $1,200,850.

Q. Mr. Yates, do you request that any order entered in this case designate Harvey E. Yates Company as operator of the pool unit or units?

A. Yes, I do.

Q. Were Exhibits One through Three prepared by you or under your supervision?

A. Yes, they were.

MR. STRAND: I have no further questions of Mr. Yates.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Yates, what attempts have been made to get Mr. Huber to participate in this well?

A. Mr. Examiner, we -- we have worked with J. M. Huber Corporation over a period of almost two years. We received no indication from them of -- of non-cooperation until relatively recently. Up until then we had received some encouragement that they were going to do what others were going to do.

That process includes not only reviewing terms of the operating agreement, but reviewing the interest that is required to be allocated because of the rights that are segregated.

So we have, in my judgment, done everything that we can responsibly as operator to -- to bring them in either as a participant or as a farmout party.

Q. Are there copies of correspondence from

you to J. M. Huber requesting their commitment?

A. We certainly have those.

Q. And are there copies of correspondence from Huber indicating that they don't choose to join or at least that they received your application?

A. We have a negative verbal response. I don't believe we've got it in writing.

MR. STAMETS: We should have some copies of the correspondence indicating that for the record, and you may submit that subsequent to the hearing.

MR. STRAND: All right.

MR. STAMETS: And that would be true of any party who eventually is compulsory pooled under this order, even though you think you've got everybody lined up.

MR. STRAND: Okay.

Q. Exhibit Number Three, your AFE, is that the -- I see that's based on a producing Devonian well. Would the cost be seomwhat less if you had only a Mississippian gas well?

A. The cost would be less if we had a producing Mississippian well, particularly if we didn't drill down to the Devonian.

Our intention under this unit would be to drill and test the Mississippian and to drill into the

Lower Mississippian, which is a good marker, to see if we are running high and have a good chance of structure in the Devonian. At that point, if we are running high, or we're running as mapped, we'll take it down to the Devonian.

If we're not, we complete the well if we have found sufficient reason and the cost of that well would be somewhat less.

Q. If you don't -- let's say that the well is completed in the Mississippian initially and the lower horizons are not tested, should the Division order expire as to those horizons not penetrated?

A. Well, I would -- the force pooled order would cover only the -- the penalty would be assessed only under what was productive from the well, and should we not test the Devonian then -- then the Commission order, I would assume, would expire as to the Devonian.

MR. STAMETS: Is there anything further? Any other questions? The witness may be excused.

RODNEY THOMPSON

being called as a witness and being previously sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STRAND:

Q. State your full name and position with Harvey E. Yates Company.

A. My name is Rodney Thompson, Exploration and Development Geologist with HEYCO in Midland.

MR. STRAND: Is Mr. Thompson considered qualified?

MR. STAMETS: Yes.

Q. Mr. Thompson, are you familiar with the application in Case Number 7243?

A. Yes.

Q. Would you please describe Exhibit Number Four?

A. Okay.

Q. And its relevance to this application?

A. Okay. Exhibit Number Four is a structure map contoured at the top of the Pennsylvanian.

Now, in this McDonald area we have multi-pay horizons that -- that occur through the region. It's located on the south flank of the Tatum Basin in Lea County, New Mexico.

Our proposed location at the Wolfcamp is shown by this structure map to be located on the top of a

structural high at the Pennsylvanian. It's offset by two producing wells from -- production listed as Upper Pennsylvanian with the State, and we believe that we're in a very good position structurally to encounter productive hydrocarbons from these Upper Pennsylvanian carbonates.

These two wells offsetting our proposed well have produced a cumulative of 90,000 barrels of oil up to January of 1979, and we believe that we can gain a good -- a structural, good structural position to these wells at the Pennsylvanian.

Q. Will you please explain Exhibit Number Five?

A. Yes. Exhibit Number Five is a structure map contoured at the top of the Austin-Mississippian carbonate. It's an anticlinal -- it shows an anticlinal structure that trends along the same structural trend as the Austin-Mississippian Field, located to the southwest.

Now, not only do we have an indication -- we have -- this is a seismic and subsurface map combined, and it indicates that our anticline -- anticlinal structure at the -- at our proposed location occurs along the same upthrown side of the fault that bounds the Austin-Mississippian Field to the southwest.

And recent drilling activity has been

occurring to the northeast from the Austin-Mississippian Field toward our proposed location, and we feel that we have a good possibility of encountering productive Austin-Mississippian carbonates at this location, being that it were -- we've mapped it to be the structurally highest place at the Austin level.

At the same time I'd like to talk about Exhibit Six.

Q. Fine, would you please explain that?

A. Yes. Exhibit Six is a stratigraphic cross section that is hung on the top of the Wolfcamp as a datum marker and the cross section extends from the Austin-Mississippian Field to the southwest through, let's see, well, one deep well in between the Austin -- the Phillips Austin Well in Section -- what Section are we in -- yeah, Section 17, southwest quarter of the southwest quarter of Section 17, and the cross section begins at that well and extends up through our proposed location in the McDonald area and on up to the well located up in Section 26 of Township 13 South, Range 36 East.

And the main purpose of the cross section is to show the regional extent of the Austin-Mississippian carbonates in this area and show that the producing horizon does occur all through this trend.

Now, the best -- the discovery well for

the Austin-Mississippian Field to the south was the Phillips Austin No. 1, which was potentialed in 1957 for 10.3 million cubic feet of gas plus 150 barrels of condensate, and this well has produced a cumulative of 4.1 billion cubic feet of gas, plus 60,000 barrels of oil since 1957 up through January of 1979.

Now, in addition to the Austin-Mississippian and the Upper Pennsylvanian carbonates, we feel that we have a good chance of getting a productive, gas-producing Atoka Sands in the Atoka siliciclastic interval in the Pennsylvanian.

A good Atoka Sand was encountered in the Betenbough Superior Well in Section 32 of Township 13 South, Range 36 East, that was later completed by Harvey E. Yates Company. This sand on a drill stem test recovered 2000 feet of gas in the drill pipe, plus 20 feet of condensate, plus 285 feet of condensate and gas-cut mud. And this well has recently been completed and is flowing gas, as well as condensate from this Atoka Sand interval.

Now, as Mr. Yates said earlier, when we reach the top of the Austin-Mississippian pay zone and drill through it, we are going to check our structural position at that point and see how we're running structurally. If we're high, or at least even, for example, to the Phillips

Austin No. 1 Well down in Section 17, 14 South, 36 East, we'd like to take the well down to the Devonian because there's good possibilities we'd have structural closure at the Devonian if we're running high at the Mississippian.

Now the Devonian is productive in the area in the Gladiola and King Fields to the northeast. It's productive in the Caddo Field to the south, as well as the Denton Field to the east, and average cumulative reserves per well in these fields are around 500,000 barrels of oil.

And we think that we're in a similar structural situation as has been found in this -- in the Devonian production in the area.

To summarize, then, we're going to test a proven subsurface structure that shows indications of structure not only in the regional trend but also at the Wolfcamp, which indicates that there is a good chance of being a deep seated structure below the Wolfcamp where these reservoir quality Upper Pennsylvanian carbonates have developed.

And in addition to that, we have strong secondary objectives in the Atoka Sand of the Atoka siliciclastic interval, as well as the oil bearing Devonian carbonates. And we feel that the location we've chosen is the optimum location for the prospect and with the lowest risk involved.

Q. Mr. Thompson, in regard to risk, in your

experience has drilling any well to this depth been considered a rather risky proposition?

A. I think it's regarded as a risky proposition. The more horizons that are productive in the -- under the prospect lowers your risk considerably, but going to the Devonian is always risky, even if you have seismic that indicates you drew a structural high.

Q. Mr. Thompson, the Division has statutory authority to allow recovery of costs from nonconsenting interest owners, plus a reasonable pentalty for risk, up to 200 percent of cost of drilling and supervision. What would you recommend as a penalty in the order entered in this case?

A. I would say the maximum.

Q. 200 percent?

A. Yes.

Q. Mr. Thompson, in your opinion will approval of this application in Case Number 7243 prevent waste and promote conservation and protect correlative rights?

A. Yes, I believe it will.

Q. Were Exhibits Four, Five, and Six prepared by you or under your supervision?

A. Yes, under my supervision.

MR. STRAND: Mr. Examiner, I move admission of Exhibits One through Six.

MR. STAMETS: These exhibits will be admitted.

MR. STRAND: I have no further questions of Mr. Thompson.

MR. STAMETS: Mr. Thompson, or Mr. Yates, or anybody can answer this question, who has the answer.

What's the pool name for that Upper Pennsylvanian oil production?

A That's, I believe, the McDonald Pool.

MR. YATES: Yeah, it's the McDonald.

MR. STAMETS: Okay, and what's the spacing for that?

A I believe it's 40 acres. I'd have to check to be sure. It may be 80.

MR. STRAND: Mr. Examiner, I believe the two existing wells are on 40-acre spacing, to the best I've been able to determine.

MR. STAMETS: Okay. There would be, then, no ownership problem if it's on 40 with what you propose to be pooled with what's standard spacing in that Upper Penn spacing. Okay.

Any other questions of the witness? He may be excused.

Anything further in this case?

The case will be taken under advisement.

(Hearing concluded.)

C E R T I F I C A T E

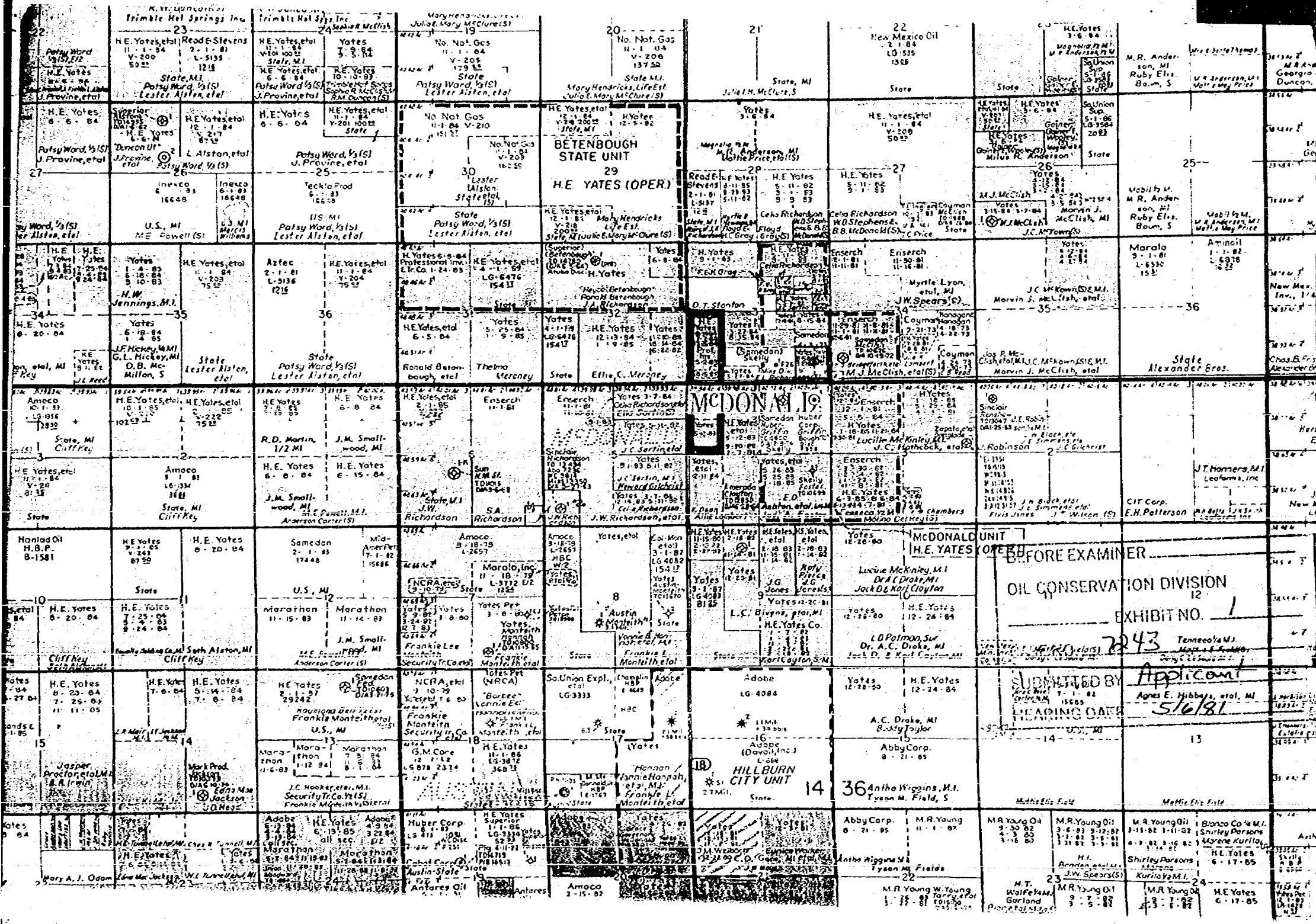
I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

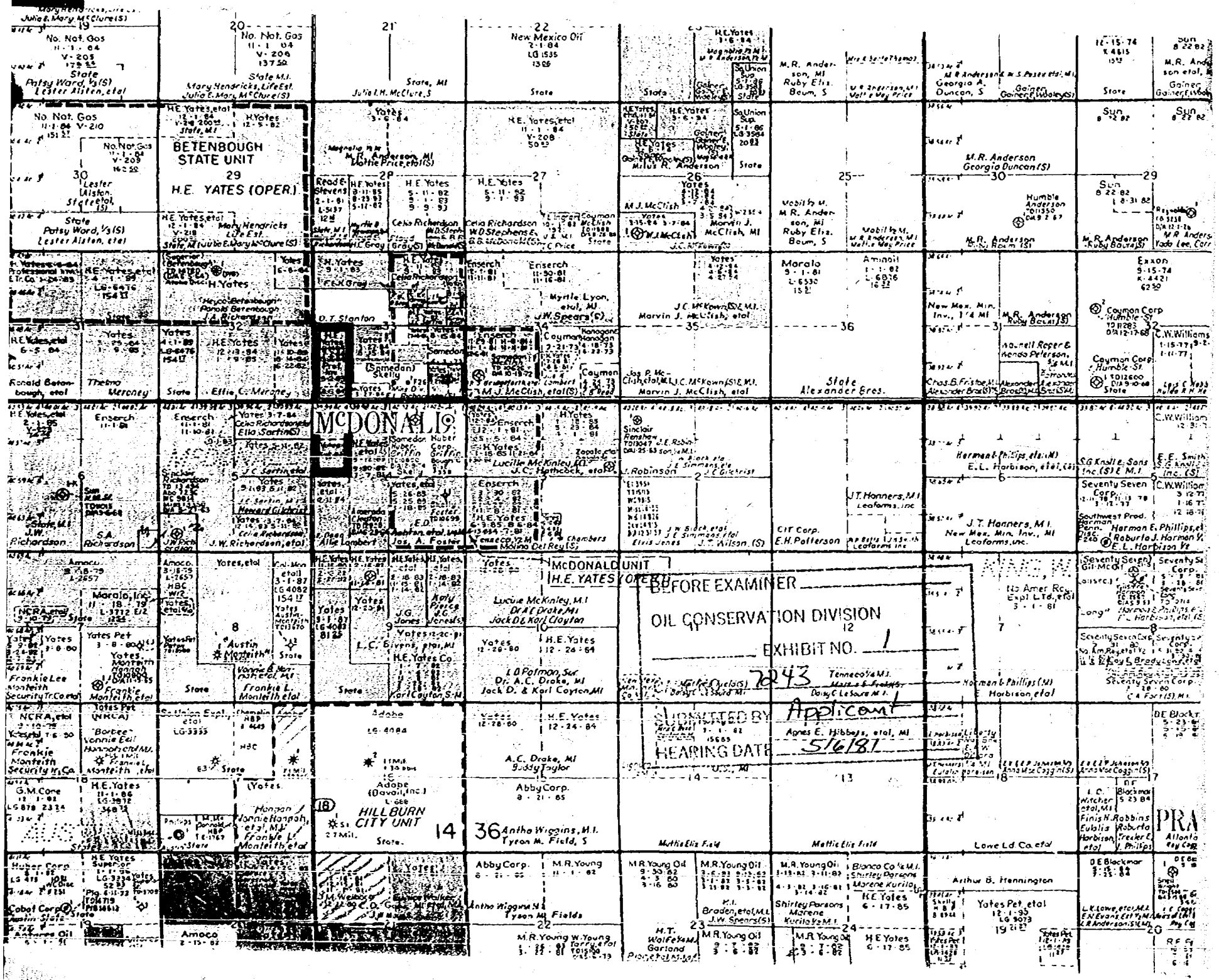
Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. _____, heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409


BETENBOUGH STATE UNIT
29
H.E. YATES (OPER.)
McDONALD
19
HILLBURN CITY UNIT
14
McDONALD UNIT
H.E. YATES (OPER.)
BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 1
CASE NO. 7243
SUBMITTED BY
Applicant
HEARING DATE
5/6/81


BETENBOUGH
STATE UNIT
29
H.E. YATES (OPER.)
McDONALD
McDONALD UNIT
H.E. YATES (OPER.)
BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 1
7243
SUBMITTED BY
Applicant
HEARING DATE
5/16/81
HILLBURN
CITY UNIT
14
PRA

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

MCDONALD UNIT

OPERATING AGREEMENT

DATED

June 17, 19 80,

OPERATOR HARVEY E. YATES COMPANY

CONTRACT AREA Township 13 South, Range 36 East, N.M.P.M.
Section 33: S/2
Section 34: SW/4

Township 14 South, Range 36 East, N.M.P.M.
Section 3: W/2
Section 4: All

COUNTY OR PARISH OF LEA STATE OF NEW MEXICO

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 2
CASE NO. 7243
Applicant
RENDATE 5/6/81

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between HARVEY E. YATES COMPANY P. O. Box 1933, Roswell, New Mexico 88201, 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.

I. The term "Contributing Parties" shall include Samedan Oil Corporation, J. M. Huber Corporation and Geodynamics Oil & Gas, Inc.

J. The term "Earning Parties" shall include Harvey E. Yates Company.

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

ARTICLE II.
EXHIBITS

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

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

[X] A-1. Schedule of Leases

[X] B. Exhibit "B", Form of Lease.

[X] C. Exhibit "C", Accounting Procedure.

[X] D. Exhibit "D", Insurance.

[X] E. Exhibit "E", Gas Balancing Agreement.

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

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

(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; and

(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 interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(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; and

(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 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 not be considered failure of title but 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:

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

660 feet from the South Line and 990 feet from the East Line
Section 33, Township 13 South, Range 36 East, N.M.P.M.
Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth adequate to test the Austin Mississippian formation or to a depth of 13,500 feet whichever is shallower. Upon reaching such depth, Operator shall further have the option to drill said well to a depth adequate to test the Devonian formation or to a depth of 14,700 feet whichever is shallower,
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. Operators only liability for failure to commence said test well shall be the ipsofacto termination of this agreement.

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

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

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 parties 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 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 or 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.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. 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 sixty (60) 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 where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. 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 (a) the total interest of the parties approving such operation, and (b) 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 or 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' interest. 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 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, 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, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

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

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

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

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, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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.

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) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

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

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

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

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, 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 pursuant to Article VI.B.2., any well which has been drilled 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 or 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 of such well. Any party who objects to the 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 which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein 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 such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and 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 year and so long thereafter as oil and/or gas is produced from the interval or inter-

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within thirty(30) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars ($15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Ten Thousand Dollars ($ 10,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 12.5% of 8/8 due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking 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.

G. 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. Operator shall bill other parties for their proportionate share 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, 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.

H. 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 an amount equivalent to the premium which would have been paid had such insurance been obtained. 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 fully owned 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 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 desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one 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, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. 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 is in favor of more than one party, the assigned interest shall

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

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned 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 without warranty, 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 apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution 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 said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the 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. This paragraph shall not be applicable to the contribution of acreage by the Contributing Parties toward the Initial or Substitute Test Well.

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

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

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars ($ 5,000.00) 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 expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. 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, the party shall immediately notify Operator, 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 United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party 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 United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof 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 subjected 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, and/or so long as oil and/or gas production continues from any lease or oil and gas interest

[X] 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 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

A. Substitute Well:

1. If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of Operator, to drill the well to the Objective Depth, then and in any of such events, on or before 30 days after completion of the Initial Well, Operator shall have the option to commence the actual drilling of another well ("Substitute Well") at a lawful location of Operator's selection on the Unit Area, and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

2. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.

B. Allocation of Costs, Risk, and Expenses Between the Shallow and Deep Units:

1. All costs, risks and expenses of wells drilled on the Contract Area shall be shared and borne by the Shallow Unit interest owners and Deep Unit interest owners as shown on Exhibit "A" as follows:

a. Wells completed either for Shallow Unit production only or for Deep Unit production only.

Drilling and casing costs shall be apportioned between and shall be paid by the Shallow Unit and the Deep Unit owners as follows:

(1) From the surface to first completion in point of depth below the surface shall be shared and borne solely by the owners of the producing rights in the depth interval (shallow or deep) in which such well was completed.

(2) From preceding completion in point of depth to total depth drilled shall be shared and borne solely by the Deep Unit.

All other costs, risks and expenses of any such well shall be shared and borne solely by the owners of the producing rights in the depth interval which such well was completed.

b. Wells Plugged as Dry Holes:

All costs, risks and expenses of any such well shall be shared and borne by the Deep Unit.

c. Wells which are Completed for Shallow Unit Production from one or more Sources of Supply and for Deep Unit Production.

Drilling and casing costs shall be apportioned between and shall be paid by the Shallow Unit and the Deep Unit, as follows:

(1) From the surface to first completion in point of depth below the surface.

(i) Shallow Unit in the proportion of Shallow Unit completions to the total number of completions in said well.

(ii) Deep Unit in the proportion of Deep Unit completions to the the total number of completions in said well.

(2) Subsequent completions in point of depth below the surface:

Costs from preceding completion in point of depth to next completion in point of depth - 100% by the owners of the production which is obtained from such subsequent completions, i.e., to the Shallow Unit if completed in the Shallow interval; to the Deep Unit if completed in the Deep interval.

(3) Below last completion in point of depth below surface; 100% to the Deep Unit.

(4) Costs of testing, completing and equipping which can be directly attributed to a proposed Shallow interval completion or a proposed Deep interval completion shall be borne 100% by the owners of the production sought from such proposed completion; all other such costs shall be apportioned between the Shallow Unit and Deep Unit as provided hereinabove in Paragraph B.1.c(1).

2. OPERATING COSTS:

Anything in this agreement which may be to the contrary notwithstanding, the costs, risks and expenses of operating producing wells on the Contract Area shall be shared and borne as follows:

a. Wells Completed for Shallow Unit Production Only or Deep Unit Production Only:

All costs of operating any such well shall be allocated solely to the owners of the producing rights in the depth interval (shallow or deep) in which such well was completed.

b. Wells Completed for Shallow Production from One or More Sources of Supply and for Deep Unit Production:

(1) Each completion shall be treated as a separate well for overhead and district and camp expense. Such expense shall be allocated separately to the Shallow Unit as to Shallow Unit completions and to the Deep Unit as to Deep Unit completions.

(2) The costs, risks and expenses of normal producing operations including costs of labor, repairs, maintenance and replacement of equipment which can be attributed directly to a Shallow Unit completion or to a Deep Unit completion shall be so allocated; all other costs, risks and expenses of normal producing operations, including costs of labor, repairs, maintenance and replacement of equipment necessitated by ordinary use and all costs of operations performed for the joint benefit of both Deep Unit and Shallow Unit completions, and all costs of repairs or action to deal with emergencies which arise in the course of multiple operations shall be allocated between the Shallow Unit and Deep Unit as provided hereinabove in Paragraph B.1.c(1).

3. WORK-OVER OPERATIONS:

Anything in this agreement which may be to the contrary notwithstanding, the allocation of costs of Work-Over operations on the Contract Area shall be as follows:

a. Work-Over Operations Generally:

(1) Cost of any work-over operations which is directly attributable to either the Shallow Unit or the Deep Unit, including but not limited to operations such as treating and perforating, shall be allocated to the Shallow Unit as to operations attributable to the Shallow Unit or to the Deep Unit as to operations attributable to the Deep Unit.

(2) All costs of material, equipment, repairs, replacements and labor not directly related to either the Shallow Unit or the Deep Unit, including but not limited to repair and correction of leaks which may result in communication between the producing zones within the well bore, shall be allocated between the Shallow Unit and Deep Unit in the same manner as provided hereinabove in Paragraph B.1.c(1).

(3) There shall be no liability between the Shallow Unit and the Deep Unit for cessation of production during such reworking operations for a period of time not exceeding a total of one hundred twenty (120) days. In the event such cessation of production during work-over operations is for a longer period of time, the owners of the production from the zone being reworked, shall pay to the owners of the production from the zone not being reworked, damages in such amount to be determined on a negotiated basis, for loss of production occurring after the one hundred twenty (120) day period.

C. Earning Provisions:

1. J. M. Huber Corporation and Geo-Dynamics Oil and Gas, Inc., Farmouts:

Contributing parties J. M. Huber Corporation (Huber) and Geo-Dynamics Oil & Gas, Inc., (Geo-Dynamics) own interests under the Contract Area as shown on Exhibit "A" and "A-1" attached hereto. In consideration of the mutual convenants contained herein, it is agreed by and between Huber and Geo-Dynamics as Contributing Parties and Harvey E. Yates Company (HEYCO) as an Earning Party as follows:

a. If the initial well provided for herein is completed as a producer of oil and/or gas in paying quantities, Huber and Geo-Dynamics shall execute and deliver to HEYCO assignments, made without warranty of title either express or implied, conveying their entire interest under the shallow and deep units as shown on Exhibit "A" to a depth of 100 feet below the stratigraphic equivalent of the deepest depth drilled in the initial well.

b. Huber and Geo-Dynamics shall except and reserve from the assignments provided for above an overriding royalty interest equal to 1/8 of the pro-

ceeds received from sale of all (8/8) of the oil and gas which may be produced, saved and marketed from the Shallow and Deep Units. These overriding royalties shall be computed and paid at the same time and in the same manner that royalties payable to the lessor under the terms of the lease are computed and paid, and Huber and Geo-Dynamics shall be responsible for their proportionate part of all taxes and assessments levied upon or against or measured by the production of oil and gas therefrom. These overriding royalties shall be proportionately reduced to reflect the percentage of acreage under the Shallow and Deep Units attributable to Huber and Geo-Dynamics as shown on Exhibit "A". No change in the ownership of the overriding royalty shall be binding upon HEYCO until such time as it shall have been furnished with either the original, a certified copy or an acceptable reporduction copy of the recorded instrument or instruments effecting the change in ownership.

2. Samedan Oil Corporation Farmout:

Contributing Party Samedan Oil Corporation (Samedan) owns an interest under the Contract Area as shown on Exhibits "A" and "A-1" attached hereto. In consideration of the mutual covenants contained herein, it is agreed by and between Samedan as a Contributing Party and Harvey E. Yates Company (HEYCO) as an Earning Party as follows:

a. If the initial well provided for herein is completed as a producer of oil and/or gas in paying quantities, Samedan shall deliver to HEYCO an assignment, without warranty of title either express or implied conveying its entire interest under the proration unit assigned to said initial well and 75% of its interest outside of said initial proration unit to a depth of 100 feet below the stratigraphic equivalent of the deepest depth drilled in the initial well.

b. Samedan shall except and reserve from the assignment provided for above an overriding royalty interest equal to 1/16 of the proceeds received from sale of all (8/8) of the oil and gas which may be produced, saved and marketed from said initial well. This overriding royalty shall be computed and paid at the same time and in the same manner that royalties payable to the lessor under the terms of the lease are computed and paid, and Samedan shall be responsible for its proportionate part of all taxes and assessments levied upon or against or measured by the production of oil and gas therefrom. This overriding royalty shall be proportionately reduced to reflect the percentage of acreage under the Shallow and Deep Units owned by Samedan as shown on Exhibit "A". No change in the ownership of the overriding royalty shall be binding upon HEYCO until such time as it shall have been furnished with either the original, a certified copy or an acceptable reporduction copy of the recorded instrument or instruments effecting the change in ownership.

c. "Payout" is defined to be the date on which the income, exclusive of production, conservation, severance and sales taxes attributable to the initial well for drilling, completing and equipping the same, plus all costs for operating the well to produce such amount. During Payout, HEYCO shall provide to Samedan current monthly statements summarizing all receipts and disbursements that are necessary to determine Payout. Within 30 days after Payout has occurred, HEYCO shall give Samedan written notice of such fact, and Samedan shall have 30 days after receipt of the notice of Payout within which to severally elect to convert, effective at Payout, the overriding royalty reserved to it above, to a proportionately reduced 25% working interest under the proration unit assigned to said well. Failure to elect to convert said overriding royalty interest into a working interest shall not terminate the override, and such interest shall remain in full force and effect.

3. Risk, Cost and Expense of Operations:

The entire cost, risk and expense of drilling, completing and operating, or plugging and abandoning, the wells drilled on the Contract Area shall be borne by

the parties in the proportions set forth in Exhibit "A", Section 2, attached hereto. HEYCO shall incur no liability for failure to commence said initial well by December 31, 1980, except that its rights hereunder shall terminate.

D. At least twenty-four (24) hours prior to conducting any testing, coring, logging, completing or abandoning operations, Operator shall notify the other parties participating in the costs thereof so that they may have a representative present to witness such tests or operations if they so desire.

E. In the event this agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any laws, rules, regulations, ordinances or orders, as set out in Article XIV.A., the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

F. Nothing herein contained shall grant, nor be construed to grant, Operator the right nor authority to waive or release any rights, privileges, or obligations which Non-Operators hereunder 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 on tracts offsetting or adjacent to the area covered by this agreement, as for example but without limitation, Operator shall not have the right to waive any rights which Non-Operators may have in reference to the location, operation, or production of wells on tracts offsetting or adjacent to the area covered hereby.

G. Notwithstanding anything contained herein to the contrary, in the event any well drilled hereunder is plugged and abandoned, all tubular goods which are a part of said well shall be subject to the right of the party procuring and furnishing same for joint operations hereunder to receive such goods in kind at the well site, such option to be exercised by notice in writing to Operator prior to abandonment. In the event such option is exercised, the remaining party or parties hereto shall be credited with their proportionate shares of the value of such goods as provided in the attached Accounting Procedure.

H. Operator shall prepare and disseminate all publicity releases and educational information deemed desirable concerning operations hereunder and in such publicity releases and information shall make reference to all the Parties to this Agreement; provided, however, Operator shall consult with the other Parties to this Agreement as to the wording of and advisability of disseminating such publicity releases and educational information, except in the event of an emergency when prompt action is mandated. This paragraph shall not prevent any Party from publishing a story or news item concerning such operations in its own magazine or newspaper.

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 17th day of June, 19 80.

OPERATOR

ATTEST

HARVEY E. YATES COMPANY

_____

Assistant Secretary

By: _____

George M. Yates, Vice President

NON-OPERATORS

ATTEST:

GETTY OIL COMPANY

_____

Secretary

By: _____

President

ATTEST:

SAMEDAN OIL CORPORATION

_____

Secretary

By: _____

President

ATTEST:

CAYMAN CORPORATION

_____

Secretary

BY: _____

President

ATTEST:

J. M. HUBER CORPORATION

_____

Secretary

By: _____

President

ATTEST:

GEO-DYNAMICS OIL & GAS, INC.
By: Adobe Oil Corportion

_____

Secretary

By: _____

President

ATTEST:

DALPORT OIL CORPORATION

_____

Secretary

BY: _____

President

ATTEST:

PROFESSIONAL INVESTMENT & TRUST COMPANY

_____

Secretary

BY: _____

President

ATTEST:

SABINE PRODUCTION COMPANY

_____
Secretary

By: _____
President

WITNESS:

_____

_____
JOHN K. OVERBEY, Individually and as Trustee U/W of Joseph F. Overbey and Dora K. Overbey

WITNESS:

_____

_____
EUGENE E. NEARBURG

WITNESS:

_____

_____
ANNA A. REISCHMAN

ATTEST:

CORONADO EXPLORATION CORP.

_____
Secretary

By: _____
President

WITNESS:

_____

_____
A. M. SWARTHOUT

WITNESS:

_____

_____
C. W. TRAINER

WITNESS:

_____

_____
GAYLE HUDGENS

WITNESS:

_____

_____
GARY HUDGENS

WITNESS:

_____

_____
C. E. MARSH II

STATE OF NEW MEXICO)
) §§
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GEORGE M. YATES, Vice President of HARVEY E. YATES COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of GETTY OIL COMPANY, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of CAYMAN CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of J. M. HUBER CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of GEO-DYNAMICS OIL & GAS, INC., a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of DALPORT OIL CORPORATION, a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of PROFESSIONAL INVESTMENT & TRUST COMPANY, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF TEXAS)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of SABINE PRODUCTION COMPANY, a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by JOHN K. OVERBEY, Individually and as Trustee U/W of Joseph F. Overbey and Dora K. Overbey.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by EUGENE E. NEARBURG.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by ANNA A. REISCHMAN.

My Commission Expires:

_____

_____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF BERNALILLO)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by HARVEY E. YATES, JR., President of CORONADO EXPLORATION CORP., a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of SAMEDAN OIL CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by A. M. SWARTHOUT.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
)
COUNTY OF _____) SS

The foregoing instrument was acknowledged before me the _____ day of _____, 1980, by C. W. TRAINER.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GAYLE HUDGENS.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GARY HUDGENS.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by C. E. MARSH II.

My Commission Expires:

_____

_____
Notary Public

REVISED 9-19-80

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THE OPERATING AGREEMENT
DATED JUNE 17, 1980, BETWEEN HARVEY E. YATES COMPANY,
AS OPERATOR AND THE OTHER PARTIES SIGNATORY THERETO AS NON-OPERATORS

1. Lands Subject to Agreement and Depth Restrictions:

A. Deep Zone - From base of the Strawn formation to the stratigraphic equivalent of 100 feet below the deepest depth drilled in the initial well.

Township 13 South, Range 36 East, N.M.P.M.

Section 33: S/2
Section 34: SW/4

Township 14 South, Range 36 East, N.M.P.M.

Section 3: W/2
Section 4: All

Containing 1,440.22 acres, more or less

B. Shallow Zone - From the surface to the base of the Strawn Formation.

Township 13 South, Range 36 East, N.M.P.M.

Section 33: S/2
Section 34: SW/4

Excepting the SW/4 SE/4 of Section 33 as to any zone subject to 40 acre oil proration unit spacing.

Township 14 South, Range 36 East, N.M.P.M.

Section 3: W/2
Section 4: All

Excepting the E/2 NE/4 of Section 4.

Containing 1,320.16 acres, more or less

2. Percentage Interests of the Parties to This Agreement:

A. Shallow Unit:

Party	Net Acres	Unit Interest	Interest Under Initial Well Before Payout	Interest Under Initial Well After Payout and Subsequent Wells
Getty Oil Company	75.109750	5.896387%	5.896387%	5.896387%
J. M. Huber Corp.	36.502375	2.865568%	F/O	F/O
Cayman Corporation	13.101000	1.028476%	1.028476%	1.028476%
Samedan Oil Corp.	54.077000	4.245240%	F/O	1.061310%
Geo-Dynamics Oil & Gas, Inc.	4.308000	.338194%	F/O	F/O
Dalport Oil Corp.	4.375000	.343453%	.343453%	.343453%
Sabine Production Co.	86.875000	6.820002%	6.820002%	6.820002%
Eugene E. Nearburg	1.875000	.147194%	.147194%	.147194%
Anna A. Reischman	1.875000	.147194%	.147194%	.147194%

Professional Investment Co., Inc.	2.592592	.203528%	.203528%	.203528%
A.M. Swarthout	2.592592	.203528%	.203528%	.203528%
John K. Overbey, Ind. & as Trustee	10.963539	.860678%	.860678%	.860678%
Gary Hudgens	.234375	.018399%	.018399%	.018399%
Gayle Hudgens	.234375	.018399%	.018399%	.018399%
C. W. Trainer	.468750	.036799%	.036799%	.036799%
Coronado Exploration Corp.	34.627817	2.718409%	2.718409%	2.718409%
C. E. Marsh II	3.000000	.235510%	.235510%	.235510%
Harvey E. Yates Co.	941.014500	73.873041%	81.322044%	80.260734%
	1273.826672	100.000000%	100.000000%	100.000000%

B. Deep Unit:

Party	Net Acres	Unit Interest	Interest Under Initial Well Before Payout	Interest Under Initial Well After Payout And Subsequent Wells
Getty Oil Company	149.028750	10.691597%	10.691597%	10.691597%
J.M. Huber Corp.	15.360375	1.101982%	F/O	F/O
Cayman Corporation	60.004000	4.304798%	4.304798%	4.304798%
Samedan Oil Corp.	70.005000	5.022288%	F/O	1.255572%
Geo-Dynamics Oil & Gas, Inc.	8.760000	.628459%	F/O	F/O
Dalport Oil Corp.	4.375000	.313871%	.313871%	.313871%
Sabine Production Co.	86.875000	6.232573%	6.232573%	6.232573%
Eugene E. Nearburg	1.875000	.134516%	.134516%	.134516%
Anna A. Reischman	1.875000	.134516%	.134516%	.134516%
Professional Investment Co., Inc.	2.592592	.185997%	.185997%	.185997%
A. M. Swarthout	2.592592	.185997%	.185997%	.185997%
John K. Overbey, Ind. & as Trustee	10.963539	.786545%	.786545%	.786545%
Gary Hudgens	.234375	.016814%	.016814%	.016814%
Gayle Hudgens	.234375	.016814%	.016814%	.016814%
C. W. Trainer	.468750	.033629%	.033629%	.033629%
Coronado Exploration Corp.	34.627817	2.484263%	2.484263%	2.484263%
C. E. Marsh II	3.000000	.215225%	.215225%	.215225%
Harvey E. Yates Co.	941.014507	67.510115%	74.262845%	73.007273%
	1393.886672	100.000000%	100.000000%	100.000000%

3. Oil and Gas Leases/Interests Subject to this Agreement:

See Exhibit "A-1"

4. Addresses for Notice Purposes:

Getty Oil Company
P. O. Box 1231
Midland, Texas 79701

Cayman Corporation
4030 First Place
Tulsa, Oklahoma 74103

Dalport Oil Corporation
3471 First National Bank Building
Dallas, Texas 75202

Samedan Oil Corporation
900 Wall Towers East
Midland, Texas 79701

J. M. Huber Corporation
1900 Wilco Building
Midland, Texas 79701

Professional Investment & Trust
P. O. Box 1599
Lovington, New Mexico 88260

Sabine Production Company
P. O. Box 3083
Midland, Texas 79702

John K. Overbey
Capitol National Bank Building
7th Floor
700 Lavaco Street
Austin, Texas 78767

Anna A. Reischman
1320 West 4th Street
Roswell, New Mexico 88201

Coronado Exploration Corp.
1007 Marquette, NW
Albuquerque, New Mexico 87102

C. W. Trainer
8201 Espanola
Austin, Texas 78749

Gary Hudgens
P.O. Box 1889
Hobbs, New Mexico 88240

Geo-Dynamics Oil & Gas, Inc.
P. O. Box 1341
Corpus Christi, Texas 78403

Eugene E. Nearburg
C/O Chama Petroleum Company
5015 Tracy Street
Dallas, Texas 75205
Attn: Charles Nearburg

A. M. Swarthout
P. O. Box 2533
Santa Fe, New Mexico 87501

Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88201

Dr. Gayle Hudgens
Hudgens International
P. O. Box 25561
Dallas, Texas 75225

C. E. Marsh II
500 Wilco Building
Midland, Texas 79701

EXHIBIT "A"
[illegible] UNIT -

SCHEDULE OF LEASES

Revised 9-18

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION
	LEASES OWNED BY HARVEY E. YATES COMPANY:			
	Sudie Lee Carrell	Harvey E. Yates Company	3-27-79	Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, N½NE¼SE¼, W½SE¼SE¼
	Effie C. Wilson et al	" " " "	3-22-79	Sec. 33, T-13S, R-36E: W½SW¼ (less a 10-acre tract)
	Thelma A. Meroney	" " " "	4-17-79	Sec. 33, T-13S, R-36E: S½SW¼ (Less a 10-acre tract)
	Noema B. Meroney et al	" " " "	5-4-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Pauline Burnett	" " " "	5-29-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Opal Meroney Storkman	" " " "	7-2-79	Insofar as said lease covers: Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Joyce Foster, et vir	" " " "	8-3-79	Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, N½NE¼SE¼, W½SE¼SE¼
	M. A. Teas, et vir	" " " "	8-15-79	Sec. 33, T-13S, R-36E: A 10-acre tract in the SW¼SW¼ of Sec.
	Tatum Independent School Dist.	" " " "	8-13-79	Sec. 33, T-13S, R-36E: A 2-acre tract in the SE corner of th N½SE¼SE¼ of Sec.
	Edgar Meroney, Jr.	" " " "	11-15-79	Sec. 33, T-13S, R-36E: Insofar as said lease covers: W½SW¼ (Less a 10-acre tract)
	Harold L. Bridgeforth, et ux	Stanley N. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Evelyn B. Walton	Stanley N. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Vallie Humphries, et vir	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	H. H. Tracy et ux	" " "	12-6-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Harold B. Denton et ux	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Travis Denton et ux	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Iona McClish	" " "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼
	Richard R. Pettigrew et ux	" " "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼
	Leon O. Hemann, et ux	" " "	12-6-79	Sec. 34, T-13S, R-36E: SW¼SW¼

EXHIBIT A-1
[illegible] UNIT -

SCHEDULE OF LEASES

Revised 9-18-80

	LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
PES	COMPANY:				
	Harvey E. Yates Company	3-27-79	Sec. 33, T-13S, R-36E: $W\frac{1}{2}SE\frac{1}{4}SE\frac{1}{4}$	316	905
	" " " "	3-22-79	Sec. 33, T-13S, R-36E: $W\frac{1}{2}SW\frac{1}{4}$ (less a 10-acre tract)	316	925
	" " " "	4-17-79	Sec. 33, T-13S, R-36E: $S\frac{1}{2}SW\frac{1}{4}$ (Less a 10-acre tract)	316	942
	" " " "	5-4-79	Sec. 33, T-13S, R-36E: $W\frac{1}{2}SW\frac{1}{4}$ (Less a 10-acre tract)	318	528
	" " " "	5-29-79	Sec. 33, T-13S, R-36E: $W\frac{1}{2}SW\frac{1}{4}$ (Less a 10-acre tract)	318	565
	" " " "	7-2-79	Insofar as said lease covers: Sec. 33, T-13S, R-36E: $W\frac{1}{2}SW\frac{1}{4}$ (Less a 10-acre tract)	318	535
	" " " "	8-3-79	Sec. 33, T-13S, R-36E: $S\frac{1}{2}NE\frac{1}{4}SW\frac{1}{4}$, $S\frac{1}{2}SE\frac{1}{4}SW\frac{1}{4}$, $S\frac{1}{2}NW\frac{1}{4}SE\frac{1}{4}$, $N\frac{1}{2}NE\frac{1}{4}SE\frac{1}{4}$ $W\frac{1}{2}SE\frac{1}{4}SE\frac{1}{4}$	319	9
	" " " "	8-15-79	Sec. 33, T-13S, R-36E: A 10-acre tract in the $SW\frac{1}{4}SW\frac{1}{4}$ of Sec.33	319	21
Dist.	" " " "	8-13-79	Sec. 33, T-13S, R-36E: A 2-acre tract in the SE corner of the $E\frac{1}{2}SE\frac{1}{4}SE\frac{1}{4}$ of Sec. 33	319	23
	" " " "	11-15-79	Sec. 33, T-13S, R-36E: Insofar as said lease covers: $W\frac{1}{2}SW\frac{1}{4}$ (Less a 10-acre tract)	319	513
	Stanley N. Staples	11-8-76	Sec. 34, T-13S, R-36E: $SE\frac{1}{4}SW\frac{1}{4}$ & $N\frac{1}{2}SW\frac{1}{4}$	300	191
	Stanley N. Staples	11-8-76	Sec. 34, T-13S, R-36E: $SE\frac{1}{4}SW\frac{1}{4}$ & $N\frac{1}{2}SW\frac{1}{4}$	300	149
	" " "	11-11-76	Sec. 34, T-13S, R-36E: $SE\frac{1}{4}SW\frac{1}{4}$ & $N\frac{1}{2}SW\frac{1}{4}$	300	157
	" " "	12-6-76	Sec. 34, T-13S, R-36E: $SE\frac{1}{4}SW\frac{1}{4}$ & $N\frac{1}{2}SW\frac{1}{4}$	300	647
	" " "	11-11-76	Sec. 34, T-13S, R-36E: $SE\frac{1}{4}SW\frac{1}{4}$ & $N\frac{1}{2}SW\frac{1}{4}$	300	197
	" " "	11-11-76	Sec. 34, T-13S, R-36E: $SE\frac{1}{4}SW\frac{1}{4}$ & $N\frac{1}{2}SW\frac{1}{4}$	300	145
	" " "	11-30-76	Sec. 34, T-13S, R-36E: $SW\frac{1}{4}SW\frac{1}{4}$	300	639
	" " "	11-30-76	Sec. 34, T-13S, R-36E: $SW\frac{1}{4}SW\frac{1}{4}$	300	635
	" " "	12-6-79	Sec. 34, T-13S, R-36E: $SW\frac{1}{4}SW\frac{1}{4}$	300	643

McDONALD UNIT
SCHEDULE OF LEASES

	LESSOR	LESSEE	DATE	DESCRIPTION
	LEASES OWNED BY HARVEY E.	YATES COMPANY (Continued)		
	Tatum Indep. School Distr.	Harvey E. Yates Company		Sec. 34, T-13S, R-36E: A tract of land containing 4.0 acres in the SW corner of the SW¼SW¼
	Dorothy P. Mack	" " " "	9-30-77	Sec. 4, T-14S, R-36E: Lot 3, Lot 4 (Less 1 ac.), E½SW¼, S½NW¼
	James A. Foster et ux	" " " "	5-28-78	Sec. 4, T-14S, R-36E: SE¼, Less W½SW¼SW¼SE¼
	Alta Lee Glidewell et vir	Stanley N. Staples	10-10-76	Sec. 3, T-14S, R-36E: SW¼
	Byrel A. Moore, et ux	" " "	11-8-76	Sec. 3, T-14S, R-36E: SW¼
	Hoyt M. Roy et vir	Harvey E. Yates Company	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼
	Howard Gilchrist, et ux	Harvey E. Yates Company	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4(Less 1
	Virginia Mae Gilchrist	" " " "	5-12-78	Sec. 4, T-14S,R-36E: Lot 3,SW¼NW¼,SE¼NW¼,E½SW¼, Lot 4 (Less 1 ac
	Edna R. Ashton	" " " "	5-26-78	Sec. 4, T-14S, R-36E: SE¼, Less the W½SW¼SW¼SE¼
	Elvin Lewis et ux	" " " "	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼
	Olivia McDonald et vir	Stanley N. Staples	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Otis J. Roach	" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Maude P. Stovall	" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Gyola Brooks Melton	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Cora Brooks Gault, et al	" " "	3-30-77	Sec. 3, T-14S, R-36E: SW¼
	Cora Mae Brooks et al	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Myrtle Brooks Hemingway	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Verna P. Roberts	" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼
	Katheryn D. Bartley	" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼

McDONALD UNIT
SCHEDULE OF LEASES

LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
YATES COMPANY (Continued)				
Harvey E. Yates Company		Sec. 34, T-13S, R-36E: A tract of land containing 4.0 acres in the SW corner of the SW¼SW¼	322	699
" " " "	9-30-77	Sec. 4, T-14S, R-36E: Lot 3, Lot 4 (Less 1 ac.), E½SW¼, S½NW¼	306	139
" " " "	5-28-78	Sec. 4, T-14S, R-36E: SE¼, Less W½SW¼SW¼SE¼	311	664
Stanley N. Staples	10-10-76	Sec. 3, T-14S, R-36E: SW¼	300	193
" " "	11-8-76	Sec. 3, T-14S, R-36E: SW¼	300	205
Harvey E. Yates Company	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼	311	94
Harvey E. Yates Company	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4(Less 1 ac.)	311	96
" " " "	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4 (Less 1 ac.)	311	98
" " " "	5-26-78	Sec. 4, T-14S, R-36E: SE¼, Less the W½SW¼SW¼SE¼	311	662
" " " "	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼	310	369
Stanley N. Staples	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	655
" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	651
" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	659
" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	797
" " "	3-30-77	Sec. 3, T-14S, R-36E: SW¼	302	793
" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	669
" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	353
" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼	301	881
" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼	302	613

SCHEDULE OF LEASES

LESSOR	LESSEE	DATE	DESCRIPTION
LEASES OWNED BY HARVEY E. YATES COMPANY (Continued):			
Acoma Oil Corporation	Stanley N. Staples	12-1-76	Sec. 3, T-14S, R-36E: NW¼
Joy H. Key et al	Harvey E. Yates Company	5-5-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
Donald E. Blackmar	" " " "	8-6-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: SW¼
J. M. Hewgley, Jr. et ux	" " " "	11-21-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
Daniel W. Varel, et ux	" " " "	12-3-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
Lorna G. Overbey	" " " "	1-1-80	Insofar as said lease covers the ..¼ of Sec. 3 & SE¼ Sec. 4 (Less W½SW¼SW¼SE¼), all in T-14S, R-36E
William C. Liedtke, Jr.et ux	" " " "	12-11-79	Sec. 3, T-14S, R-36E: NW¼
James J. Laney et ux	" " " "	4-1-80	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
Victoria Doan et al	" " " "	12-11-78	Sec. 4, T-14S, R-36E: W½SW¼
Allyne S. Carter	" " " "	5-20-80	Sec. 3, T-14S, R-36E: NW¼
Tom L. Ingram et ux	" " " "	4-7-80	Sec. 3, T-14S, R-36E: SW¼
C. E. Marsh II et ux	" " " "	5-1-80	Sec. 3, T-14S, R-36E: NW¼
Bruce T. Pearson	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼
Gladys Terrill	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼
Evelyn R. Brooks	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼
Etta M. Brooks	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼
Helen H. Lea	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼
John R. Fitzgerald, Indiv. & as Exec. of Est. of Vestal Fitzgerald, dec'd	" " " "	6-3-80	Sec. 3, T-14S, R-36E: SW¼

SCHEDULE OF LEASES

LESSEE	DATE	DESCRIPTION	RECORDED Book	RECORDED Page
TES COMPANY (Continued):				
Stanley N. Staples	12-1-76	Sec. 3, T-14S, R-36E: NW¼	301	150
Harvey E. Yates Company	5-5-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	318	524
" " " "	8-6-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: SW¼	318	598
" " " "	11-21-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	321	250
" " " "	12-3-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	321	400
" " " "	1-1-80	Insofar as said lease covers the ...¼ of Sec. 3 & SE¼ Sec. 4 (Less W½SW¼SW¼SE¼), all in T-14S, R-36E	435	789
" " " "	12-11-79	Sec. 3, T-14S, R-36E: NW¼	325	405
" " " "	4-1-80	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	326	236
" " " "	12-11-78	Sec. 4, T-14S, R-36E: W½SW¼	316	824
" " " "	5-20-80	Sec. 3, T-14S, R-36E: NW¼		
" " " "	4-7-80	Sec. 3, T-14S, R-36E: SW¼	326	798
" " " "	5-1-80	Sec. 3, T-14S, R-36E: NW¼		
" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼		
" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼		
" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
" " " "	6-3-80	Sec. 3, T-14S, R-36E: SW¼		

MCDONALD UNIT
EXHIBIT "A-1"

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION
	L. Dene Stephens, et ux	Harvey E. Yates Company	8-6-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E
	Randall Montgomery	" " " "	7-28-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E
	Lucille McKinley	" " " "	7-18-80	NW/4 - Sec. 3, T-14S, R-36E
	Pennzoil United, Inc.	" " " "	7-7-80	NW/4 - Sec. 3, T-14S, R-36E
	Pennzoil United, Inc.	" " " "	7-7-80	Lot 3, SE/4 NW/4 & E/2 SW/4 - Sec. 4, T-14S, R-36E
	Gregory Lynn Deevers	" " " "	6-19-80	SW/4 - Sec. 3, T-14S, R-36E
	Terry Lynn B. Buford, etal	" " " "	7-1-80	SW/4 - Sec. 3, T-14S, R-36E
	Henry D. Lindsley, III etux	" " " "	7-30-80	NW/4 - Sec. 3, T-13S, R-36E
	Richard L. Moore, et al	" " " "	7-16-80	NE/4 NW/4 SE/4 - Sec. 33, T-13S, R-36E
	J. Hugh Liedtke	" " " "	7-30-80	NW/4 - Sec. 3, T-14S, R-36E

MCDONALD UNIT
EXHIBIT "A-1"

LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
Harvey E. Yates Company	8-6-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E	329	345
" " " "	7-28-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E	329	179
" " " "	7-18-80	NW/4 - Sec. 3, T-14S, R-36E	329	115
" " " "	7-7-80	NW/4 - Sec. 3, T-14S, R-36E	328	587
" " " "	7-7-80	Lot 3, SE/4 NW/4 & E/2 SW/4 - Sec. 4, T-14S, R-36E	328	589
" " " "	6-19-80	SW/4 - Sec. 3, T-14S, R-36E	329	44
" " " "	7-1-80	SW/4 - Sec. 3, T-14S, R-36E	328	585
" " " "	7-30-80	NW/4 - Sec. 3, T-13S, R-36E	329	140
" " " "	7-16-80	NE/4 NW/4 SE/4 - Sec. 33, T-13S, R-36E	329	48
" " " "	7-30-80	NW/4 - Sec. 3, T-14S, R-36E	331	466

SCHEDULE OF LEASES

LESSOR	LESSEE	DATE	DESCRIPTION
LEASES OWNED BY NON-OPERATORS:			
Lewis Beeman, et ux	Dividend Exploration, Inc., et al	4-3-68	Sec. 33, T-13S, R-36E: N½NE¼SW¼, N½SE¼SW¼, SW¼SE¼, NW¼NW¼S S½NE¼SE¼ & E½SE¼SE¼, Less 2 acs. in S
Mary Virginia Griffin	Getty Oil Co., et al	3-20-68	Sec. 4, T-14S, R-36E: Lot 1, 2, SE¼NE¼ & SW¼NE¼
Kathryn Mitchell	" " "	3-20-68	" " " " " " " " "
James A. Foster, Jr. et ux	" " "	5-28-69	" " " " " " " " "
Christiana Oil Corp.	" " "	11-4-70	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less W½SW¼SW¼S
Edna R. Ashton	Getty Oil Co., et al	3-22-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼
John K. Overbey	J. M. Huber Corp.	3-20-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼
Joseph F. Overbey Estate	J. M. Huber Corp.	3-20-68	" " " " " " " "
Lorna Geering Overbey	J. M. Huber Corp.	4-18-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less W½SW¼SW¼S

[redacted]

"CHANGE UNIT"
CONDITIONS OF APPROVAL

LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
ATORS:				
Dividend Exploration,Inc.,et al	4-3-68	Sec. 33, T-13S, R-36E: N½NE¼SW¼, N½SE¼SW¼, SW¼SE¼, NW¼NW¼SE¼, S½NE¼SE¼ & E½SE¼SE¼, Less 2 acs. in SE corner		
Getty Oil Co., et al	3-20-68	Sec. 4, T-14S, R-36E: Lot 1, 2, SE¼NE¼ & SW¼NE¼		
" " "	3-20-68	" " " " " " " " "		
" " "	5-28-69	" " " " " " " " "		
" " "	11-4-70	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less W½SW¼SW¼SE¼)		
Getty Oil Co., et al	3-22-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼		
J. M. Huber Corp.	3-20-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼		
J. M. Huber Corp.	3-20-68	" " " " " " " "		
J. M. Huber Corp.	4-18-68	Sec. 4, T-14S, R-36E: Lots 1,2,S½NE¼, SE¼ (Less W½SW¼SW¼SE¼)		

[redacted]

REVISED 9-18-80

MCDONALD UNIT
EXHIBIT "A-1"

UNLEASED MINERALS

	OWNER	GROSS ACRES	NET ACRES		DESCRIPTION
	C. W. Trainer, etux	120.0	0.468750		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Gayle Hudgens	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Gary Hudgens	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Dalport Oil Corporation	120.0	4.375000		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Sabine Production Co.	280.0	86.875000		SE/4 Sec. 4 , T-14S, R-36E; N/2 SW/4 & SE/4 SW/4, Sec. 34, T-13
	John K. Overbey, et al	315.0	10.963539		NW/4 Sec. 3 & SE/4 Sec. 4, T-14S, R-36E
	Eugene E. Nearburg	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
	Anna A. Reischman	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
	Professional Inv. & Tr Co	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW corner
	A. M. Swarthout	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW corner
	Walter M. Martin, Jr.	160.0	4.000000		NW/4 Sec. 3, T-14S, R-36E
	Thomas P. Arnold	160.0	1.333328		NW/4 Sec. 3, T-14S, R-36E
	Tenneco Oil Company	80.0	40.000000		S/2 SW/4 Sec. 3, T-14S, R-36E
	Lewis Beeman, et ux	1.0	1.000000		1 acre in the NW/4 corner of Lot 4, Sec. 4, T-14S, R-36E
	Total Unleased Minerals:		158.419551		
	Committed to Operating Agreement:		112.086223		
	Unleased and Uncommitted:		46.333328		

REVISED 9-18-80

MCDONALD UNIT
EXHIBIT "A-1"

UNLEASED MINERALS

	GROSS ACRES	NET ACRES		DESCRIPTION
	120.0	0.468750		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
on	120.0	4.375000		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	280.0	86.875000		SE/4 Sec. 4 , T-14S, R-36E; N/2 SW/4 & SE/4 SW/4, Sec. 34, T-13S, R-36E
l	315.0	10.963539		NW/4 Sec. 3 & SE/4 Sec. 4, T-14S, R-36E
	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
r Co	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW corner)
	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW corner)
	160.0	4.000000		NW/4 Sec. 3, T-14S, R-36E
	160.0	1.333328		NW/4 Sec. 3, T-14S, R-36E
	80.0	40.000000		S/2 SW/4 Sec. 3, T-14S, R-36E
	1.0	1.000000		1 acre in the NW/4 corner of Lot 4, Sec. 4, T-14S, R-36E
ls:		158.419551		
g Agreement:		112.086223		
ted:		46.333328		

Producers 88 Rev. (5 Year Lease) 10-57

EXHIBIT "B"
(FIVE YEAR PAID UP LEASE)
OIL AND GAS LEASE

Form 345
Hall-Poorbaugh Press
Roswell, New Mexico

THIS AGREEMENT made this 17th day of June, 19 80, between

.....

.....

Lessor (whether one or more), whose address is:

and ..... Lessee, WITNESSETH:

1. Lessor in consideration of ..... Dollars

($.....) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in .....

..... County, ..., to-wit:

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to paid by Lessee are: (a) on oil, 1/8 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 1/8 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/8 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of $1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the County in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. 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 feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision 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 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 or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

9. 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 either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

.....

.....

Lessor

.....

Lessor

Kraftbilt 601, BOX 600 TULSA OK 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies of North America

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EXHIBIT " C "

Attached to and made a part of the Operating Agreement dated June 17, 1980 between HARVEY E. YATES COMPANY as Operator and the other parties signatory thereto as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

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II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

B. Expense, including salaries, of Operator's legal staff and expenses of outside attorneys incurred in matters before administrative agencies, where in operators opinion, such representation is necessary to the proper conduct of joint operations. Expenses of Operators legal staff shall be billed on the basis of actual cost to the Operator.

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10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates. Such expense attributable to Operator's technical employees shall be prorated and charged to the joint account on the basis of actual cost to the Operator.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,500.00
Producing Well Rate $ 500.00

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

(a) Drilling Well Rate

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

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

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

(b) Producing Well Rates

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

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

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

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

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

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

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

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

*To Be Negotiated

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated June 17, 1980, by and between HARVEY E. YATES COMPANY, as Operator and the other parties signatory thereto as Non-Operators.

Operator shall carry or provide for the benefit of the Joint Account:

(1) Worker's Compensation Insurance to cover full liability under the law of the State where the operations are being conducted.

(2) Employer's Liability Insurance with a limit of not less than $500,000 for accidental injuries or deaths of one or more employees as a result of one accident.

No other insurance will be provided by the Operator, for the benefit of the Joint Account. Each party may, at his own option, carry additional insurance at his own expense. In the event additional insurance is purchased by a party, such insurance policy or policies shall contain a Waiver of Subrogation in favor of the other parties.

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED June 17, 1980 BETWEEN HARVEY E. YATES COMPANY AS OPERATOR, AND the other parties signatory thereto ET AL AS NON-OPERATORS.

GAS BALANCING AGREEMENT

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

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

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

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

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party or parties' share of gas produced from the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in the Contract Area.

In the event production of gas from the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement between the parties. Such settlement shall be based upon the price actually received by the parties for overproduction when it occurred of a volume of gas equal to that for which settlement is made.

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

EXHIBIT "F"

Attached to and made a part of the Operating Agreemtn dated June 17, 1980, by and between HARVEY E. YATES COMPANY, as Operator, and the other signatory parties thereto as Non-Operators

In order to insure compliance with Federal Equal Employment provisions, Operator agrees and certifies as follows

I. Equal Opportunity Clause (41 CFR §60-1.4) (Applicable to contracts and purchase orders in excess of $10,000.

Operator certifies that it shall comply with the Equal Opportunity Clause contained in Section 202 of Executive Order 11246, effective September 24, 1965, as amended by Executive Order 11375, dated October 13, 1967, and as set forth in 41 CFR §60-1.4(a), which clause is incorporated herein by reference thereto as though fully set forth herein in haec verba in accordance with 41 CFR §60-1.4(d)

II. Certification of Non-Segregated Facilities (41 CFR §60-1.8) (Applicable to contracts and purchase orders which are not exempt from the provisions of the Equal Opportunity Clause incorporated by reference hereinabove)

Operator certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its locations, 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. Operator understands and agrees that a breach of this certification is a violation of the Equal Opportunity Clause incorporated by reference hereinabove. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, restaurants and other eating areas, time clocks, restrooms, wash rooms, 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 directive or are in fact segregated on the basis of race, color, religion, or national origin because of habit, local custom, or otherwise; Operator's policies and practices must assure appropriate physical facilities to both sexes. Operator further agrees that (except where it 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 he will retain such certifications in his files; and that he 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 NON-SEGREGATED FACILITIES

A Certification of Non-Segregated Facilities, as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions 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, or annually).

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

Operator certifies that it will 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 Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress, or such form as may hereafter be promulgated in its place, in compliance with 41 CFR §60-1.7, and that it shall require a similar certification from each of its non-exempt sub-contractors.

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

Operator certifies that it shall develop a written affirmative action compliance program for each of its establishments, and within 120 days from commencement of this contract or purchase order, shall maintain a copy of separate affirmative action compliance programs for each establishment, including evaluations of utilization of minority group personnel and job classification tables, at each local office responsible for the personnel matters of such establishment and that it shall require a similar certification from each of its non-exempt sub-contractors.

V. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause (41 CFR §60-250.4) (Applicable to contracts and purchase orders for $10,000 or more)

Operator agrees and certifies that it shall comply with the Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause set forth in 41 CFR §60-250.4, which clause and the regulations contained in 41 CFR Part 60-250 are incorporated herein by this reference thereto, as though fully set forth herein in haec verba, in accordance with 41 CFR §60-250.22. Operator also agrees and certifies that if (a) it has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, within 120 days of the commencement of this contract or purchase order, 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 41 CFR §60-250.6.

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

Operator agrees and certifies that it shall comply with the Affirmative Action for Handicapped Workers Clause contained in 41 CFR § 60-741.4, which clause and the regulations contained in 41 CFR Part 60-741 are incorporated herein by this reference thereto, as though fully set forth herein in haec verba, in accordance with 41 CFR §60-741.22. Operator also agrees and certifies that if (a) it has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, within 120 days of the commencement of this contract or purchase order, 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 41 CFR §60-741.6.

VII. Utilization of Minority Business Enterprises (41 CFR §1-1.310-2(a) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (b) contracts for services which are personal in nature)

A. 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.

B. Operator agrees to use its best efforts to carry out this policy in the award of its 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 purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American Orientals, American Indians, American Eskimos and American Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

VIII. Minority Business Enterprises Subcontracting Program (41 CFR §1-1.310-2(b) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Minority Business Enterprises Clause and which offer substantial subcontracting possibilities)

A. Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, Operator shall —

1. Designate a liaison officer who will administer Operator's minority business enterprises program.

2. Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.

3. Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

4. Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

5. Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

6. Cooperate with the Contracting Officer (as defined in 41 CFR §1-1.207) in any studies and surveys of Operator's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.

7. Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph 4 above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

B. Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 provisions which shall conform substantially to the language of this clause, including this paragraph B., and to notify the Contracting Officer of the names of such subcontractors.

IX. Utilization of Small Business Concerns (41 CFR §1-1.710-3(a) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (b) contracts for services which are personal in nature)

A. It is the policy of the Government as declared by the Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.

B. The Operator agrees to accomplish the maximum amount of subcontracting to small business concerns that the Operator finds to be consistent with the efficient performance of this contract.

X. Small Business Subcontracting Program (41 CFR §1-1.710-3(b) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Small Business Concerns Clause and which offer substantial subcontracting possibilities)

A. The Operator agrees to establish and conduct a small business subcontracting program which will enable small business concerns to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Operator shall —

1. Designate a liaison officer who will (i) maintain liaison with the Government on small business matters, (ii) supervise compliance with the Utilization of Small Business Concerns clause, and (iii) administer the Operator's "Small Business Subcontracting Program."

2. Provide adequate and timely consideration of the potentialities of small business concerns in all "make or buy" decisions.

3. Assure that small business concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of small business concerns. Where the Operator's lists of potential small business subcontractors are excessively long, reasonable effort shall be made to give all such small business concerns an opportunity to compete over a period of time.

4. Maintain records showing (i) whether each prospective subcontractor is a small business concern, (ii) procedures which have been adopted to comply with the policies set forth in this clause, and (iii) with respect to the letting of any subcontract (including purchase orders) exceeding $10,000, information substantially as follows:

   a. Whether the award went to large or small business.

   b. Whether less than three or more than two small business firms were solicited.

   c. The reason for non solicitation of small business if such was the case.

   d. The reason for small business failure to receive the award if such was the case when small business was solicited.

   The records maintained in accordance with (iii) above may be in such form as the Operator may determine, and the information shall be summarized quarterly and submitted by the purchasing department of each individual plant or division to the Operator's cognizant small business liaison officer. Such quarterly summaries will be considered to be management records only and need not be submitted routinely to the Government; however, records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulation.

5. Notify the Contracting Officer (as defined in 41 CFR §1-1.207) before soliciting bids or quotations on any subcontract (including purchase orders) in excess of $10,000 if (i) no small business concern is to be solicited, and (ii) the Contracting Officer's consent to the subcontract (or ratification) is required by a "Subcontracts" clause in this contract. Such notice will state the Operator's reasons for nonsolicitation of small business concerns, and will be given as early in the procurement cycle as possible so that the Contracting Officer may give SBA timely notice to permit SBA a reasonable period to suggest potentially qualified small business concerns through the Contracting Officer. In no case will the procurement action be held up when to do so would, in the Operator's judgement, delay performance under the contract.

6. Include the Utilization of Small Business Concerns clause in subcontracts which offer substantial small business subcontracting opportunities.

7. Cooperate with the Contracting Officer in any studies and surveys of the Operator's subcontracting procedures and practices that the Contracting Officer may from time to time conduct.

8. Submit quarterly reports of subcontracting to small business concerns on either Optional Form 61, Small Business Subcontracting Program Quarterly Report of Participating Large Company on Subcontract Commitments to Small Business Concerns, or such other form as may be specified in the contract. Except as otherwise provided in this contract, the reporting requirements of this subparagraph 8. do not apply to small business contractors, small business subcontractors, educational and nonprofit institutions, and contractors or subcontractors for standard commercial items.

B. A "small business concern" is a concern that meets the pertinent criteria established by the Small Business Administration and set forth in §1-1.701 of the Federal Procurement Regulations.

C. The Operator agrees that, in the event he fails to comply with his contractual obligations concerning the small business subcontracting program, this contract may be terminated, in whole or in part, for default.

D. The Operator further agrees to insert in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Small Business Concerns clause provisions which shall conform substantially to the language of this clause, including this paragraph D, and to notify the Contracting Officer of the names of such subcontractors.

XI. Utilization of Labor Surplus Area Concerns (41 CFR §1-1.805-3(a)) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts with foreign contractors which, including all subcontracts thereunder, are to be performed entirely outside the United States, its territories and possessions, Puerto Rico, and Trust Territory of the Pacific Islands, and the District of Columbia; (b) contracts for services which are personal in nature; and (c) contracts for construction)

A. It is the policy of the Government to award contracts to labor surplus area concerns that (1) have been certified by the Secretary of Labor (hereafter referred to as certified eligible concerns with first or second preferences) regarding the employment of a proportionate number of disadvantaged individuals and have agreed to perform substantially (i) in or near sections of concentrated unemployment or underemployment or in persistent or substantial labor surplus areas or (ii) in other areas of the United States, respectively, or (2) are non certified concerns which have agreed to perform substantially in persistent or substantial labor surplus areas, where this can be done consistent with the efficient performance of the contract and at prices no higher than are obtainable elsewhere. The Operator agrees to use his best efforts to place his subcontracts in accordance with this policy.

B. In complying with paragraph A of this clause and with paragraph B of the clause of this contract entitled "Utilization of Small Business Concerns" the Operator in placing his subcontract shall observe the following order of preference: (1) Certified eligible concerns with a first preference which are also small business concerns, (2) other certified eligible concerns with a first preference; (3) certified eligible concerns with a second preference which are also small business concerns; (4) other certified eligible concerns with a second preference; (5) persistent or substantial labor surplus area concerns which are also small business concerns; (6) other persistent or substantial labor surplus area concerns; and (7) small business concerns which are not labor surplus area concerns.

XII. Labor Surplus Area Subcontracting Program (41 CFR §1-1.805-3(b)) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Labor Surplus Area Concerns Clause and which offer substantial subcontracting possibilities)

A. The Operator agrees to establish and conduct a program which will encourage labor surplus area concerns to compete for subcontracts within their capabilities. In this connection, the Operator shall —

   1. Designate a liaison officer who will (i) maintain liaison with duly authorized representatives of the Government on labor surplus area matters, (ii) supervise compliance with the Utilization of Concerns in Labor Surplus Areas clause, and (iii) administer the Operator's "Labor Surplus Area Subcontracting Program."

   2. Provide adequate and timely consideration of the potentialities of labor surplus area concerns in all "make-or-buy" decisions.

   3. Assure that labor surplus area concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of labor surplus area concerns.

   4. Maintain records showing procedures which have been adopted to comply with the policies set forth in this clause. Records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulations, and

   5. Include the Utilization of Concerns in Labor Surplus Areas clause in subcontracts which offer substantial labor surplus area subcontracting opportunities.

B. A "labor surplus area concern" is a concern that (1) has been certified by the Secretary of Labor (hereafter referred to as a certified eligible concern) regarding the employment of a proportionate number of disadvantaged individuals and has agreed to perform substantially in or near sections of concentrated unemployment or underemployment, in persistent or substantial labor surplus areas, or in other areas of the United States or (2) is a non-certified concern which has agreed to perform a substantial proportion of a contract in persistent or substantial labor surplus area. A certified eligible concern shall be deemed to have performed a substantial proportion of a contract in or near sections of concentrated unemployment or underemployment in persistent or substantial labor surplus areas, or in other areas if the costs that the concern will incur on account of manufacturing or production in or near such sections or in such areas (by itself, if a certified concern, or by certified concerns acting as first-tier subcontractors) amount to more than 25 percent of the contract price. A concern shall be deemed to have performed a substantial proportion of a contract in persistent or substantial labor surplus areas (by itself or its first-tier subcontractors) if the costs that the concern will incur on account of production or manufacturing in such areas amount to more than 50 percent of the contract price.

C. The Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Concerns in Labor Surplus Areas clause, provisions which shall conform substantially to the language of this clause, including this paragraph C, and to notify the Contracting Officer (as defined in 41 CFR §1-1.207) of the names of subcontractors.

XIII. Clean Air and Water (41 CFR §1-1.2302-2) (Applicable to contracts and purchase orders in excess of $100,000, or if the Contracting Officer (as defined in 41 CFR §1-1.207) has determined that orders under an indefinite quantity contract in any one year will exceed $100,000, or a facility to be used has been the subject of a conviction under the Clean Air Act (42 U.S.C. 1857c-8(c)(1)) or the Federal Water Pollution Control Act (33 U.S.C. 1319(c) and is listed by EPA, or the contract is not otherwise exempt).

The Operator agrees as follows:

A. To comply with all the requirements of section 114 of the Clean Air Act, as amended (42 U.S.C. 1857, et seq., as amended by Pub. L. 91-604) and section 308 of the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq., and amended by Pub. L. 92-500) respectively, relating to inspection, monitoring, entry, reports, and information, as well as other requirements specified in section 114 and section 308 of the Air Act and the Water Act, respectively, and all regulations and guidelines issued thereunder before the award of the contract.

B. That no portion of the work required by this contract will be performed in a facility listed on the Environmental Protection Agency List of Violating Facilities on the date of contract award unless and until the EPA eliminates the name of such facility or facilities from such listing.

C. To use his best efforts to comply with clean air standards and clean water standards at the facility in which the contract is being performed.

D. To insert the substance of the provisions of this clause into any non-exempt subcontract, including this paragraph D.

LEASE McDonald Unit WELL NUMBER 1

LOCATION 660' FSL & 990' FEL, Section 33, T-13S, R-36E

COUNTY Lea DEPTH 14,700' PRODUCING FORMATION Devonian

	Producing Well Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Location	$ 15,000	$ 15,000
Footage 10,000 @ $26.00/ft	260,000	260,000
Daywork 38 days @ $7,255/day	275,690	275,690
Surface casing service	4,000	4,000
Intermediate casing service	20,000	20,000
Mud, water	35,000	35,000
Company supervisor, engineer	8,000	8,000
Rentals, coring service	15,000	15,000
Miscellaneous	10,000	10,000
Total intangible drilling costs	642,690	642,690
Intangible formation evaluation cost		
Logs, CNL-D , DLL-Rxo ,	30,000	30,000
DST 10 @ 2,500/ea.	25,000	25,000
Geological mud logging service	12,000	12,000
Miscellaneous	5,000	5,000
Total intangible formation evaluation	72,000	72,000
Intangible completion costs		
Unit cost 25 days @ $1,200/day	30,000	
Production casing service	20,000	
Completion fluid	3,000	
Perforating/production logging	36,000	
Treating	30,000	
Company supervision	7,500	
Plugging expense		10,000
Miscellaneous	5,000	5,000
Total intangible completion costs	131,500	15,000
Tangible drilling costs and completion costs		
Surface casing 375' of 13 3/8"	6,500	6,500
Intermediate casing 4600' of 8 5/8"	58,000	46,300
Production casing 14,700' of 5 1/2"	170,260	
Production tubing 14,200' of 2 3/8"	60,400	
Casing head	5,000	
Tubing head	7,000	
Christmas tree	7,000	
Subsurface equipment	3,000	
Total tangible drilling costs and completion costs	317,160	52,800
Lease equipment		
Tanks 2 , 210 bbl	8,000	
Separator	15,000	
Flow lines	3,000	
Meter runs	1,500	
Pumping unit		
Installation costs	3,500	
Total lease equipment	31,000	
Total intangible costs	846,190	729,690
Total tangible costs	317,160	52,800
Total lease equipment	31,000	
Administrative	6,500	4,500
TOTAL COSTS	$1,200,850	$ 786,990

Prepared by: Fred G. Yates Date: 2/4/81

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

APPROVED BY:

Company

Date

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 3
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

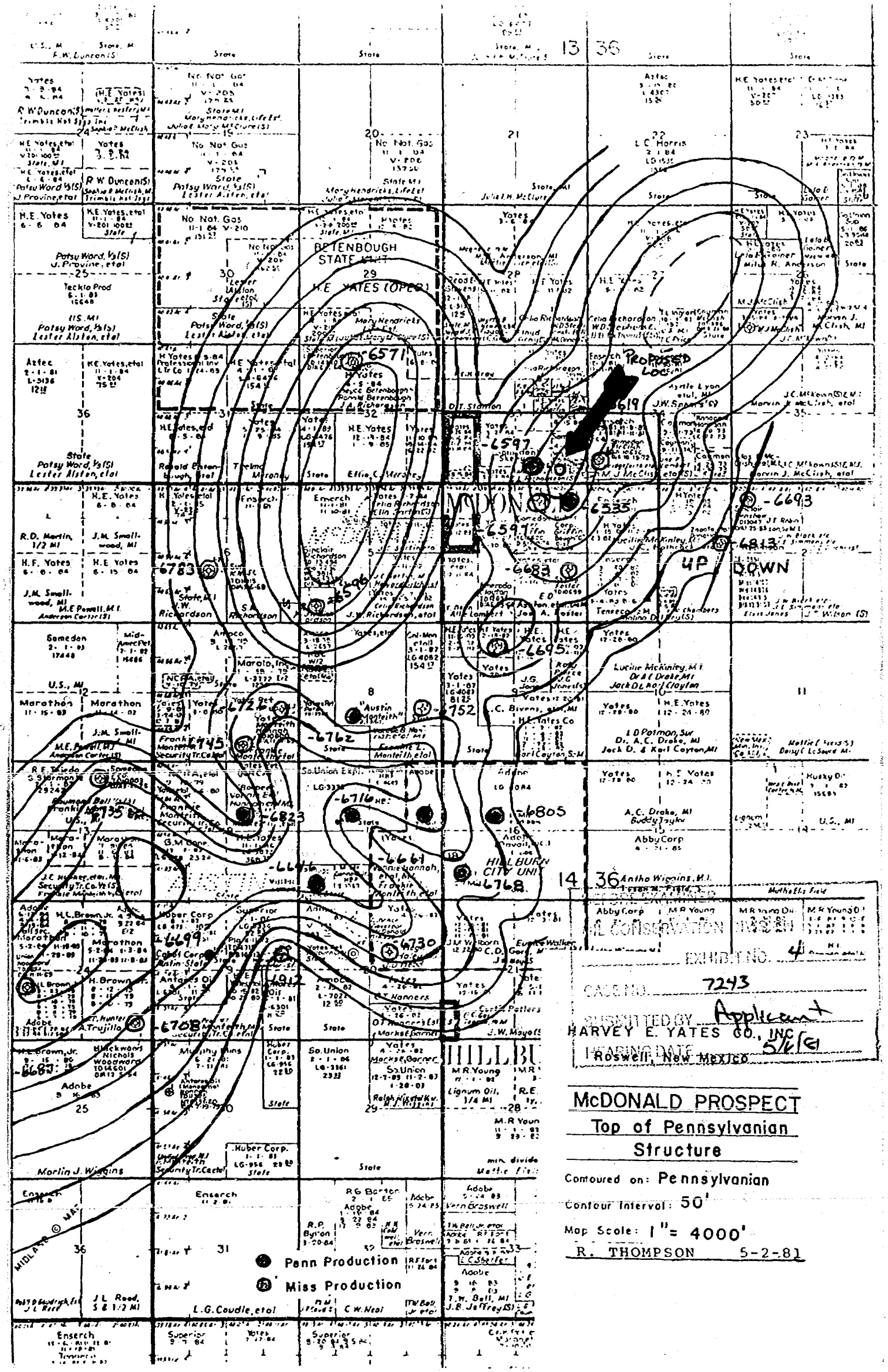


EXHIBIT NO. 4
CASE NO. 7243
SUBMITTED BY Applicant
HARVEY E. YATES CO., INC.
HEARING DATE 5/6/81
Roswell, New Mexico

McDONALD PROSPECT

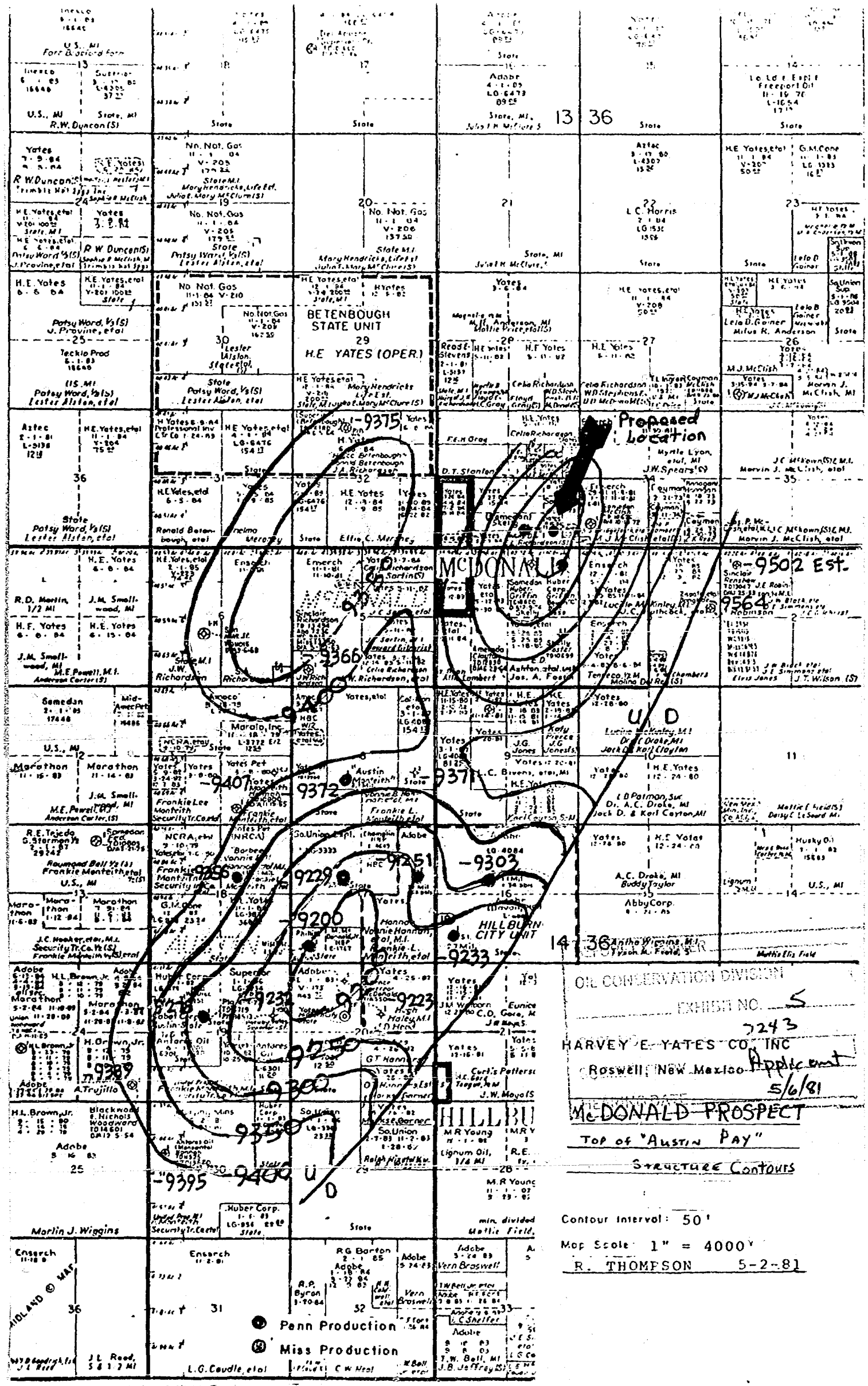
Top of Pennsylvanian Structure

Contoured on: Pennsylvanian

Contour Interval: 50'

Map Scale: 1" = 4000'

R. THOMPSON 5-2-81



OIL CONSERVATION DIVISION

EXHIBIT NO. 5

CASE NO. 7243

HARVEY E. YATES CO., INC.

Roswell, New Mexico Applicant

DATE 5/6/81

McDONALD PROSPECT

Top of "Austin Pay"

Structure Contours

Contour Interval: 50'

Map Scale 1" = 4000'

R. THOMPSON 5-2-81

HEYCO

PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY

P O BOX 1933 SUITE 900 SECURITY NATIONAL BANK BUILDING 505/623-6601
ROSWELL, NEW MEXICO 88201

June 24, 1980

J. M. Huber Corporation
1900 Wilco Building
Midland, Texas 79701

Attention: Mr. Gary Bailey

Geo-Dynamics Oil & Gas, Inc.
C/O Adobe Oil Corporation
1100 Western United Life Bldg
Midland, Texas 79701

Attention: Mr. Kelley Barnes

Re: Proposed McDonald Unit
Lea County, New Mexico

Gentlemen:

As we have discussed previously, I enclose an Operating Agreement covering the above referenced unit. The agreement contains farmout provisions whereby your respective Companies agree to farmout your interests to HEYCO on the basis of a 1/8 overriding royalty interest proportionately reduced to your unit interests.

Due to your request that 120.06 acres, from the surface to the base of the Strawn formation, be deleted from the Operating Agreement due to proximity of producing wells, it was necessary to structure the agreement to provide for a shallow and deep unit covering the different gross acreages involved. I have re-calculated interests for Cayman, Huber, Getty, Samedan and Geo-Dynamics using the same procedure I discussed with you previously, and the results, averaged as to shallow and deep units, are quite close to my original calculations.

Also, please note that there are approximately sixty-five net acres under both the shallow and deep units which have not been committed to the Operating Agreement. Forty net acres of minerals are owned thereunder by Tenneco Oil Company, which has refused to join in the operating agreement or to lease their interests. The remaining twenty-five acres consists of a number of small unleased mineral interests whose owners have declined to participate or lease or cannot be located. If we are successful in leasing any of these additional interests prior to commencing the initial well, they will be committed to the Operating Agreement by HEYCO, and all of the interests shown on Exhibit "A" would change slightly. In such event, we will provide you with a revised Exhibit "A".

If the Operating Agreement and your interests as shown on Exhibit "A" are satisfactory, please execute and return the enclosed extra set of signature pages.

If you have any questions, please let me know.

OIL CONSERVATION DIVISION
EXHIBIT NO. 7A
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

Sincerely yours,

Robert H. Strand

RHS/cj
Enclosures

HEYCO
PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY
P O BOX 1933 SUITE 300 SECURITY NATIONAL BANK BUILDING 505/623-6601
ROSWELL, NEW MEXICO 88201

February 9, 1981

J. M. Huber Corp.
Wilco Bldg.
Midland, Texas 79701

Attention: Mr. Bill Ennis

Re: McDonald Unit #1
Lea County, New Mexico

Dear Bill:

As we discussed in your office on Friday, I am enclosing two copies of an updated AFE for the proposed McDonald Unit #1 Well. If you have any further questions, please let me know.

Sincerely,

Robert H. Strand
Attorney

RHS/lhc

Enclosure

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 7B
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

9079

PHONE (505) 623-6601

HEYCO
PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY

P.O. BOX 1933 SECURITY NATIONAL BANK BUILDING ROSWELL, NEW MEXICO 88201

May 4, 1981

WORKING INTEREST OWNERS
McDonald Unit

Re: McDonald Unit
T-13S, R-36E, N.M.P.M.
Section 33: S/2
Section 34: SW/4

T-14S, R-36E, N.M.P.M.
Section 3: W/2
Section 4: All
Lea County, New Mexico

Gentlemen:

Enclosed for your review are several revisions to the McDonald Unit Operating Agreement which have been requested by Getty Oil Company.

1. Page 14: Lines 4 and 11 under Option No.2 have been revised to read 90 (ninety) days.

2. Page 14: Article XIV, Paragraph B, Line 28: "The essential validity of," has been deleted.

3. Page 14d: Paragraphs D through H have been included.

4. Exhibit "D" has been revised.

5. Exhibit "F" has been added.

Also, Mr. C. E. Marsh II will be participating in the unit with three net acres. We are therefore enclosing copies of pages 2 and 3 to Exhibit "A" of the Operating Agreement which sets out his interest in the unit.

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 7C
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

If you are in agreement with the revisions as set out above, please execute and return one copy of this letter as indicated below. If you have any questions, please advise.

Yours truly,

Carlyn M. Jarm

Carlyn M. Jarm
Land Department

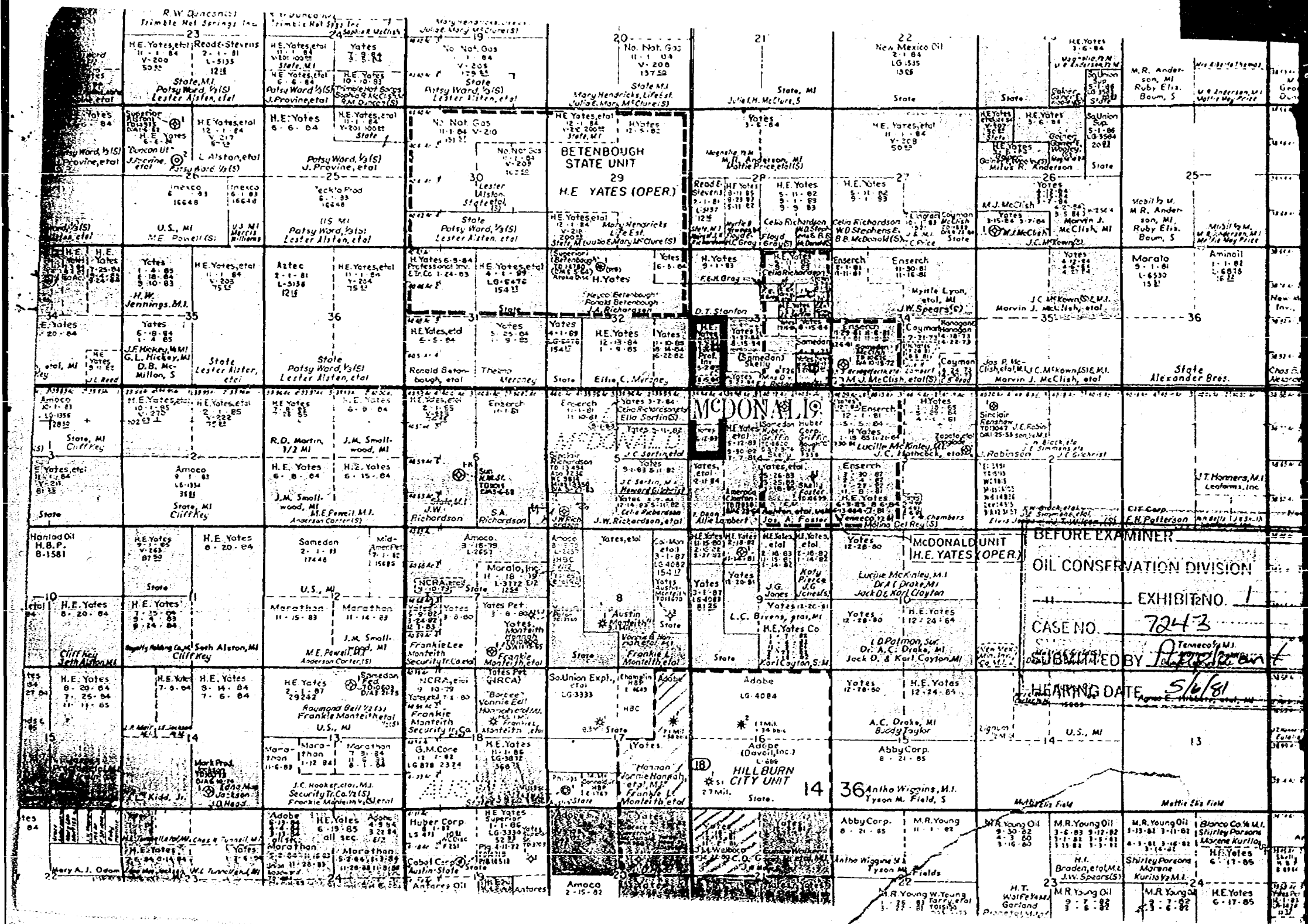
CMJ:ds

Enclosures

I Agree With The Revisions To The McDonald Unit Operating Agreement As Set Out Above.

_____
COMPANY

By _____


BETENBOUGH STATE UNIT
29
H.E. YATES (OPER.)
McDONALD
McDONALD UNIT
H.E. YATES (OPER.)
HILLBURN CITY UNIT
14
BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 1
CASE NO. 7243
SUBMITTED BY
HEARING DATE 5/6/81

BETENBOUGH STATE UNIT
29
H.E. YATES (OPER.)

McDONALD
19

McDONALD UNIT
H.E. YATES (OPER.)

HILLBURN CITY UNIT
14

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 1
CASE NO. 7243
SUBMITTED BY Texaco
HEARING DATE 5/6/81

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

MCDONALD UNIT

OPERATING AGREEMENT

DATED

June 17, 19 80,

OPERATOR HARVEY E. YATES COMPANY

CONTRACT AREA Township 13 South, Range 36 East, N.M.P.M.
Section 33: S/2
Section 34: SW/4

Township 14 South, Range 36 East, N.M.P.M.
Section 3: W/2
Section 4: All

COUNTY OR PARISH OF LEA STATE OF NEW MEXICO

COPYRIGHT 1977 -- ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 2
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between HARVEY E. YATES COMPANY P. O. Box 1933, Roswell, New Mexico 88201, 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.

I. The term "Contributing Parties" shall include Samedan Oil Corporation, J. M. Huber Corporation and Geodynamics Oil & Gas, Inc.

J. The term "Earning Parties" shall include Harvey E. Yates Company.

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

ARTICLE II.
EXHIBITS

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

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

[X] A-1. Schedule of Leases

[X] B. Exhibit "B", Form of Lease.

[X] C. Exhibit "C", Accounting Procedure.

[X] D. Exhibit "D", Insurance.

[X] E. Exhibit "E", Gas Balancing Agreement.

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

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

(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; and

(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 interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(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; and

(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 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 not be considered failure of title but 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:

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

660 feet from the South Line and 990 feet from the East Line
Section 33, Township 13 South, Range 36 East, N.M.P.M.
Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth adequate to test the Austin Mississippian formation or to a depth of 13,500 feet whichever is shallower. Upon reaching such depth, Operator shall further have the option to drill said well to a depth adequate to test the Devonian formation or to a depth of 14,700 feet whichever is shallower,

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. Operators only liability for failure to commence said test well shall be the ipsofacto termination of this agreement.

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

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

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 parties 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 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 or 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.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. 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 sixty (60) 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 where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. 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 (a) the total interest of the parties approving such operation, and (b) 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 or 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' interest. 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 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, 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, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

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

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

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

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, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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.

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) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

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

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

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

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, 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 pursuant to Article VI.B.2., any well which has been drilled 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 or 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 of such well. Any party who objects to the 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 which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein 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 such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and 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 year and so long thereafter as oil and or gas is produced from the interval or inter-

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within thirty (30) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars ($15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Ten Thousand Dollars ($ 10,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 12.5% of 8/8 due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking 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.

G. 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. Operator shall bill other parties for their proportionate share 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, 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.

H. 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 an amount equivalent to the premium which would have been paid had such insurance been obtained. 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 fully owned 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 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 desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one 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, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. 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 is in favor of more than one party, the assigned interest shall

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

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned 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 without warranty, 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 apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution 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 said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the 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. This paragraph shall not be applicable to the contribution of acreage by the Contributing Parties toward the Initial or Substitute Test Well.

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

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

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars ($ 5,000.00) 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 expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. 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, the party shall immediately notify Operator, 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 United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party 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 United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof 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 subjected 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, and/or so long as oil and/or gas production continues from any lease or oil and gas interest

[X] 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 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

A. Substitute Well:

1. If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of Operator, to drill the well to the Objective Depth, then and in any of such events, on or before 30 days after completion of the Initial Well, Operator shall have the option to commence the actual drilling of another well ("Substitute Well") at a lawful location of Operator's selection on the Unit Area, and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

2. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.

B. Allocation of Costs, Risk, and Expenses Between the Shallow and Deep Units:

1. All costs, risks and expenses of wells drilled on the Contract Area shall be shared and borne by the Shallow Unit interest owners and Deep Unit interest owners as shown on Exhibit "A" as follows:

a. Wells completed either for Shallow Unit production only or for Deep Unit production only.

Drilling and casing costs shall be apportioned between and shall be paid by the Shallow Unit and the Deep Unit owners as follows:

(1) From the surface to first completion in point of depth below the surface shall be shared and borne solely by the owners of the producing rights in the depth interval (shallow or deep) in which such well was completed.

(2) From preceding completion in point of depth to total depth drilled shall be shared and borne solely by the Deep Unit.

All other costs, risks and expenses of any such well shall be shared and borne solely by the owners of the producing rights in the depth interval which such well was completed.

b. Wells Plugged as Dry Holes:

All costs, risks and expenses of any such well shall be shared and borne by the Deep Unit.

c. Wells which are Completed for Shallow Unit Production from one or more Sources of Supply and for Deep Unit Production.

Drilling and casing costs shall be apportioned between and shall be paid by the Shallow Unit and the Deep Unit, as follows:

(1) From the surface to first completion in point of depth below the surface.

(i) Shallow Unit in the proportion of Shallow Unit completions to the total number of completions in said well.

(ii) Deep Unit in the proportion of Deep Unit completions to the the total number of completions in said well.

(2) Subsequent completions in point of depth below the surface:

Costs from preceding completion in point of depth to next completion in point of depth - 100% by the owners of the production which is obtained from such subsequent completions, i.e., to the Shallow Unit if completed in the Shallow interval; to the Deep Unit if completed in the Deep interval.

(3) Below last completion in point of depth below surface; 100% to the Deep Unit.

(4) Costs of testing, completing and equipping which can be directly attributed to a proposed Shallow interval completion or a proposed Deep interval completion shall be borne 100% by the owners of the production sought from such proposed completion; all other such costs shall be apportioned between the Shallow Unit and Deep Unit as provided hereinabove in Paragraph B.1.c(1).

2. OPERATING COSTS:

Anything in this agreement which may be to the contrary notwithstanding, the costs, risks and expenses of operating producing wells on the Contract Area shall be shared and borne as follows:

a. Wells Completed for Shallow Unit Production Only or Deep Unit Production Only:

All costs of operating any such well shall be allocated solely to the owners of the producing rights in the depth interval (shallow or deep) in which such well was completed.

b. Wells Completed for Shallow Production from One or More Sources of Supply and for Deep Unit Production:

(1) Each completion shall be treated as a separate well for overhead and district and camp expense. Such expense shall be allocated separately to the Shallow Unit as to Shallow Unit completions and to the Deep Unit as to Deep Unit completions.

(2) The costs, risks and expenses of normal producing operations including costs of labor, repairs, maintenance and replacement of equipment which can be attributed directly to a Shallow Unit completion or to a Deep Unit completion shall be so allocated; all other costs, risks and expenses of normal producing operations, including costs of labor, repairs, maintenance and replacement of equipment necessitated by ordinary use and all costs of operations performed for the joint benefit of both Deep Unit and Shallow Unit completions, and all costs of repairs or action to deal with emergencies which arise in the course of multiple operations shall be allocated between the Shallow Unit and Deep Unit as provided hereinabove in Paragraph B.1.c(1).

3. WORK-OVER OPERATIONS:

Anything in this agreement which may be to the contrary notwithstanding, the allocation of costs of Work-Over operations on the Contract Area shall be as follows:

a. Work-Over Operations Generally:

(1) Cost of any work-over operations which is directly attributable to either the Shallow Unit or the Deep Unit, including but not limited to operations such as treating and perforating, shall be allocated to the Shallow Unit as to operations attributable to the Shallow Unit or to the Deep Unit as to operations attributable to the Deep Unit.

(2) All costs of material, equipment, repairs, replacements and labor not directly related to either the Shallow Unit or the Deep Unit, including but not limited to repair and correction of leaks which may result in communication between the producing zones within the well bore, shall be allocated between the Shallow Unit and Deep Unit in the same manner as provided hereinabove in Paragraph B.1.c(1).

(3) There shall be no liability between the Shallow Unit and the Deep Unit for cessation of production during such reworking operations for a period of time not exceeding a total of one hundred twenty (120) days. In the event such cessation of production during work-over operations is for a longer period of time, the owners of the production from the zone being reworked, shall pay to the owners of the production from the zone not being reworked, damages in such amount to be determined on a negotiated basis, for loss of production occurring after the one hundred twenty (120) day period.

C. Earning Provisions:

1. J. M. Huber Corporation and Geo-Dynamics Oil and Gas, Inc., Farmouts:

Contributing parties J. M. Huber Corporation (Huber) and Geo-Dynamics Oil & Gas, Inc., (Geo-Dynamics) own interests under the Contract Area as shown on Exhibit "A" and "A-1" attached hereto. In consideration of the mutual convenants contained herein, it is agreed by and between Huber and Geo-Dynamics as Contributing Parties and Harvey E. Yates Company (HEYCO) as an Earning Party as follows:

a. If the initial well provided for herein is completed as a producer of oil and/or gas in paying quantities, Huber and Geo-Dynamics shall execute and deliver to HEYCO assignments, made without warranty of title either express or implied, conveying their entire interest under the shallow and deep units as shown on Exhibit "A" to a depth of 100 feet below the stratigraphic equivalent of the deepest depth drilled in the initial well.

b. Huber and Geo-Dynamics shall except and reserve from the assignments provided for above an overriding royalty interest equal to 1/8 of the pro-

ceeds received from sale of all (8/8) of the oil and gas which may be produced, saved and marketed from the Shallow and Deep Units. These overriding royalties shall be computed and paid at the same time and in the same manner that royalties payable to the lessor under the terms of the lease are computed and paid, and Huber and Geo-Dynamics shall be responsible for their proportionate part of all taxes and assessments levied upon or against or measured by the production of oil and gas therefrom. These overriding royalties shall be proportionately reduced to reflect the percentage of acreage under the Shallow and Deep Units attributable to Huber and Geo-Dynamics as shown on Exhibit "A". No change in the ownership of the overriding royalty shall be binding upon HEYCO until such time as it shall have been furnished with either the original, a certified copy or an acceptable reporduction copy of the recorded instrument or instruments effecting the change in ownership.

2. Samedan Oil Corporation Farmout:

Contributing Party Samedan Oil Corporation (Samedan) owns an interest under the Contract Area as shown on Exhibits "A" and "A-1" attached hereto. In consideration of the mutual covenants contained herein, it is agreed by and between Samedan as a Contributing Party and Harvey E. Yates Company (HEYCO) as an Earning Party as follows:

a. If the initial well provided for herein is completed as a producer of oil and/or gas in paying quantities, Samedan shall deliver to HEYCO an assignment, without warranty of title either express or implied conveying its entire interest under the proration unit assigned to said initial well and 75% of its interest outside of said initial proration unit to a depth of 100 feet below the stratigraphic equivalent of the deepest depth drilled in the initial well.

b. Samedan shall except and reserve from the assignment provided for above an overriding royalty interest equal to 1/16 of the proceeds received from sale of all (8/8) of the oil and gas which may be produced, saved and marketed from said initial well. This overriding royalty shall be computed and paid at the same time and in the same manner that royalties payable to the lessor under the terms of the lease are computed and paid, and Samedan shall be responsible for its proportionate part of all taxes and assessments levied upon or against or measured by the production of oil and gas therefrom. This overriding royalty shall be proportionately reduced to reflect the percentage of acreage under the Shallow and Deep Units owned by Samedan as shown on Exhibit "A". No change in the ownership of the overriding royalty shall be binding upon HEYCO until such time as it shall have been furnished with either the original, a certified copy or an acceptable reporduction copy of the recorded instrument or instruments effecting the change in ownership.

c. "Payout" is defined to be the date on which the income, exclusive of production, conservation, severance and sales taxes attributable to the initial well for drilling, completing and equipping the same, plus all costs for operating the well to produce such amount. During Payout, HEYCO shall provide to Samedan current monthly statements summarizing all receipts and disbursements that are necessary to determine Payout. Within 30 days after Payout has occurred, HEYCO shall give Samedan written notice of such fact, and Samedan shall have 30 days after receipt of the notice of Payout within which to severally elect to convert, effective at Payout, the overriding royalty reserved to it above, to a proportionately reduced 25% working interest under the proration unit assigned to said well. Failure to elect to convert said overriding royalty interest into a working interest shall not terminate the override, and such interest shall remain in full force and effect.

3. Risk, Cost and Expense of Operations:

The entire cost, risk and expense of drilling, completing and operating, or plugging and abandoning, the wells drilled on the Contract Area shall be borne by

the parties in the proportions set forth in Exhibit "A", Section 2, attached hereto. HEYCO shall incur no liability for failure to commence said initial well by December 31, 1980, except that its rights hereunder shall terminate.

D. At least twenty-four (24) hours prior to conducting any testing, coring, logging, completing or abandoning operations, Operator shall notify the other parties participating in the costs thereof so that they may have a representative present to witness such tests or operations if they so desire.

E. In the event this agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any laws, rules, regulations, ordinances or orders, as set out in Article XIV.A., the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

F. Nothing herein contained shall grant, nor be construed to grant, Operator the right nor authority to waive or release any rights, privileges, or obligations which Non-Operators hereunder 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 on tracts offsetting or adjacent to the area covered by this agreement, as for example but without limitation, Operator shall not have the right to waive any rights which Non-Operators may have in reference to the location, operation, or production of wells on tracts offsetting or adjacent to the area covered hereby.

G. Notwithstanding anything contained herein to the contrary, in the event any well drilled hereunder is plugged and abandoned, all tubular goods which are a part of said well shall be subject to the right of the party procuring and furnishing same for joint operations hereunder to receive such goods in kind at the well site, such option to be exercised by notice in writing to Operator prior to abandonment. In the event such option is exercised, the remaining party or parties hereto shall be credited with their proportionate shares of the value of such goods as provided in the attached Accounting Procedure.

H. Operator shall prepare and disseminate all publicity releases and educational information deemed desirable concerning operations hereunder and in such publicity releases and information shall make reference to all the Parties to this Agreement; provided, however, Operator shall consult with the other Parties to this Agreement as to the wording of and advisability of disseminating such publicity releases and educational information, except in the event of an emergency when prompt action is mandated. This paragraph shall not prevent any Party from publishing a story or news item concerning such operations in its own magazine or newspaper.

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 17th day of June, 19 80.

OPERATOR

ATTEST

HARVEY E. YATES COMPANY

_____
Assistant Secretary

By: _____
George M. Yates, Vice President

NON-OPERATORS

ATTEST:

GETTY OIL COMPANY

_____
Secretary

By: _____
President

ATTEST:

SAMEDAN OIL CORPORATION

_____
Secretary

By: _____
President

ATTEST:

CAYMAN CORPORATION

_____
Secretary

BY: _____
President

ATTEST:

J. M. HUBER CORPORATION

_____
Secretary

By: _____
President

ATTEST:

GEO-DYNAMICS OIL & GAS, INC.
By: Adobe Oil Corportion

_____
Secretary

By: _____
President

ATTEST:

DALPORT OIL CORPORATION

_____
Secretary

BY: _____
President

ATTEST:

PROFESSIONAL INVESTMENT & TRUST COMPANY

_____
Secretary

BY: _____
President

ATTEST:

_____
Secretary

WITNESS:

_____

WITNESS:

_____

WITNESS:

_____

ATTEST:

_____
Secretary

WITNESS:

_____

WITNESS:

_____

WITNESS:

_____

WITNESS:

_____

SABINE PRODUCTION COMPANY

By: _____
President

_____
JOHN K. OVERBEY, Individually and as Trustee U/W of Joseph F. Overbey and Dora K. Overbey

_____
EUGENE E. NEARBURG

_____
ANNA A. REISCHMAN

CORONADO EXPLORATION CORP.

By: _____
President

_____
A. M. SWARTHOUT

_____
C. W. TRAINER

_____
GAYLE HUDGENS

_____
GARY HUDGENS

_____
C. E. MARSH II

STATE OF NEW MEXICO)
) §§
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GEORGE M. YATES, Vice President of HARVEY E. YATES COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of GETTY OIL COMPANY, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of CAYMAN CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of J. M. HUBER CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of GEO-DYNAMICS OIL & GAS, INC., a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of DALPORT OIL CORPORATION, a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of PROFESSIONAL INVESTMENT & TRUST COMPANY, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF TEXAS)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of SABINE PRODUCTION COMPANY, a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by JOHN K. OVERBEY, Individually and as Trustee U/W of Joseph F. Overbey and Dora K. Overbey.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by EUGENE E. NEARBURG.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by ANNA A. REISCHMAN.

My Commission Expires:

_____

_____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF BERNALILLO)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by HARVEY E. YATES, JR., President of CORONADO EXPLORATION CORP., a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of SAMEDAN OIL CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by A. M. SWARTHOUT.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
)
COUNTY OF _____) SS

The foregoing instrument was acknowledged before me the _____ day of _____, 1980, by C. W. TRAINER.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GAYLE HUDGENS.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GARY HUDGENS.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by C. E. MARSH II.

My Commission Expires:

_____

_____
Notary Public

REVISED 9-19-80

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THE OPERATING AGREEMENT
DATED JUNE 17, 1980, BETWEEN HARVEY E. YATES COMPANY,
AS OPERATOR AND THE OTHER PARTIES SIGNATORY THERETO AS NON-OPERATORS

1. Lands Subject to Agreement and Depth Restrictions:

A. Deep Zone - From base of the Strawn formation to the stratigraphic equivalent of 100 feet below the deepest depth drilled in the initial well.

Township 13 South, Range 36 East, N.M.P.M.

Section 33: S/2
Section 34: SW/4

Township 14 South, Range 36 East, N.M.P.M.

Section 3: W/2
Section 4: All

Containing 1,440.22 acres, more or less

B. Shallow Zone - From the surface to the base of the Strawn Formation.

Township 13 South, Range 36 East, N.M.P.M.

Section 33: S/2
Section 34: SW/4

Excepting the SW/4 SE/4 of Section 33 as to any zone subject to 40 acre oil proration unit spacing.

Township 14 South, Range 36 East, N.M.P.M.

Section 3: W/2
Section 4: All

Excepting the E/2 NE/4 of Section 4.

Containing 1,320.16 acres, more or less

2. Percentage Interests of the Parties to This Agreement:

A. Shallow Unit:

Party	Net Acres	Unit Interest	Interest Under Initial Well Before Payout	Interest Under Initial Well After Payout and Subsequent Wells
Getty Oil Company	75.109750	5.896387%	5.896387%	5.896387%
J. M. Huber Corp.	36.502375	2.865568%	F/O	F/O
Cayman Corporation	13.101000	1.028476%	1.028476%	1.028476%
Samedan Oil Corp.	54.077000	4.245240%	F/O	1.061310%
Geo-Dynamics Oil & Gas, Inc.	4.308000	.338194%	F/O	F/O
Dalport Oil Corp.	4.375000	.343453%	.343453%	.343453%
Sabine Production Co.	86.875000	6.820002%	6.820002%	6.820002%
Eugene E. Nearburg	1.875000	.147194%	.147194%	.147194%
Anna A. Reischman	1.875000	.147194%	.147194%	.147194%

Professional Investment Co., Inc.	2.592592	.203528%	.203528%	.203528%
A.M. Swarthout	2.592592	.203528%	.203528%	.203528%
John K. Overbey, Ind. & as Trustee	10.963539	.860678%	.860678%	.860678%
Gary Hudgens	.234375	.018399%	.018399%	.018399%
Gayle Hudgens	.234375	.018399%	.018399%	.018399%
C. W. Trainer	.468750	.036799%	.036799%	.036799%
Coronado Exploration Corp.	34.627817	2.718409%	2.718409%	2.718409%
C. E. Marsh II	3.000000	.235510%	.235510%	.235510%
Harvey E. Yates Co.	941.014500	73.873041%	81.322044%	80.260734%
	1273.826672	100.000000%	100.000000%	100.000000%

B. Deep Unit:

Party	Net Acres	Unit Interest	Interest Under Initial Well Before Payout	Interest Under Initial Well After Payout And Subsequent Wells
Getty Oil Company	149.028750	10.691597%	10.691597%	10.691597%
J.M. Huber Corp.	15.360375	1.101982%	F/O	F/O
Cayman Corporation	60.004000	4.304798%	4.304798%	4.304798%
Samedan Oil Corp.	70.005000	5.022288%	F/O	1.255572%
Geo-Dynamics Oil & Gas, Inc.	8.760000	.628459%	F/O	F/O
Dalport Oil Corp.	4.375000	.313871%	.313871%	.313871%
Sabine Production Co.	86.875000	6.232573%	6.232573%	6.232573%
Eugene E. Nearburg	1.875000	.134516%	.134516%	.134516%
Anna A. Reischman	1.875000	.134516%	.134516%	.134516%
Professional Investment Co., Inc.	2.592592	.185997%	.185997%	.185997%
A. M. Swarthout	2.592592	.185997%	.185997%	.185997%
John K. Overbey, Ind. & as Trustee	10.963539	.786545%	.786545%	.786545%
Gary Hudgens	.234375	.016814%	.016814%	.016814%
Gayle Hudgens	.234375	.016814%	.016814%	.016814%
C. W. Trainer	.468750	.033629%	.033629%	.033629%
Coronado Exploration Corp.	34.627817	2.484263%	2.484263%	2.484263%
C. E. Marsh II	3.000000	.215225%	.215225%	.215225%
Harvey E. Yates Co.	941.014507	67.510115%	74.262845%	73.007273%
	1393.886672	100.000000%	100.000000%	100.000000%

3. Oil and Gas Leases/Interests Subject to this Agreement:

See Exhibit "A-1"

4. Addresses for Notice Purposes:

Getty Oil Company
P. O. Box 1231
Midland, Texas 79701

Cayman Corporation
4030 First Place
Tulsa, Oklahoma 74103

Dalport Oil Corporation
3471 First National Bank Building
Dallas, Texas 75202

Samedan Oil Corporation
900 Wall Towers East
Midland, Texas 79701

J. M. Huber Corporation
1900 Wilco Building
Midland, Texas 79701

Professional Investment & Trust
P. O. Box 1599
Lovington, New Mexico 88260

Sabine Production Company
P. O. Box 3083
Midland, Texas 79702

John K. Overbey
Capitol National Bank Building
7th Floor
700 Lavaco Street
Austin, Texas 78767

Anna A. Reischman
1320 West 4th Street
Roswell, New Mexico 88201

Coronado Exploration Corp.
1007 Marquette, NW
Albuquerque, New Mexico 87102

C. W. Trainer
8201 Espanola
Austin, Texas 78749

Gary Hudgens
P.O. Box 1889
Hobbs, New Mexico 88240

Geo-Dynamics Oil & Gas, Inc.
P. O. Box 1341
Corpus Christi, Texas 78403

Eugene E. Nearburg
C/O Chama Petroleum Company
5015 Tracy Street
Dallas, Texas 75205
Attn: Charles Nearburg

A. M. Swarthout
P. O. Box 2533
Santa Fe, New Mexico 87501

Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88201

Dr. Gayle Hudgens
Hudgens International
P. O. Box 25561
Dallas, Texas 75225

C. E. Marsh II
500 Wilco Building
Midland, Texas 79701

EXHIBIT "A-1"
[illegible] UNIT
SCHEDULE OF LEASES

Revised 9-

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION
	LEASES OWNED BY HARVEY E. YATES COMPANY:			
	Sudie Lee Carrell	Harvey E. Yates Company	3-27-79	W½SE¼SE¼ Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, W½NE¼SE
	Effie C. Wilson et al	" " " "	3-22-79	Sec. 33, T-13S, R-36E: W½SW¼ (less a 10-acre tract)
	Thelma A. Meroney	" " " "	4-17-79	Sec. 33, T-13S, R-36E: S½SW¼ (Less a 10-acre tract)
	Noema B. Meroney et al	" " " "	5-4-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Pauline Burnett	" " " "	5-29-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Opal Meroney Storkman	" " " "	7-2-79	Insofar as said lease covers: Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Joyca Foster, et vir	" " " "	8-3-79	Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, W½NE¼S W½SE¼SE¼
	M. A. Teas, et vir	" " " "	8-15-79	Sec. 33, T-13S, R-36E: A 10-acre tract in the SW¼SW¼ of Sec
	Tatum Independent School Dist.	" " " "	8-13-79	Sec. 33, T-13S, R-36E: A 2-acre tract in the SE corner of t E½SE¼SE¼ of Sec. 33
	Edgar Meroney, Jr.	" " " "	11-15-79	Sec. 33, T-13S, R-36E: Insofar as said lease covers: W½SW¼ (Less a 10-acre tract)
	Harold L. Bridgeforth, et ux	Stanley H. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Evelyn B. Walton	Stanley H. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Vallie Humphries, et vir	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	H. H. Tracy et ux	" " "	12-6-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Harold B. Denton et ux	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Travis Denton et ux	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Iona McClish	" " "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼
	Richard R. Pettigrew et ux	" " "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼
	Leon O. Hemann, et ux	" " "	12-6-79	Sec. 34, T-13S, R-36E: SW¼SW¼

EXHIBIT "A-1"

Revised 9-18-80

SCHEDULE OF LEASES

LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
PANY:				
Harvey E. Yates Company	3-27-79	Sec. 33, T-13S, R-36E: W½SE¼SE¼ S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, N½NE¼SE¼,	316	905
" " " "	3-22-79	Sec. 33, T-13S, R-36E: W½SW¼ (less a 10-acre tract)	316	925
" " " "	4-17-79	Sec. 33, T-13S, R-36E: S½SW¼ (Less a 10-acre tract)	316	942
" " " "	5-4-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)	318	528
" " " "	5-29-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)	318	565
" " " "	7-2-79	Insofar as said lease covers: Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)	318	535
" " " "	8-3-79	Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, N½NE¼SE¼ W½SE¼SE¼	319	9
" " " "	8-15-79	Sec. 33, T-13S, P-36E: A 10-acre tract in the SW¼SW¼ of Sec.33	319	21
" " " "	8-13-79	Sec. 33, T-13S, R-36E: A 2-acre tract in the SE corner of the E½SE¼SE¼ of Sec. 33	319	23
" " " "	11-15-79	Sec. 33, T-13S, R-36E: Insofar as said lease covers: W½SW¼ (Less a 10-acre tract)	319	513
Stanley N. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	191
Stanley N. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	149
" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	157
" " "	12-6-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	647
" "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	197
" "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	145
" "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼	300	639
" "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼	300	635
" "	12-6-79	Sec. 34, T-13S, R-36E: SW¼SW¼	300	643

McDONALD UNIT
SCHEDULE OF LEASES

	LESSOR	LESSEE	DATE	DESCRIPTION
	LEASES OWNED BY HARVEY E.	YATES COMPANY (Continued)		
	Tatum Indep. School Distr.	Harvey E. Yates Company		Sec. 34, T-13S, R-36E: A tract of land containing 4.0 acres i the SW corner of the SW¼SW¼
	Dorothy P. Mack	" " " "	9-30-77	Sec. 4, T-14S, R-36E: Lot 3, Lot 4 (Less 1 ac.), E½SW¼, S½N
	James A. Foster et ux	" " " "	5-28-78	Sec. 4, T-14S, R-36E: SE¼, Less W½SW¼SW¼SE¼
	Alta Lee Glidewell et vir	Stanley N. Staples	10-10-76	Sec. 3, T-14S, R-36E: SW¼
	Eyrel A. Moore, et ux	" " "	11-8-76	Sec. 3, T-14S, R-36E: SW¼
	Hoyt M. Boy et vir	Harvey E. Yates Company	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼
	Howard Gilchrist, et ux	Harvey E. Yates Company	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4(Les
	Virginia Mae Gilchrist	" " " "	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4 (Less 1
	Edna R. Ashton	" " " "	5-26-78	Sec. 4, T-14S, R-36E: SE¼, Less the W½SW¼SW¼SE¼
	Elvin Lewis et ux	" " " "	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼
	Olivia McDonald et vir	Stanley N. Staples	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Otis J. Roach	" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Maude P. Stovall	" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Gyola Brooks Melton	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Cora Brooks Gault, et al	" " "	3-30-77	Sec. 3, T-14S, R-36E: SW¼
	Cora Mae Brooks et al	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Myrtle Brooks Hemingway	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Verna P. Roberts	" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼
	Katheryn D. Bartley	" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼

McDONALD UNIT
SCHEDULE OF LEASES

LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
S COMPANY (Continued)				
rvey E. Yates Company		Sec. 34, T-13S, R-36E: A tract of land containing 4.0 acres in the SW corner of the SW¼SW¼	322	699
" " " "	9-30-77	Sec. 4, T-14S, R-36E: Lot 3, Lot 4 (Less 1 ac.), E½SW¼, S½NW¼	306	139
" " " "	5-28-78	Sec. 4, T-14S, R-36E: SE¼, Less W½SW¼SW¼SE¼	311	664
pley N. Staples	10-10-76	Sec. 3, T-14S, R-36E: SW¼	300	193
" "	11-8-76	Sec. 3, T-14S, R-36E: SW¼	300	205
ey E. Yates Company	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼	311	94
ey E. Yates Company	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4(Less 1 ac.)	311	96
" " "	5-12-78	Sec. 4, T-14S,R-36E: Lot 3,SW¼NW¼,SE¼NW¼,E½SW¼, Lot 4 (Less 1 ac.)	311	98
" " "	5-26-78	Sec. 4, T-14S, R-36E: SE¼, Less the W½SW¼SW¼SE¼	311	662
" " "	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼	310	369
y N. Staples	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	655
" "	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	651
" "	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	659
" "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	797
" "	3-30-77	Sec. 3, T-14S, R-36E: SW¼	302	793
" "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	609
" "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	353
"	1-27-77	Sec. 3, T-14S, R-36E: SW¼	301	881
"	1-27-77	Sec. 3, T-14S, R-36E: SW¼	302	613

SCHEDULE OF LEASES

	LESSOR	LESSEE	DATE	DESCRIPTION
	LEASES OWNED BY HARVEY E. YATES COMPANY (Continued):			
	Acoma Oil Corporation	Stanley N. Staples	12-1-76	Sec. 3, T-14S, R-36E: NW¼
	Joy H. Key et al	Harvey E. Yates Company	5-5-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
	Donald E. Blackmar	" " " "	8-6-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: SW¼
	J. M. Hewgley, Jr. et ux	" " " "	11-21-79	Insofar as said lease covers Sec. 3, T-14S, R-36E; NW¼
	Daniel W. Varel, et ux	" " " "	12-3-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
	Lorna G. Overbey	" " " "	1-1-80	Insofar as said lease covers the NW¼ of Sec. 3 & SE¼ Sec. 4 (Less W½SW¼SW¼SE¼), all in T-14S, R-36E
	William C. Liedtke, Jr.et ux	" " " "	12-11-79	Sec. 3, T-14S, R-36E: NW¼
	James J. Laney et ux	" " " "	4-1-80	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
	Victoria Doan et al	" " " "	12-11-78	Sec. 4, T-14S, R-36E: W½SW¼
	Allyne S. Carter	" " " "	5-20-80	Sec. 3, T-14S, R-36E: NW¼
	Tom L. Ingram et ux	" " " "	4-7-80	Sec. 3, T-14S, R-36E: SW¼
	C. E. Marsh II et ux	" " " "	5-1-80	Sec. 3, T-14S, R-36E: NW¼
	Bruce T. Pearson	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼
	Gladys Terrill	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼
	Evelyn R. Brooks	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼
	Etta M. Brooks	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼
	Helen H. Lea	" " " "	6-17-80	Sec. 3, T-14S, R-36E; NW¼
	John R. Fitzgerald, Indiv. & as Exec. of Est. of Vestal Fitzgerald, dec'd	" " " "	6-3-80	Sec. 3, T-14S, R-36E: SW¼

...CDONALD UNIT
SCHEDULE OF LEASES

	LESSEE	DATE	DESCRIPTION	RECORDED Book	RECORDED Page
E.	YATES COMPANY (Continued):				
	Stanley N. Staples	12-1-76	Sec. 3, T-14S, R-36E: NW¼	301	150
	Harvey E. Yates Company	5-5-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	318	524
	" " " "	8-6-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: SW¼	318	598
x	" " " "	11-21-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	321	250
	" " " "	12-3-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	321	400
	" " " "	1-1-80	Insofar as said lease covers the NW¼ of Sec. 3 & SE¼ Sec. 4 (Less W½SW¼SW¼SE¼), all in T-14S, R-36E	435	789
et ux	" " " "	12-11-79	Sec. 3, T-14S, R-36E: NW¼	325	405
	" " " "	4-1-80	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	326	236
	" " " "	12-11-78	Sec. 4, T-14S, R-36E: W½SW¼	316	824
	" " " "	5-20-80	Sec. 3, T-14S, R-36E: NW¼		
	" " " "	4-7-80	Sec. 3, T-14S, R-36E: SW¼	326	798
	" " " "	5-1-80	Sec. 3, T-14S, R-36E: NW¼		
	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼		
	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼		
	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
stal	" " " "	6-3-80	Sec. 3, T-14S, R-36E: SW¼		

MCDONALD UNIT
EXHIBIT "A-1"

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION
	L. Dene Stephens, et ux	Harvey E. Yates Company	8-6-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E
	Randall Montgomery	" " " "	7-28-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E
	Lucille McKinley	" " " "	7-18-80	NW/4 - Sec. 3, T-14S, R-36E
	Pennzoil United, Inc.	" " " "	7-7-80	NW/4 - Sec. 3, T-14S, R-36E
	Pennzoil United, Inc.	" " " "	7-7-80	Lot 3, SE/4 NW/4 & E/2 SW/4 - Sec. 4, T-14S, R-36E
	Gregory Lynn Deevers	" " " "	6-19-80	SW/4 - Sec. 3, T-14S, R-36E
	Terry Lynn B. Buford, et al	" " " "	7-1-80	SW/4 - Sec. 3, T-14S, R-36E
	Henry D. Lindsley, III etux	" " " "	7-30-80	NW/4 - Sec. 3, T-13S, R-36E
	Richard L. Moore, et al	" " " "	7-16-80	NE/4 NW/4 SE/4 - Sec. 33, T-13S, R-36E
	J. Hugh Liedtke	" " " "	7-30-80	NW/4 - Sec. 3, T-14S, R-36E

MCDONALD UNIT
EXHIBIT "A-1"

	LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
x	Harvey E. Yates Company	8-6-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E	329	345
	" " " "	7-28-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E	329	179
	" " " "	7-18-80	NW/4 - Sec. 3, T-14S, R-36E	329	115
	" " " "	7-7-80	NW/4 - Sec. 3, T-14S, R-36E	328	587
	" " " "	7-7-80	Lot 3, SE/4 NW/4 & E/2 SW/4 - Sec. 4, T-14S, R-36E	328	589
	" " " "	6-19-80	SW/4 - Sec. 3, T-14S, R-36E	329	44
etal	" " " "	7-1-80	SW/4 - Sec. 3, T-14S, R-36E	328	585
etux	" " " "	7-30-80	NW/4 - Sec. 3, T-13S, R-36E	329	140
1	" " " "	7-16-80	NE/4 NW/4 SE/4 - Sec. 33, T-13S, R-36E	329	48
	" " " "	7-30-80	NW/4 - Sec. 3, T-14S, R-36E	331	466

SCHEDULE OF LEASES

LESSOR	LESSEE	DATE	DESCRIPTION
LEASES OWNED BY NON-OPERATORS:			
Lewis Beeman, et ux	Dividend Exploration, Inc., et al	4-3-68	Sec. 33, T-13S, R-36E: N½NE¼SW¼, N½SE¼SW¼, SW¼SE¼, NW¼NW¼ S½NE¼SE¼ & E½SE¼SE¼, Less 2 acs. in
Mary Virginia Griffin	Getty Oil Co., et al	3-20-68	Sec. 4, T-14S, R-36E: Lot 1, 2, SE¼NE¼ & SW¼NE¼
Kathryn Mitchell	" " "	3-20-68	" " " " " " " " "
James A. Foster, Jr. et ux	" " "	5-28-69	" " " " " " " " "
Christiana Oil Corp.	" " "	11-4-70	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less ~~½SW¼SW¼~~
Edna R. Ashton	Getty Oil Co., et al	3-22-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼
John K. Overbey	J. M. Huber Corp.	3-20-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼
Joseph F. Overbey Estate	J. M. Huber Corp.	3-20-68	" " " " " " " "
Lorna Geering Overbey	J. M. Huber Corp.	4-18-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less ~~½SW¼SW¼~~

"C" [illegible] UNIT
[illegible] OF LEASES

	LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
OPERATORS:					
	Dividend Exploration, Inc., et al	4-3-68	Sec. 33, T-13S, R-36E: N½NE¼SW¼, N½SE¼SW¼, SW¼SE¼, NW¼NW¼SE¼, S½NE¼SE¼ & E½SE¼SE¼, Less 2 acs. in SE corner		
	Getty Oil Co., et al	3-20-68	Sec. 4, T-14S, R-36E: Lot 1, 2, SE¼NE¼ & SW¼NE¼		
	" " "	3-20-68	" " " " " " " " "		
ux	" " "	5-28-69	" " " " " " " " "		
	" " "	11-4-70	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less W½SW¼SW¼SE¼)		
	Getty Oil Co., et al	3-22-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼		
	J. M. Huber Corp.	3-20-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼		
te	J. M. Huber Corp.	3-20-68	" " " " " " " "		
	J. M. Huber Corp.	4-18-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less W½SW¼SW¼SE¼)		

REVISED 9-18-80

MCDONALD UNIT
EXHIBIT "A-1"

UNLEASED MINERALS

	OWNER	GROSS ACRES	NET ACRES		DESCRIPTION
	C. W. Trainer, etux	120.0	0.468750		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Gayle Hudgens	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Gary Hudgens	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Dalport Oil Corporation	120.0	4.375000		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Sabine Production Co.	280.0	86.875000		SE/4 Sec. 4 , T-14S, R-36E; N/2 SW/4 & SE/4 SW/4, Sec. 34
	John K. Overbey, et al	315.0	10.963539		NW/4 Sec. 3 & SE/4 Sec. 4, T-14S, R-36E
	Eugene E. Nearburg	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
	Anna A. Reischman	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
	Professional Inv. & Tr Co	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW
	A. M. Swarthout	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW
	Walter M. Martin, Jr.	160.0	4.000000		NW/4 Sec. 3, T-14S, R-36E
	Thomas P. Arnold	160.0	1.333328		NW/4 Sec. 3, T-14S, R-36E
	Tenneco Oil Company	80.0	40.000000		S/2 SW/4 Sec. 3, T-14S, R-36E
	Lewis Beeman, et ux	1.0	1.000000		1 acre in the NW/4 corner of Lot 4, Sec. 4, T-14S, R-36E
	Total Unleased Minerals:		158.419551		
	Committed to Operating Agreement:		112.086223		
	Unleased and Uncommitted:		46.333328		

REVISED 9-18-80

MCDONALD UNIT
EXHIBIT "A-1"

UNLEASED MINERALS

	GROSS ACRES	NET ACRES		DESCRIPTION
	120.0	0.468750		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
on	120.0	4.375000		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	280.0	86.875000		SE/4 Sec. 4 , T-14S, R-36E; N/2 SW/4 & SE/4 SW/4, Sec. 34, T-13S, R-36E
1	315.0	10.963539		NW/4 Sec. 3 & SE/4 Sec. 4, T-14S, R-36E
	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
Co	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW corner)
	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW corner)
	160.0	4.000000		NW/4 Sec. 3, T-14S, R-36E
	160.0	1.333328		NW/4 Sec. 3, T-14S, R-36E
	80.0	40.000000		S/2 SW/4 Sec. 3, T-14S, R-36E
	1.0	1.000000		1 acre in the NW/4 corner of Lot 4, Sec. 4, T-14S, R-36E
ls:		158.419551		
Agreement:		112.086223		
ted:		46.333328		

(FIVE YEAR PAID UP LEASE)

OIL AND GAS LEASE

Form 345
Hall-Poorbaugh Press
Roswell, New Mexico

THIS AGREEMENT made this 17th day of June, 19 80, between

.....

.....

Lessor (whether one or more), whose address is: .....

and ..... Lessee, WITNESSETH:

1. Lessor in consideration of ..... Dollars

($ .....) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in ..... County, ..., to-wit:

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to paid by Lessee are: (a) on oil, 1/8 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 1/8 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/8 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of $1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on an acreage basis--that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the County in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. 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 feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision 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 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 or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

9. 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 either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

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.....

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Lessor

.....
Lessor

Kraftbilt 601. BOX 800 TULSA OK 74101

COPAS — 1974

Recommended by the Council of Petroleum Accountants Societies of North America

COPAS

EXHIBIT "C"

Attached to and made a part of the Operating Agreement dated June 17, 1980 between HARVEY E. YATES COMPANY as Operator and the other parties signatory thereto as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

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II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

B. Expense, including salaries, of Operator's legal staff and expenses of outside attorneys incurred in matters before administrative agencies, where in operators opinion, such representation is necessary to the proper conduct of joint operations. Expenses of Operators legal staff shall be billed on the basis of actual cost to the Operator.

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates. Such expense attributable to Operator's technical employees shall be prorated and charged to the joint account on the basis of actual cost to the Operator.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,500.00
Producing Well Rate $ 500.00

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

(a) Drilling Well Rate

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

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

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

(b) Producing Well Rates

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

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

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

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

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

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

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

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

*To Be Negotiated

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated June 17, 1980, by and between HARVEY E. YATES COMPANY, as Operator and the other parties signatory thereto as Non-Operators.

Operator shall carry or provide for the benefit of the Joint Account:

(1) Worker's Compensation Insurance to cover full liability under the law of the State where the operations are being conducted.

(2) Employer's Liability Insurance with a limit of not less than $500,000 for accidental injuries or deaths of one or more employees as a result of one accident.

No other insurance will be provided by the Operator, for the benefit of the Joint Account. Each party may, at his own option, carry additional insurance at his own expense. In the event additional insurance is purchased by a party, such insurance policy or policies shall contain a Waiver of Subrogation in favor of the other parties.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED June 17, 1980 BETWEEN HARVEY E. YATES COMPANY AS OPERATOR, AND the other parties signatory thereto ET AL AS NON-OPERATORS.

GAS BALANCING AGREEMENT

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

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

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

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

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party or parties' share of gas produced from the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in the Contract Area.

In the event production of gas from the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement between the parties. Such settlement shall be based upon the price actually received by the parties for overproduction when it occurred of a volume of gas equal to that for which settlement is made.

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

Attached to and made a part of the Operating Agreemtn dated June 17, 1980, by and between HARVEY E. YATES COMPANY, as Operator, and the other signatory parties thereto as Non-Operators

In order to insure compliance with Federal Equal Employment provisions, Operator agrees and certifies as follows

I. Equal Opportunity Clause (41 CFR §60-1.4) (Applicable to contracts and purchase orders in excess of $10,000.

Operator certifies that it shall comply with the Equal Opportunity Clause contained in Section 202 of Executive Order 11246, effective September 24, 1965, as amended by Executive Order 11375, dated October 13, 1967, and as set forth in 41 CFR §60-1.4(a), which clause is incorporated herein by reference thereto as though fully set forth herein in haec verba in accordance with 41 CFR §60-1.4(d).

II. Certification of Non-Segregated Facilities (41 CFR §60-1.8) (Applicable to contracts and purchase orders which are not exempt from the provisions of the Equal Opportunity Clause incorporated by reference hereinabove)

Operator certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its locations, 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. Operator understands and agrees that a breach of this certification is a violation of the Equal Opportunity Clause incorporated by reference hereinabove. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, restaurants and other eating areas, time clocks, restrooms, wash rooms, 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 directive or are in fact segregated on the basis of race, color, religion, or national origin because of habit, local custom, or otherwise; Operator's policies and practices must assure appropriate physical facilities to both sexes. Operator further agrees that (except where it 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 he will retain such certifications in his files; and that he 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 NON-SEGREGATED FACILITIES

A Certification of Non-Segregated Facilities, as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions 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, or annually).

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

Operator certifies that it will 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 Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress, or such form as may hereafter be promulgated in its place, in compliance with 41 CFR §60-1.7, and that it shall require a similar certification from each of its non-exempt sub-contractors.

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

Operator certifies that it shall develop a written affirmative action compliance program for each of its establishments, and within 120 days from commencement of this contract or purchase order, shall maintain a copy of separate affirmative action compliance programs for each establishment, including evaluations of utilization of minority group personnel and job classification tables, at each local office responsible for the personnel matters of such establishment and that it shall require a similar certification from each of its non exempt sub-contractors.

V. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause (41 CFR §60-250.4) (Applicable to contracts and purchase orders for $10,000 or more)

Operator agrees and certifies that it shall comply with the Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause set forth in 41 CFR §60-250.4, which clause and the regulations contained in 41 CFR Part 60-250 are incorporated herein by this reference thereto, as though fully set forth herein in haec verba, in accordance with 41 CFR §60-250.22. Operator also agrees and certifies that if (a) it has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, within 120 days of the commencement of this contract or purchase order, 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 41 CFR §60-250.6.

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

Operator agrees and certifies that it shall comply with the Affirmative Action for Handicapped Workers Clause contained in 41 CFR § 60-741.4, which clause and the regulations contained in 41 CFR Part 60-741 are incorporated herein by this reference thereto, as though fully set forth herein in haec verba, in accordance with 41 CFR §60-741.22. Operator also agrees and certifies that if (a) it has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, within 120 days of the commencement of this contract or purchase order, 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 41 CFR §60-741.6.

VII. Utilization of Minority Business Enterprises (41 CFR §1-1.1310-2(a) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (b) contracts for services which are personal in nature)

A. 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.

B. Operator agrees to use its best efforts to carry out this policy in the award of its 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 purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American Orientals, American Indians, American Eskimos and American Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

VIII. Minority Business Enterprises Subcontracting Program (41 CFR §1-1.310-2(b) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Minority Business Enterprises Clause and which offer substantial subcontracting possibilities)

A. Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, Operator shall —

1. Designate a liaison officer who will administer Operator's minority business enterprises program.

2. Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.

3. Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

4. Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

5. Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

6. Cooperate with the Contracting Officer (as defined in 41 CFR §1-1.297) in any studies and surveys of Operator's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.

7. Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph 4 above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

B. Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 provisions which shall conform substantially to the language of this clause, including this paragraph B., and to notify the Contracting Officer of the names of such subcontractors.

IX. Utilization of Small Business Concerns (41 CFR §1-1.710-3(a) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (b) contracts for services which are personal in nature)

A. It is the policy of the Government as declared by the Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.

B. The Operator agrees to accomplish the maximum amount of subcontracting to small business concerns that the Operator finds to be consistent with the efficient performance of this contract.

X. Small Business Subcontracting Program (41 CFR §1-1.710-3(b) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Small Business Concerns Clause and which offer substantial subcontracting possibilities)

A. The Operator agrees to establish and conduct a small business subcontracting program which will enable small business concerns to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Operator shall —

1. Designate a liaison officer who will (i) maintain liaison with the Government on small business matters, (ii) supervise compliance with the Utilization of Small Business Concerns clause, and (iii) administer the Operator's "Small Business Subcontracting Program."

2. Provide adequate and timely consideration of the potentialities of small business concerns in all "make-or-buy" decisions

3. Assure that small business concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of small business concerns. Where the Operator's lists of potential small business subcontractors are excessively long, reasonable effort shall be made to give all such small business concerns an opportunity to compete over a period of time.

4. Maintain records showing (i) whether each prospective subcontractor is a small business concern, (ii) procedures which have been adopted to comply with the policies set forth in this clause, and (iii) with respect to the letting of any subcontract (including purchase orders) exceeding $10,000, information substantially as follows:

   a. Whether the award went to large or small business.

   b. Whether less than three or more than two small business firms were solicited.

   c. The reason for non solicitation of small business if such was the case.

   d. The reason for small business failure to receive the award if such was the case when small business was solicited.

   The records maintained in accordance with (iii) above may be in such form as the Operator may determine, and the information shall be summarized quarterly and submitted by the purchasing department of each individual plant of division to the Operator's cognizant small business liaison officer. Such quarterly summaries will be considered to be management records only and need not be submitted routinely to the Government; however, records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulation.

5. Notify the Contracting Officer (as defined in 41 CFR §1-1.207) before soliciting bids or quotations on any subcontract (including purchase orders) in excess of $10,000 if (i) no small business concern is to be solicited, and (ii) the Contracting Officer's consent to the subcontract (or ratification) is required by a "Subcontracts" clause in this contract. Such notice will state the Operator's reasons for nonsolicitation of small business concerns, and will be given as early in the procurement cycle as possible so that the Contracting Officer may give SBA timely notice to permit SBA a reasonable period to suggest potentially qualified small business concerns through the Contracting Officer. In no case will the procurement action be held up when to do so would, in the Operator's judgement, delay performance under the contract.

6. Include the Utilization of Small Business Concerns clause in subcontracts which offer substantial small business subcontracting opportunities.

7. Cooperate with the Contracting Officer in any studies and surveys of the Operator's subcontracting procedures and practices that the Contracting Officer may from time to time conduct.

8. Submit quarterly reports of subcontracting to small business concerns on either Optional Form 61, Small Business Subcontracting Program Quarterly Report of Participating Large Company on Subcontract Commitments to Small Business Concerns, or such other form as may be specified in the contract. Except as otherwise provided in this contract, the reporting requirements of this subparagraph 8. do not apply to small business contractors, small business subcontractors, educational and nonprofit institutions, and contractors or subcontractors for standard commercial items.

B. A "small business concern" is a concern that meets the pertinent criteria established by the Small Business Administration and set forth in §1-1.701 of the Federal Procurement Regulations.

C. The Operator agrees that, in the event he fails to comply with his contractual obligations concerning the small business subcontracting program, this contract may be terminated, in whole or in part, for default.

D. The Operator further agrees to insert in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Small Business Concerns clause provisions which shall conform substantially to the language of this clause, including this paragraph D, and to notify the Contracting Officer of the names of such subcontractors.

XI. Utilization of Labor Surplus Area Concerns (41 CFR §1-1.805-3(a)) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts with foreign contractors which, including all subcontracts thereunder, are to be performed entirely outside the United States, its territories and possessions, Puerto Rico, and Trust Territory of the Pacific Islands, and the District of Columbia; (b) contracts for services which are personal in nature; and (c) contracts for construction)

A. It is the policy of the Government to award contracts to labor surplus area concerns that (1) have been certified by the Secretary of Labor (hereafter referred to as certified eligible concerns with first or second preferences) regarding the employment of a proportionate number of disadvantaged individuals and have agreed to perform substantially (i) in or near sections of concentrated unemployment or underemployment or in persistent or substantial labor surplus areas or (ii) in other areas of the United States, respectively, or (2) are non certified concerns which have agreed to perform substantially in persistent or substantial labor surplus areas, where this can be done consistent with the efficient performance of the contract and at prices no higher than are obtainable elsewhere. The Operator agrees to use his best efforts to place his subcontracts in accordance with this policy.

B. In complying with paragraph A. of this clause and with paragraph B. of the clause of this contract entitled "Utilization of Small Business Concerns" the Operator in placing his subcontract shall observe the following order of preference. (1) Certified eligible concerns with a first preference which are also small business concerns, (2) other certified eligible concerns with a first preference; (3) certified eligible concerns with a second preference which are also small business concerns; (4) other certified eligible concerns with a second preference; (5) persistent or substantial labor surplus area concerns which are also small business concerns; (6) other persistent or substantial labor surplus area concerns; and (7) small business concerns which are not labor surplus area concerns.

XII. Labor Surplus Area Subcontracting Program (41 CFR §1-1.805-3(b)) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Labor Surplus Area Concerns Clause and which offer substantial subcontracting possibilities)

A. The Operator agrees to establish and conduct a program which will encourage labor surplus area concerns to compete for subcontracts within their capabilities. In this connection, the Operator shall —

   1. Designate a liaison officer who will (i) maintain liaison with duly authorized representatives of the Government on labor surplus area matters, (ii) supervise compliance with the Utilization of Concerns in Labor Surplus Areas clause, and (iii) administer the Operator's "Labor Surplus Area Subcontracting Program."

   2. Provide adequate and timely consideration of the potentialities of labor surplus area concerns in all "make-or-buy" decisions.

   3. Assure that labor surplus area concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of labor surplus area concerns.

   4. Maintain records showing procedures which have been adopted to comply with the policies set forth in this clause. Records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulations, and

   5. Include the Utilization of Concerns in Labor Surplus Areas clause in subcontracts which offer substantial labor surplus area subcontracting opportunities.

B. A "labor surplus area concern" is a concern that (1) has been certified by the Secretary of Labor (hereafter referred to as a certified-eligible concern) regarding the employment of a proportionate number of disadvantaged individuals and has agreed to perform substantially in or near sections of concentrated unemployment or underemployment, in persistent or substantial labor surplus areas, or in other areas of the United States or (2) is a non-certified concern which has agreed to perform a substantial proportion of a contract in persistent or substantial labor surplus area. A certified-eligible concern shall be deemed to have performed a substantial proportion of a contract in or near sections of concentrated unemployment or underemployment in persistent or substantial labor surplus areas, or in other areas if the costs that the concern will incur on account of manufacturing or production in or near such sections or in such areas (by itself, if a certified concern, or by certified concerns acting as first-tier subcontractors) amount to more than 25 percent of the contract price. A concern shall be deemed to have performed a substantial proportion of a contract in persistent or substantial labor surplus areas (by itself for its first-tier subcontractors) if the costs that the concern will incur on account of production or manufacturing in such areas amount to more than 50 percent of the contract price.

C. The Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Concerns in Labor Surplus Areas clause, provisions which shall conform substantially to the language of this clause, including this paragraph C, and to notify the Contracting Officer (as defined in 41 CFR §1-1.207) of the names of subcontractors.

XIII. Clean Air and Water (41 CFR §1-1.2302-2) (Applicable to contracts and purchase orders in excess of $100,000, or if the Contracting Officer (as defined in 41 CFR §1-1.207) has determined that orders under an indefinite quantity contract in any one year will exceed $100,000, or a facility to be used has been the subject of a conviction under the Clean Air Act (42 U.S.C. 1857c-8 (c) (1)) or the Federal Water Pollution Control Act (33 U.S.C. 1319 (c) and is listed by EPA, or the contract is not otherwise exempt).

The Operator agrees as follows:

A. To comply with all the requirements of section 114 of the Clean Air Act, as amended (42 U.S.C. 1857, et seq., as amended by Pub. L. 91-604) and section 308 of the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq., and amended by Pub. L. 92-500) respectively, relating to inspection, monitoring, entry, reports, and information, as well as other requirements specified in section 114 and section 308 of the Air Act and the Water Act, respectively, and all regulations and guidelines issued thereunder before the award of the contract.

B. That no portion of the work required by this contract will be performed in a facility listed on the Environmental Protection Agency List of Violating Facilities on the date of contract award unless and until the EPA eliminates the name of such facility or facilities from such listing.

C. To use his best efforts to comply with clean air standards and clean water standards at the facility in which the contract is being performed.

D. To insert the substance of the provisions of this clause into any non-exempt subcontract, including this paragraph D.

WELL NUMBER 1

LOCATION 660' FSL & 990' FEL, Section 33, T-13S, R-36E

COUNTY Lea DEPTH 14,700' PRODUCING FORMATION Devonian

	Producing Well Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Location	$ 15,000	$ 15,000
Footage 10,000 @ $26.00/ft	260,000	260,000
Daywork 38 days @ $7,255/day	275,690	275,690
Surface casing service	4,000	4,000
Intermediate casing service	20,000	20,000
Mud, water	35,000	35,000
Company supervisor, engineer	8,000	8,000
Rentals, coring service	15,000	15,000
Miscellaneous	10,000	10,000
Total intangible drilling costs	642,690	642,690
Intangible formation evaluation cost		
Logs, CNL-D , DLL-Rxo ,	30,000	30,000
DST 10 @ 2,500/ea.	25,000	25,000
Geological mud logging service	12,000	12,000
Miscellaneous	5,000	5,000
Total intangible formation evaluation	72,000	72,000
Intangible completion costs		
Unit cost 25 days @ $1,200/day	30,000	
Production casing service	20,000	
Completion fluid	3,000	
Perforating/production logging	36,000	
Treating	30,000	
Company supervision	7,500	
Plugging expense		
Miscellaneous	5,000	10,000
Total intangible completion costs	131,500	5,000
Tangible drilling costs and completion costs		15,000
Surface casing 375' of 13 3/8"	6,500	6,500
Intermediate casing 4600' of 8 5/8"	58,000	46,300
Production casing 14,700' of 5 1/2"	170,260	
Production tubing 14,200' of 2 3/8"	60,400	
Casing head	5,000	
Tubing head	7,000	
Christmas tree	7,000	
Subsurface equipment	3,000	
Total tangible drilling costs and completion costs	317,160	52,800
Lease equipment		
Tanks 2 , 210 bbl	8,000	
Separator	15,000	
Flow lines	3,000	
Meter runs	1,500	
Pumping unit		
Installation costs	3,500	
Total lease equipment	31,000	
Total intangible costs	846,190	729,690
Total tangible costs	317,160	52,800
Total lease equipment	31,000	
Administrative	6,500	4,500
TOTAL COSTS	$1,200,850	$ 786,990

Prepared by: Fred G. Yates Date: 2/4/81

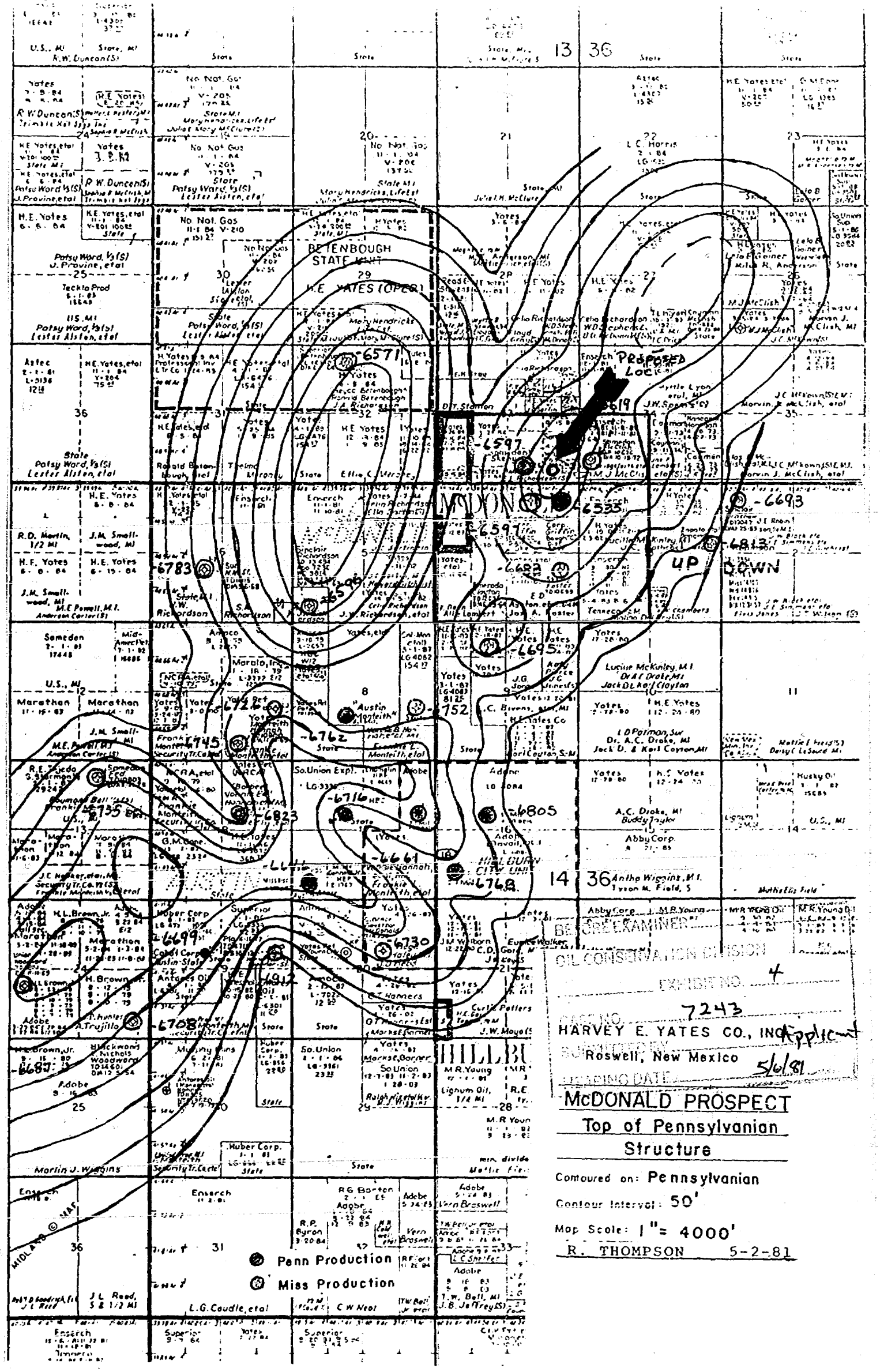
"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

APPROVED BY:

Company

Date

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 3
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81



BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 4
CASE NO. 7243
HARVEY E. YATES CO., INC. Applicant
SUBMITTED BY
Roswell, New Mexico
HEARING DATE 5/6/81

McDONALD PROSPECT

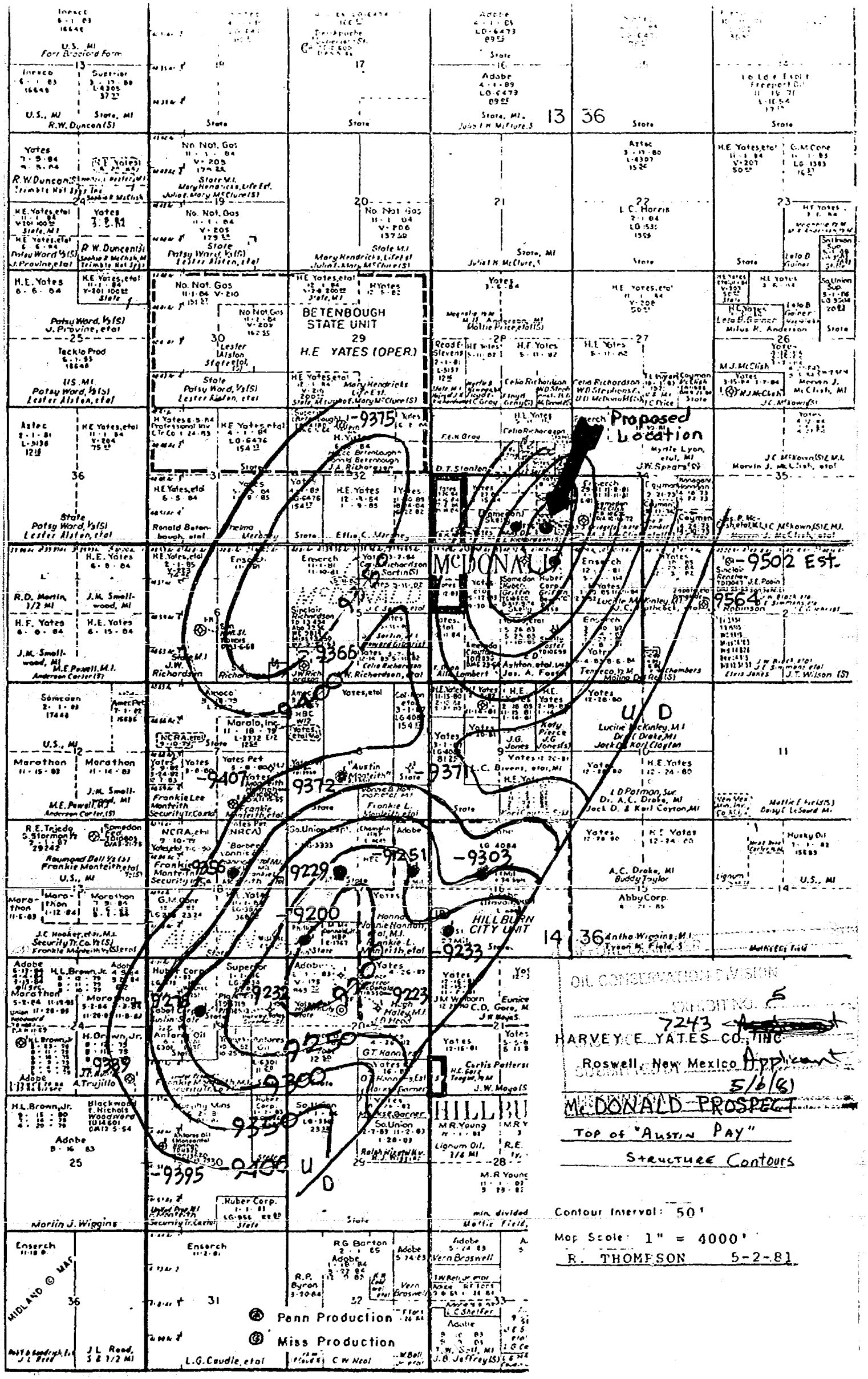
Top of Pennsylvanian Structure

Contoured on: Pennsylvanian

Contour Interval: 50'

Map Scale: 1"= 4000'

R. THOMPSON 5-2-81



OIL CONSERVATION DIVISION
EXHIBIT NO. 5
CASE NO. 7243
HARVEY E. YATES CO., INC.
Roswell, New Mexico Applicant
5/6/81

McDONALD PROSPECT

Top of "Austin Pay"

Structure Contours

Contour Interval: 50'

Map Scale: 1" = 4000'

R. THOMPSON 5-2-81

HEYCO

PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY

P O BOX 1933 SUITE 800 SECURITY NATIONAL BANK BUILDING 505/623 6601

ROSWELL, NEW MEXICO 88201

June 24, 1980

J. M. Huber Corporation
1900 Wilco Building
Midland, Texas 79701

Attention: Mr. Gary Bailey

Geo-Dynamics Oil & Gas, Inc.
C/O Adobe Oil Corporation
1100 Western United Life Bldg
Midland, Texas 79701

Attention: Mr. Kelley Barnes

Re: Proposed McDonald Unit
Lea County, New Mexico

Gentlemen:

As we have discussed previously, I enclose an Operating Agreement covering the above referenced unit. The agreement contains farmout provisions whereby your respective Companies agree to farmout your interests to HEYCO on the basis of a 1/8 overriding royalty interest proportionately reduced to your unit interests.

Due to your request that 120.00 acres, from the surface to the base of the Strawn formation, be deleted from the Operating Agreement due to proximity of producing wells, it was necessary to structure the agreement to provide for a shallow and deep unit covering the different gross acreages involved. I have re-calculated interests for Cayman, Huber, Getty, Samedan and Geo-Dynamics using the same procedure I discussed with you previously, and the results, averaged as to shallow and deep units, are quite close to my original calculations.

Also, please note that there are approximately sixty-five net acres under both the shallow and deep units which have not been committed to the Operating Agreement. Forty net acres of minerals are owned thereunder by Tenneco Oil Company, which has refused to join in the operating agreement or to lease their interests. The remaining twenty-five acres consists of a number of small unleased mineral interests whose owners have declined to participate or lease or cannot be located. If we are successful in leasing any of these additional interests prior to commencing the initial well, they will be committed to the Operating Agreement by HEYCO, and all of the interests shown on Exhibit "A" would change slightly. In such event, we will provide you with a revised Exhibit "A".

If the Operating Agreement and your interests as shown on Exhibit "A" are satisfactory, please execute and return the enclosed extra set of signature pages.

If you have any questions, please let me know.

Sincerely yours,

Robert H. Strand

RHS/cj
Enclosures

FILE EXAMINED
OIL CONSERVATION DIVISION
CASE NO. 7A
ORDER NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

HEYCO
PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY
P O BOX 1933 SUITE 300 SECURITY NATIONAL BANK BUILDING 505/623-6601
ROSWELL, NEW MEXICO 88201

February 9, 1981

J. M. Huber Corp.
Wilco Bldg.
Midland, Texas 79701

Attention: Mr. Bill Ennis

Re: McDonald Unit #1
Lea County, New Mexico

Dear Bill:

As we discussed in your office on Friday, I am enclosing two copies of an updated AFE for the proposed McDonald Unit #1 Well. If you have any further questions, please let me know.

Sincerely,

Robert H. Strand
Attorney

RHS/lhc

Enclosure

EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 7B
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

7047

PHONE (505) 623-6601

HEYCO HARVEY E. YATES COMPANY

PETROLEUM PRODUCERS P.O. BOX 1933 SECURITY NATIONAL BANK BUILDING ROSWELL, NEW MEXICO 88201

May 4, 1981

WORKING INTEREST OWNERS
McDonald Unit

Re: McDonald Unit
T-13S, R-36E, N.M.P.M.
Section 33: S/2
Section 34: SW/4

T-14S, R-36E, N.M.P.M.
Section 3: W/2
Section 4: All
Lea County, New Mexico

Gentlemen:

Enclosed for your review are several revisions to the McDonald Unit Operating Agreement which have been requested by Getty Oil Company.

1. Page 14: Lines 4 and 11 under Option No.2 have been revised to read 90 (ninety) days.

2. Page 14: Article XIV, Paragraph B, Line 28: "The essential validity of," has been deleted.

3. Page 14d: Paragraphs D through H have been included.

4. Exhibit "D" has been revised.

5. Exhibit "F" has been added.

Also, Mr. C. E. Marsh II will be participating in the unit with three net acres. We are therefore enclosing copies of pages 2 and 3 to Exhibit "A" of the Operating Agreement which sets out his interest in the unit.

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 7C
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

If you are in agreement with the revisions as set out above, please execute and return one copy of this letter as indicated below. If you have any questions, please advise.

Yours truly,

Carlyn M. Jarm

Carlyn M. Jarm
Land Department

CMJ:ds

Enclosures

I Agree With The Revisions To The
McDonald Unit Operating Agreement
As Set Out Above.

COMPANY

By _____

BETENBOUGH STATE UNIT
29
H.E. YATES (OPER.)

McDONALD
19

HILLBURN CITY UNIT
14

McDONALD UNIT
H.E. YATES (OPER.)

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 1
CASE NO. 7043
SUBMITTED BY
HEARING DATE

BETENBOUGH STATE UNIT
29
H.E. YATES (OPER.)

McDONALD 19

McDONALD UNIT
H.E. YATES (OPER.)

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 7
CASE NO. 7043
SUBMITTED BY Applicant
HEARING DATE 7/16/81

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

MCDONALD UNIT

OPERATING AGREEMENT

DATED

June 17, 19 80,

OPERATOR HARVEY E. YATES COMPANY

CONTRACT AREA Township 13 South, Range 36 East, N.M.P.M.
Section 33: S/2
Section 34: SW/4

Township 14 South, Range 36 East, N.M.P.M.
Section 3: W/2
Section 4: All

COUNTY OR PARISH OF LEA STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OKLAHOMA

EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 2
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between HARVEY E. YATES COMPANY P. O. Box 1933, Roswell, New Mexico 88201, 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.

I. The term "Contributing Parties" shall include Samedan Oil Corporation, J. M. Huber Corporation and Geodynamics Oil & Gas, Inc.

J. The term "Earning Parties" shall include Harvey E. Yates Company.

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

ARTICLE II.
EXHIBITS

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

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

[X] A-1. Schedule of Leases

[X] B. Exhibit "B", Form of Lease.

[X] C. Exhibit "C", Accounting Procedure.

[X] D. Exhibit "D", Insurance.

[X] E. Exhibit "E", Gas Balancing Agreement.

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

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

(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; and

(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 interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(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; and

(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 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 not be considered failure of title but 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:

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

660 feet from the South Line and 990 feet from the East Line
Section 33, Township 13 South, Range 36 East, N.M.P.M.
Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth adequate to test the Austin Mississippian formation or to a depth of 13,500 feet whichever is shallower. Upon reaching such depth, Operator shall further have the option to drill said well to a depth adequate to test the Devonian formation or to a depth of 14,700 feet whichever is shallower,
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. Operators only liability for failure to commence said test well shall be the ipsofacto termination of this agreement.

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

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

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 parties 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 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 or 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.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. 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 sixty (60) 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 where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. 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 (a) the total interest of the parties approving such operation, and (b) 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 or 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' interest. 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 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, 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, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

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

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

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

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, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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.

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) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

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

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

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

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, 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 pursuant to Article VI.B.2., any well which has been drilled 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 or 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 of such well. Any party who objects to the 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 which has been drilled or reworked pursuant to Article VI.B 2. hereof for which the Consenting Parties have not been fully reimbursed as therein 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 such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and 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 year and so long thereafter as oil and/or gas is produced from the interval or inter-

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within thirty (30) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars ($15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Ten Thousand Dollars ($ 10,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 12.5% of 8/8 due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking 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.

G. 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. Operator shall bill other parties for their proportionate share 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, 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.

H. 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 an amount equivalent to the premium which would have been paid had such insurance been obtained. 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 fully owned 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 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 desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one 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, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. 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 is in favor of more than one party, the assigned interest shall

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

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned 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 without warranty, 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 apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution 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 said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the 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. This paragraph shall not be applicable to the contribution of acreage by the Contributing Parties toward the Initial or Substitute Test Well.

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

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

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars ($ 5,000.00) 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 expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. 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, the party shall immediately notify Operator, 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 United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party 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 United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof 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 subjected 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, and/or so long as oil and/or gas production continues from any lease or oil and gas interest

[X] 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 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

A. Substitute Well:

1. If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of Operator, to drill the well to the Objective Depth, then and in any of such events, on or before 30 days after completion of the Initial Well, Operator shall have the option to commence the actual drilling of another well ("Substitute Well") at a lawful location of Operator's selection on the Unit Area, and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

2. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.

B. Allocation of Costs, Risk, and Expenses Between the Shallow and Deep Units:

1. All costs, risks and expenses of wells drilled on the Contract Area shall be shared and borne by the Shallow Unit interest owners and Deep Unit interest owners as shown on Exhibit "A" as follows:

a. Wells completed either for Shallow Unit production only or for Deep Unit production only.

Drilling and casing costs shall be apportioned between and shall be paid by the Shallow Unit and the Deep Unit owners as follows:

(1) From the surface to first completion in point of depth below the surface shall be shared and borne solely by the owners of the producing rights in the depth interval (shallow or deep) in which such well was completed.

(2) From preceding completion in point of depth to total depth drilled shall be shared and borne solely by the Deep Unit.

All other costs, risks and expenses of any such well shall be shared and borne solely by the owners of the producing rights in the depth interval which such well was completed.

b. Wells Plugged as Dry Holes:

All costs, risks and expenses of any such well shall be shared and borne by the Deep Unit.

c. Wells which are Completed for Shallow Unit Production from one or more Sources of Supply and for Deep Unit Production.

Drilling and casing costs shall be apportioned between and shall be paid by the Shallow Unit and the Deep Unit, as follows:

(1) From the surface to first completion in point of depth below the surface.

(i) Shallow Unit in the proportion of Shallow Unit completions to the total number of completions in said well.

(ii) Deep Unit in the proportion of Deep Unit completions to the the total number of completions in said well.

(2) Subsequent completions in point of depth below the surface:

Costs from preceding completion in point of depth to next completion in point of depth - 100% by the owners of the production which is obtained from such subsequent completions, i.e., to the Shallow Unit if completed in the Shallow interval; to the Deep Unit if completed in the Deep interval.

(3) Below last completion in point of depth below surface; 100% to the Deep Unit.

(4) Costs of testing, completing and equipping which can be directly attributed to a proposed Shallow interval completion or a proposed Deep interval completion shall be borne 100% by the owners of the production sought from such proposed completion; all other such costs shall be apportioned between the Shallow Unit and Deep Unit as provided hereinabove in Paragraph B.1.c(1).

2. OPERATING COSTS:

Anything in this agreement which may be to the contrary notwithstanding, the costs, risks and expenses of operating producing wells on the Contract Area shall be shared and borne as follows:

a. Wells Completed for Shallow Unit Production Only or Deep Unit Production Only:

All costs of operating any such well shall be allocated solely to the owners of the producing rights in the depth interval (shallow or deep) in which such well was completed.

b. Wells Completed for Shallow Production from One or More Sources of Supply and for Deep Unit Production:

(1) Each completion shall be treated as a separate well for overhead and district and camp expense. Such expense shall be allocated separately to the Shallow Unit as to Shallow Unit completions and to the Deep Unit as to Deep Unit completions.

(2) The costs, risks and expenses of normal producing operations including costs of labor, repairs, maintenance and replacement of equipment which can be attributed directly to a Shallow Unit completion or to a Deep Unit completion shall be so allocated; all other costs, risks and expenses of normal producing operations, including costs of labor, repairs, maintenance and replacement of equipment necessitated by ordinary use and all costs of operations performed for the joint benefit of both Deep Unit and Shallow Unit completions, and all costs of repairs or action to deal with emergencies which arise in the course of multiple operations shall be allocated between the Shallow Unit and Deep Unit as provided hereinabove in Paragraph B.1.c(1).

3. WORK-OVER OPERATIONS:

Anything in this agreement which may be to the contrary notwithstanding, the allocation of costs of Work-Over operations on the Contract Area shall be as follows:

a. Work-Over Operations Generally:

(1) Cost of any work-over operations which is directly attributable to either the Shallow Unit or the Deep Unit, including but not limited to operations such as treating and perforating, shall be allocated to the Shallow Unit as to operations attributable to the Shallow Unit or to the Deep Unit as to operations attributable to the Deep Unit.

(2) All costs of material, equipment, repairs, replacements and labor not directly related to either the Shallow Unit or the Deep Unit, including but not limited to repair and correction of leaks which may result in communication between the producing zones within the well bore, shall be allocated between the Shallow Unit and Deep Unit in the same manner as provided hereinabove in Paragraph B.1.c(1).

(3) There shall be no liability between the Shallow Unit and the Deep Unit for cessation of production during such reworking operations for a period of time not exceeding a total of one hundred twenty (120) days. In the event such cessation of production during work-over operations is for a longer period of time, the owners of the production from the zone being reworked, shall pay to the owners of the production from the zone not being reworked, damages in such amount to be determined on a negotiated basis, for loss of production occurring after the one hundred twenty (120) day period.

C. Earning Provisions:

1. J. M. Huber Corporation and Geo-Dynamics Oil and Gas, Inc., Farmouts:

Contributing parties J. M. Huber Corporation (Huber) and Geo-Dynamics Oil & Gas, Inc., (Geo-Dynamics) own interests under the Contract Area as shown on Exhibit "A" and "A-1" attached hereto. In consideration of the mutual convenants contained herein, it is agreed by and between Huber and Geo-Dynamics as Contributing Parties and Harvey E. Yates Company (HEYCO) as an Earning Party as follows:

a. If the initial well provided for herein is completed as a producer of oil and/or gas in paying quantities, Huber and Geo-Dynamics shall execute and deliver to HEYCO assignments, made without warranty of title either express or implied, conveying their entire interest under the shallow and deep units as shown on Exhibit "A" to a depth of 100 feet below the stratigraphic equivalent of the deepest depth drilled in the initial well.

b. Huber and Geo-Dynamics shall except and reserve from the assignments provided for above an overriding royalty interest equal to 1/8 of the pro-

ceeds received from sale of all (8/8) of the oil and gas which may be produced, saved and marketed from the Shallow and Deep Units. These overriding royalties shall be computed and paid at the same time and in the same manner that royalties payable to the lessor under the terms of the lease are computed and paid, and Huber and Geo-Dynamics shall be responsible for their proportionate part of all taxes and assessments levied upon or against or measured by the production of oil and gas therefrom. These overriding royalties shall be proportionately reduced to reflect the percentage of acreage under the Shallow and Deep Units attributable to Huber and Geo-Dynamics as shown on Exhibit "A". No change in the ownership of the overriding royalty shall be binding upon HEYCO until such time as it shall have been furnished with either the original, a certified copy or an acceptable reporduction copy of the recorded instrument or instruments effecting the change in ownership.

2. Samedan Oil Corporation Farmout:

Contributing Party Samedan Oil Corporation (Samedan) owns an interest under the Contract Area as shown on Exhibits "A" and "A-1" attached hereto. In consideration of the mutual covenants contained herein, it is agreed by and between Samedan as a Contributing Party and Harvey E. Yates Company (HEYCO) as an Earning Party as follows:

a. If the initial well provided for herein is completed as a producer of oil and/or gas in paying quantities, Samedan shall deliver to HEYCO an assignment, without warranty of title either express or implied conveying its entire interest under the proration unit assigned to said initial well and 75% of its interest outside of said initial proration unit to a depth of 100 feet below the stratigraphic equivalent of the deepest depth drilled in the initial well.

b. Samedan shall except and reserve from the assignment provided for above an overriding royalty interest equal to 1/16 of the proceeds received from sale of all (8/8) of the oil and gas which may be produced, saved and marketed from said initial well. This overriding royalty shall be computed and paid at the same time and in the same manner that royalties payable to the lessor under the terms of the lease are computed and paid, and Samedan shall be responsible for its proportionate part of all taxes and assessments levied upon or against or measured by the production of oil and gas therefrom. This overriding royalty shall be proportionately reduced to reflect the percentage of acreage under the Shallow and Deep Units owned by Samedan as shown on Exhibit "A". No change in the ownership of the overriding royalty shall be binding upon HEYCO until such time as it shall have been furnished with either the original, a certified copy or an acceptable reporduction copy of the recorded instrument or instruments effecting the change in ownership.

c. "Payout" is defined to be the date on which the income, exclusive of production, conservation, severance and sales taxes attributable to the initial well for drilling, completing and equipping the same, plus all costs for operating the well to produce such amount. During Payout, HEYCO shall provide to Samedan current monthly statements summarizing all receipts and disbursements that are necessary to determine Payout. Within 30 days after Payout has occurred, HEYCO shall give Samedan written notice of such fact, and Samedan shall have 30 days after receipt of the notice of Payout within which to severally elect to convert, effective at Payout, the overriding royalty reserved to it above, to a proportionately reduced 25% working interest under the proration unit assigned to said well. Failure to elect to convert said overriding royalty interest into a working interest shall not terminate the override, and such interest shall remain in full force and effect.

3. Risk, Cost and Expense of Operations:

The entire cost, risk and expense of drilling, completing and operating, or plugging and abandoning, the wells drilled on the Contract Area shall be borne by

the parties in the proportions set forth in Exhibit "A", Section 2, attached hereto. HEYCO shall incur no liability for failure to commence said initial well by December 31, 1980, except that its rights hereunder shall terminate.

D. At least twenty-four (24) hours prior to conducting any testing, coring, logging, completing or abandoning operations, Operator shall notify the other parties participating in the costs thereof so that they may have a representative present to witness such tests or operations if they so desire.

E. In the event this agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any laws, rules, regulations, ordinances or orders, as set out in Article XIV.A., the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

F. Nothing herein contained shall grant, nor be construed to grant, Operator the right nor authority to waive or release any rights, privileges, or obligations which Non-Operators hereunder 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 on tracts offsetting or adjacent to the area covered by this agreement, as for example but without limitation, Operator shall not have the right to waive any rights which Non-Operators may have in reference to the location, operation, or production of wells on tracts offsetting or adjacent to the area covered hereby.

G. Notwithstanding anything contained herein to the contrary, in the event any well drilled hereunder is plugged and abandoned, all tubular goods which are a part of said well shall be subject to the right of the party procuring and furnishing same for joint operations hereunder to receive such goods in kind at the well site, such option to be exercised by notice in writing to Operator prior to abandonment. In the event such option is exercised, the remaining party or parties hereto shall be credited with their proportionate shares of the value of such goods as provided in the attached Accounting Procedure.

H. Operator shall prepare and disseminate all publicity releases and educational information deemed desirable concerning operations hereunder and in such publicity releases and information shall make reference to all the Parties to this Agreement; provided, however, Operator shall consult with the other Parties to this Agreement as to the wording of and advisability of disseminating such publicity releases and educational information, except in the event of an emergency when prompt action is mandated. This paragraph shall not prevent any Party from publishing a story or news item concerning such operations in its own magazine or newspaper.

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 17th day of June, 19 80.

OPERATOR

ATTEST

HARVEY E. YATES COMPANY

_____

Assistant Secretary

By: _____

George M. Yates, Vice President

NON-OPERATORS

ATTEST:

GETTY OIL COMPANY

_____

Secretary

By: _____

President

ATTEST:

SAMEDAN OIL CORPORATION

_____

Secretary

By: _____

President

ATTEST:

CAYMAN CORPORATION

_____

Secretary

BY: _____

President

ATTEST:

J. M. HUBER CORPORATION

_____

Secretary

By: _____

President

ATTEST:

GEO-DYNAMICS OIL & GAS, INC.
By: Adobe Oil Corportion

_____

Secretary

By: _____

President

ATTEST:

DALPORT OIL CORPORATION

_____

Secretary

BY: _____

President

ATTEST:

PROFESSIONAL INVESTMENT & TRUST COMPANY

_____

Secretary

BY: _____

President

ATTEST:

_____
Secretary

WITNESS:

_____

WITNESS:

_____

WITNESS:

_____

ATTEST:

_____
Secretary

WITNESS:

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WITNESS:

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WITNESS:

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WITNESS:

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WITNESS:

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WITNESS:

_____

SABINE PRODUCTION COMPANY

By: _____
President

_____
JOHN K. OVERBEY, Individually and as Trustee U/W of Joseph F. Overbey and Dora K. Overbey

_____
EUGENE E. NEARBURG

_____
ANNA A. REISCHMAN

CORONADO EXPLORATION CORP.

By: _____
President

_____
A. M. SWARTHOUT

_____
C. W. TRAINER

_____
GAYLE HUDGENS

_____
GARY HUDGENS

_____
C. E. MARSH II

STATE OF NEW MEXICO)
) §§
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GEORGE M. YATES, Vice President of HARVEY E. YATES COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of GETTY OIL COMPANY, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ president of CAYMAN CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of J. M. HUBER CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of GEO-DYNAMICS OIL & GAS, INC., a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of DALPORT OIL CORPORATION, a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of PROFESSIONAL INVESTMENT & TRUST COMPANY, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF TEXAS)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of SABINE PRODUCTION COMPANY, a _____Corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by JOHN K. OVERBEY, Indivldually and as Trustee U/W of Joseph F. Overbey and Dora K. Overbey.

My Commission Expires:

_____ _____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by EUGENE E. NEARBURG.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by ANNA A. REISCHMAN.

My Commission Expires:

_____

_____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF BERNALILLO)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by HARVEY E. YATES, JR., President of CORONADO EXPLORATION CORP., a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by _____, _____ President of SAMEDAN OIL CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public

STATE OF NEW MEXICO)
) §§
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by A. M. SWARTHOUT.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
)
COUNTY OF _____) SS

The foregoing instrument was acknowledged before me the _____ day of _____, 1980, by C. W. TRAINER.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GAYLE HUDGENS.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by GARY HUDGENS.

My Commission Expires:

_____

_____
Notary Public

STATE OF _____)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1980, by C. E. MARSH II.

My Commission Expires:

_____

_____
Notary Public

REVISED 9-19-80

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THE OPERATING AGREEMENT
DATED JUNE 17, 1980, BETWEEN HARVEY E. YATES COMPANY,
AS OPERATOR AND THE OTHER PARTIES SIGNATORY THERETO AS NON-OPERATORS

1. Lands Subject to Agreement and Depth Restrictions:

A. Deep Zone - From base of the Strawn formation to the stratigraphic equivalent of 100 feet below the deepest depth drilled in the initial well.

Township 13 South, Range 36 East, N.M.P.M.

Section 33: S/2
Section 34: SW/4

Township 14 South, Range 36 East, N.M.P.M.

Section 3: W/2
Section 4: All

Containing 1,440.22 acres, more or less

B. Shallow Zone - From the surface to the base of the Strawn Formation.

Township 13 South, Range 36 East, N.M.P.M.

Section 33: S/2
Section 34: SW/4

Excepting the SW/4 SE/4 of Section 33 as to any zone subject to 40 acre oil proration unit spacing.

Township 14 South, Range 36 East, N.M.P.M.

Section 3: W/2
Section 4: All

Excepting the E/2 NE/4 of Section 4.

Containing 1,320.16 acres, more or less

2. Percentage Interests of the Parties to This Agreement:

A. Shallow Unit:

Party	Net Acres	Unit Interest	Interest Under Initial Well Before Payout	Interest Under Initial Well After Payout and Subsequent Wells
Getty Oil Company	75.109750	5.896387%	5.896387%	5.896387%
J. M. Huber Corp.	36.502375	2.865568%	F/O	F/O
Cayman Corporation	13.101090	1.028476%	1.028476%	1.028476%
Samedan Oil Corp.	54.077000	4.245240%	F/O	1.061310%
Geo-Dynamics Oil & Gas, Inc.	4.308000	.338194%	F/O	F/O
Dalport Oil Corp.	4.375000	.343453%	.343453%	.343453%
Sabine Production Co.	86.875000	6.820002%	6.820002%	6.820002%
Eugene E. Nearburg	1.875000	.147194%	.147194%	.147194%
Anna A. Reischman	1.875000	.147194%	.147194%	.147194%

Professional Investment Co., Inc.	2.592592	.203528%	.203528%	.203528%
A.M. Swarthout	2.592592	.203528%	.203528%	.203528%
John K. Overbey, Ind. & as Trustee	10.963539	.860678%	.860678%	.860678%
Gary Hudgens	.234375	.018399%	.018399%	.018399%
Gayle Hudgens	.234375	.018399%	.018399%	.018399%
C. W. Trainer	.468750	.036799%	.036799%	.036799%
Coronado Exploration Corp.	34.627817	2.718409%	2.718409%	2.718409%
C. E. Marsh II	3.000000	.235510%	.235510%	.235510%
Harvey E. Yates Co.	941.014500	73.873041%	81.322044%	80.260734%
	1273.826672	100.000000%	100.000000%	100.000000%

B. Deep Unit:

Party	Net Acres	Unit Interest	Interest Under Initial Well Before Payout	Interest Under Initial Well After Payout And Subsequent Wells
Getty Oil Company	149.028750	10.691597%	10.691597%	10.691597%
J.M. Huber Corp.	15.360375	1.101982%	F/O	F/O
Cayman Corporation	60.004000	4.304798%	4.304798%	4.304798%
Samedan Oil Corp.	70.005000	5.022288%	F/O	1.255572%
Geo-Dynamics Oil & Gas, Inc.	8.760000	.628459%	F/O	F/O
Dalport Oil Corp.	4.375000	.313871%	.313871%	.313871%
Sabine Production Co.	86.875000	6.232573%	6.232573%	6.232573%
Eugene E. Nearburg	1.875000	.134516%	.134516%	.134516%
Anna A. Reischman	1.875000	.134516%	.134516%	.134516%
Professional Investment Co., Inc.	2.592592	.185997%	.185997%	.185997%
A. M. Swarthout	2.592592	.185997%	.185997%	.185997%
John K. Overbey, Ind. & as Trustee	10.963539	.786545%	.786545%	.786545%
Gary Hudgens	.234375	.016814%	.016814%	.016814%
Gayle Hudgens	.234375	.016814%	.016814%	.016814%
C. W. Trainer	.468750	.033629%	.033629%	.033629%
Coronado Exploration Corp.	34.627817	2.484263%	2.484263%	2.484263%
C. E. Marsh II	3.000000	.215225%	.215225%	.215225%
Harvey E. Yates Co.	941.014507	67.510115%	74.262845%	73.007273%
	1393.886672	100.000000%	100.000000%	100.000000%

3. Oil and Gas Leases/Interests Subject to this Agreement:

See Exhibit "A-1"

4. Addresses for Notice Purposes:

Getty Oil Company
P. O. Box 1231
Midland, Texas 79701

Cayman Corporation
4030 First Place
Tulsa, Oklahoma 74103

Dalport Oil Corporation
3471 First National Bank Building
Dallas, Texas 75202

Samedan Oil Corporation
900 Wall Towers East
Midland, Texas 79701

J. M. Huber Corporation
1900 Wilco Building
Midland, Texas 79701

Professional Investment & Trust
P. O. Box 1599
Lovington, New Mexico 88260

Sabine Production Company
P. O. Box 3083
Midland, Texas 79702

John K. Overbey
Capitol National Bank Building
7th Floor
700 Lavaco Street
Austin, Texas 78767

Anna A. Reischman
1320 West 4th Street
Roswell, New Mexico 88201

Coronado Exploration Corp.
1007 Marquette, NW
Albuquerque, New Mexico 87102

C. W. Trainer
8201 Espanola
Austin, Texas 78749

Gary Hudgens
P.O. Box 1889
Hobbs, New Mexico 88240

Geo-Dynamics Oil & Gas, Inc.
P. O. Box 1341
Corpus Christi, Texas 78403

Eugene E. Nearburg
C/O Chama Petroleum Company
5015 Tracy Street
Dallas, Texas 75205
Attn: Charles Nearburg

A. M. Swarthout
P. O. Box 2533
Santa Fe, New Mexico 87501

Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88201

Dr. Gayle Hudgens
Hudgens International
P. O. Box 25561
Dallas, Texas 75225

C. E. Marsh II
500 Wilco Building
Midland, Texas 79701

EXHIBIT "A-1"
[illegible] UNIT -
SCHEDULE OF LEASES

Revised 9-18-8

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION
	LEASES OWNED BY HARVEY E. YATES COMPANY:			
	Sudie Lee Carrell	Harvey E. Yates Company	3-27-79	Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, N½NE¼SE¼, W½SE¼SE¼
	Effie C. Wilson et al	" " " "	3-22-79	Sec. 33, T-13S, R-36E: W½SW¼ (less a 10-acre tract)
	Thelma A. Meroney	" " " "	4-17-79	Sec. 33, T-13S, R-36E: S½SW¼ (Less a 10-acre tract)
	Noema B. Meroney et al	" " " "	5-4-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Pauline Burnett	" " " "	5-29-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Opal Meroney Storkman	" " " "	7-2-79	Insofar as said lease covers: Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)
	Joyce Foster, et vir	" " " "	8-3-79	Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, N½NE¼SE¼, W½SE¼SE¼
	M. A. Teas, et vir	" " " "	8-15-79	Sec. 33, T-13S, R-36E: A 10-acre tract in the SW¼SW¼ of Sec. 33
	Tatum Independent School Dist.	" " " "	8-13-79	Sec. 33, T-13S, R-36E: A 2-acre tract in the SE corner of the E½SE¼SE¼ of Sec. 33
	Edgar Meroney, Jr.	" " " "	11-15-79	Sec. 33, T-13S, R-36E: Insofar as said lease covers: W½SW¼ (Less a 10-acre tract)
	Harold L. Bridgeforth, et ux	Stanley K. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Evelyn B. Walton	Stanley K. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Vallie Humphries, et vir	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	H. H. Tracy et ux	" " "	12-6-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Harold B. Denton et ux	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Travis Denton et ux	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼
	Iona McClish	" " "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼
	Richard R. Pettigrew et ux	" " "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼
	Leon O. Hemann, et ux	" " "	12-6-79	Sec. 34, T-13S, R-36E: SW¼SW¼

EXHIBIT "A-1"
[illegible] UNIT
SCHEDULE OF LEASES

Revised 9-18-80

	LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
ES	COMPANY:				
	Harvey E. Yates Company	3-27-79	Sec. 33, T-13S, R-36E: W½SE¼SE¼		
	" " " "	3-22-79	Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, N½NE¼SE¼;	316	905
	" " " "	4-17-79	Sec. 33, T-13S, R-36E: S½SW¼ (Less a 10-acre tract)	316	925
	" " " "	5-4-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)	316	942
	" " " "	5-29-79	Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)	318	528
	" " " "	7-2-79	Insofar as said lease covers: Sec. 33, T-13S, R-36E: W½SW¼ (Less a 10-acre tract)	318	565
	" " " "	8-3-79	Sec. 33, T-13S, R-36E: S½NE¼SW¼, S½SE¼SW¼, S½NW¼SE¼, N½NE¼SE¼ W½SE¼SE¼	318	585
st.	" " " "	8-15-79	Sec. 33, T-13S, R-36E: A 10-acre tract in the SW¼SW¼ of Sec.33	319	9
	" " " "	8-13-79	Sec. 33, T-13S, R-36E: A 2-acre tract in the SE corner of the E½SE¼SE¼ of Sec. 33	319	21
	Stanley H. Staples	11-15-79	Sec. 33, T-13S, R-36E: Insofar as said lease covers: W½SW¼ (Less a 10-acre tract)	319	23
	Stanley H. Staples	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	319	513
	" " "	11-8-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	191
	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	149
	" " "	12-6-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	157
	" " "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	647
	" "	11-11-76	Sec. 34, T-13S, R-36E: SE¼SW¼ & N½SW¼	300	197
	" "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼	300	145
	" "	11-30-76	Sec. 34, T-13S, R-36E: SW¼SW¼	300	639
	" "	12-6-79	Sec. 34, T-13S, R-36E: SW¼SW¼	300	635
				300	643

McDONALD UNIT
SCHEDULE OF LEASES

	LESSOR	LESSEE	DATE	DESCRIPTION
	LEASES OWNED BY HARVEY E.	YATES COMPANY (Continued)		
	Tatum Indep. School Distr.	Harvey E. Yates Company		Sec. 34, T-13S, R-36E: A tract of land containing 4.0 acres in the SW corner of the SW¼SW¼
	Dorothy P. Mack	" " " "	9-30-77	Sec. 4, T-14S, R-36E: Lot 3, Lot 4 (Less 1 ac.), E½SW¼, S½NW¼
	James A. Foster et ux	" " " "	5-28-78	Sec. 4, T-14S, R-36E: SE¼, Less W½SW¼SW¼SE¼
	Alta Lee Glidewell et vir	Stanley N. Staples	10-10-76	Sec. 3, T-14S, R-36E: SW¼
	Byrel A. Moore, et ux	" " "	11-8-76	Sec. 3, T-14S, R-36E: SW¼
	Hoyt M. Roy et vir	Harvey E. Yates Company	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼
	Howard Gilchrist, et ux	Harvey E. Yates Company	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4(Less 1
	Virginia Mae Gilchrist	" " " "	5-12-78	Sec. 4, T-14S,R-36E: Lot 3,SW¼NW¼,SE¼NW¼,E½SW¼, Lot 4 (Less 1 ac.
	Edna R. Ashton	" " " "	5-26-78	Sec. 4, T-14S, R-36E: SE¼, Less the W½SW¼SW¼SE¼
	Elvin Lewis et ux	" " " "	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, W½SW¼ & S½SW¼
	Olivia McDonald et vir	Stanley N. Staples	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Otis J. Roach	" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Maude P. Stovall	" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼
	Gyola Brooks Melton	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Cora Brooks Gault, et al	" " "	3-30-77	Sec. 3, T-14S, R-36E: SW¼
	Cora Mae Brooks et al	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Myrtle Brooks Hemingway	" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼
	Verna P. Roberts	" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼
	Katheryn D. Bartley	" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼

McDONALD UNIT
SCHEDULE OF LEASES

LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
TES COMPANY (Continued)				
Harvey E. Yates Company		Sec. 34, T-13S, R-36E: A tract of land containing 4.0 acres in the SW corner of the SW¼SW¼	322	699
" " " "	9-30-77	Sec. 4, T-14S, R-36E: Lot 3, Lot 4 (Less 1 ac.), E½SW¼, S½NW¼	306	139
" " " "	5-28-78	Sec. 4, T-14S, R-36E: SE¼, Less W½SW¼SW¼SE¼	311	664
Stanley N. Staples	10-10-76	Sec. 3, T-14S, R-36E: SW¼	300	193
" " "	11-8-76	Sec. 3, T-14S, R-36E: SW¼	300	205
Harvey E. Yates Company	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, E½SW¼ & S½SW¼	311	94
Harvey E. Yates Company	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4 (Less 1 ac.)	311	96
" " " "	5-12-78	Sec. 4, T-14S, R-36E: Lot 3, SW¼NW¼, SE¼NW¼, E½SW¼, Lot 4 (Less 1 ac.)	311	98
" " " "	5-26-78	Sec. 4, T-14S, R-36E: SE¼, Less the W½SW¼SW¼SE¼	311	662
" " " "	5-4-78	Sec. 3, T-14S, R-36E: W½SW¼SE¼, E½SW¼ & S½SW¼	310	369
Stanley N. Staples	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	655
" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	651
" " "	12-6-76	Sec. 3, T-14S, R-36E: SW¼	300	659
" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	797
" " "	3-30-77	Sec. 3, T-14S, R-36E: SW¼	302	793
" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	609
" " "	2-4-77	Sec. 3, T-14S, R-36E: SW¼	302	353
" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼	301	881
" " "	1-27-77	Sec. 3, T-14S, R-36E: SW¼	302	613

SCHEDULE OF LEASES

	LESSOR	LESSEE	DATE	DESCRIPTION
	LEASES OWNED BY HARVEY E. YATES COMPANY (Continued):			
	Acoma Oil Corporation	Stanley N. Staples	12-1-76	Sec. 3, T-14S, R-36E: NW¼
	Joy H. Key et al	Harvey E. Yates Company	5-5-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
	Donald E. Blackmar	" " " "	8-6-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: SW¼
	J. M. Hewgley, Jr. et ux	" " " "	11-21-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
	Daniel W. Varel, et ux	" " " "	12-3-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
	Lorna C. Overbey	" " " "	1-1-80	Insofar as said lease covers the NW¼ of Sec. 3 & SE¼ Sec. 4 (Less W½SW¼SW¼SE¼), all in T-14S, R-36E
	William C. Liedtke, Jr.et ux	" " " "	12-11-79	Sec. 3, T-14S, R-36E: NW¼
	James J. Laney et ux	" " " "	4-1-80	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼
	Victoria Doan et al	" " " "	12-11-78	Sec. 4, T-14S, R-36E: W½SW¼
	Allyne S. Carter	" " " "	5-20-80	Sec. 3, T-14S, R-36E: NW¼
	Tom L. Ingram et ux	" " " "	4-7-80	Sec. 3, T-14S, R-36E: SW¼
	C. E. Marsh II et ux	" " " "	5-1-80	Sec. 3, T-14S, R-36E: NW¼
	Bruce T. Pearson	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼
	Gladys Terrill	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼
	Evelyn R. Brooks	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼
	Etta M. Brooks	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼
	Helen H. Lea	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼
	John R. Fitzgerald, Indiv. & as Exec. of Est. of Vestal Fitzgerald, dec'd	" " " "	6-3-80	Sec. 3, T-14S, R-36E: SW¼

...sable Unit
SCHEDULE OF LEASES

	LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
E.	YATES COMPANY (Continued):				
	Stanley N. Staples	12-1-76	Sec. 3, T-14S, R-36E: NW¼	301	150
	Harvey E. Yates Company	5-5-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	318	524
	" " " "	8-6-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: SW¼	318	598
ux	" " " "	11-21-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	321	250
x	" " " "	12-3-79	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	321	400
	" " " "	1-1-80	Insofar as said lease covers the NW¼ of Sec. 3 & SE¼ Sec. 4 (Less W½SW¼SW¼SE¼), all in T-14S, R-36E	435	789
Jr.,et ux	" " " "	12-11-79	Sec. 3, T-14S, R-36E: NW¼	325	405
	" " " "	4-1-80	Insofar as said lease covers Sec. 3, T-14S, R-36E: NW¼	326	236
	" " " "	12-11-78	Sec. 4, T-14S, R-36E: W½SW¼	316	824
	" " " "	5-20-80	Sec. 3, T-14S, R-36E: NW¼		
	" " " "	4-7-80	Sec. 3, T-14S, R-36E: SW¼	326	798
	" " " "	5-1-80	Sec. 3, T-14S, R-36E: NW¼		
	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼		
	" " " "	6-13-80	Sec. 3, T-14S, R-36E: SW¼		
	" " " "	6-17-80	Sec. 3, T-14S, R-36E: NW¼		
Indiv. of Vestal d	" " " "	6-3-80	Sec. 3, T-14S, R-36E: SW¼		

MCDONALD UNIT
EXHIBIT "A-1"

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION
	L. Dene Stephens, et ux	Harvey E. Yates Company	8-6-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E
	Randall Montgomery	" " " "	7-28-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E
	Lucille McKinley	" " " "	7-18-80	NW/4 - Sec. 3, T-14S, R-36E
	Pennzoil United, Inc.	" " " "	7-7-80	NW/4 - Sec. 3, T-14S, R-36E
	Pennzoil United, Inc.	" " " "	7-7-80	Lot 3, SE/4 NW/4 & E/2 SW/4 - Sec. 4, T-14S, R-36E
	Gregory Lynn Deevers	" " " "	6-19-80	SW/4 - Sec. 3, T-14S, R-36E
	Terry Lynn B. Buford, etal	" " " "	7-1-80	SW/4 - Sec. 3, T-14S, R-36E
	Henry D. Lindsley, III etux	" " " "	7-30-80	NW/4 - Sec. 3, T-13S, R-36E
	Richard L. Moore, et al	" " " "	7-16-80	NE/4 NW/4 SE/4 - Sec. 33, T-13S, R-36E
	J. Hugh Liedtke	" " " "	7-30-80	NW/4 - Sec. 3, T-14S, R-36E

MCDONALD UNIT
EXHIBIT "A-1"

LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
Harvey E. Yates Company	8-6-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E	329	345
" " " "	7-28-80	N/2 SW/4 & SE/4 SW/4 - Sec. 34, T-13S, R-36E	329	179
" " " "	7-18-80	NW/4 - Sec. 3, T-14S, R-36E	329	115
" " " "	7-7-80	NW/4 - Sec. 3, T-14S, R-36E	328	587
" " " "	7-7-80	Lot 3, SE/4 NW/4 & E/2 SW/4 - Sec. 4, T-14S, R-36E	328	589
" " " "	6-19-80	SW/4 - Sec. 3, T-14S, R-36E	329	44
" " " "	7-1-80	SW/4 - Sec. 3, T-14S, R-36E	328	585
" " " "	7-30-80	NW/4 - Sec. 3, T-13S, R-36E	329	140
" " " "	7-16-80	NE/4 NW/4 SE/4 - Sec. 33, T-13S, R-36E	329	48
" " " "	7-30-80	NW/4 - Sec. 3, T-14S, R-36E	331	466

LESSOR	LESSEE	DATE	DESCRIPTION
LEASES OWNED BY NON-OPERATORS:			
Lewis Beeman, et ux	Dividend Exploration,Inc.,et al	4-3-68	Sec. 33, T-13S, R-36E: N½NE¼SW¼, N½SE¼SW¼, SW¼SE¼, NW¼NE¼ S½NE¼SE¼ & N½SE¼SE¼, Less 2 acs. in
Mary Virginia Griffin	Getty Oil Co., et al	3-20-68	Sec. 4, T-14S, R-36E: Lot 1, 2, SE¼NE¼ & SW¼NE¼
Kathryn Mitchell	" " "	3-20-68	" " " " " " " " "
James A. Foster,Jr. et ux	" " "	5-28-69	" " " " " " " " "
Christiana Oil Corp.	" " "	11-4-70	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less W½SW¼SW¼
Edna R. Ashton	Getty Oil Co., et al	3-22-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼
John K. Overbey	J. M. Huber Corp.	3-20-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼
Joseph F. Overbey Estate	J. M. Huber Corp.	3-20-68	" " " " " " " "
Lorna Geering Overbey	J. M. Huber Corp.	4-18-68	Sec. 4, T-14S, R-36E: Lots 1,2,S½NE¼, SE¼ (Less W½SW¼SW¼S

[redacted] UNIT
[redacted] OF LEASES

	LESSEE	DATE	DESCRIPTION	RECORDED Book	Page
PERATORS:					
	Dividend Exploration,Inc.,et al	4-3-68	Sec. 33, T-13S, R-36E: N½NE¼SW¼, N½SE¼SW¼, SW¼SE¼, W½NW¼SE¼, S½NE¼SE¼ & E½SE¼SE¼, Less 2 acs. in SE corner		
	Getty Oil Co., et al	3-20-68	Sec. 4, T-14S, R-36E: Lot 1, 2, SE¼NE¼ & SW¼NE¼		
	" " "	3-20-68	" " " " " " " " "		
t ux	" " "	5-28-69	" " " " " " " " "		
	" " "	11-4-70	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less W½SW¼SW¼SE¼)		
	Getty Oil Co., et al	3-22-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼		
	J. M. Huber Corp.	3-20-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼		
ate	J. M. Huber Corp.	3-20-68	" " " " " " " "		
	J. M. Huber Corp.	4-18-68	Sec. 4, T-14S, R-36E: Lots 1,2, S½NE¼, SE¼ (Less W½SW¼SW¼SE¼)		

REVISED 9-18-80

Page 1 of 1

MCDONALD UNIT
EXHIBIT "A-1"

UNLEASED MINERALS

	OWNER	GROSS ACRES	NET ACRES		DESCRIPTION
	C. W. Trainer, etux	120.0	0.468750		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Gayle Hudgens	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Gary Hudgens	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Dalport Oil Corporation	120.0	4.375000		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	Sabine Production Co.	280.0	86.875000		SE/4 Sec. 4 , T-14S, R-36E; N/2 SW/4 & SE/4 SW/4, Sec. 34,
	John K. Overbey, et al	315.0	10.963539		NW/4 Sec. 3 & SE/4 Sec. 4, T-14S, R-36E
	Eugene E. Nearburg	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
	Anna A. Reischman	160.0	1.875000		SW/4 Sec. 3, T-14S, R-36E
	Professional Inv. & Tr Co	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW cor
	A. M. Swarthout	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW cor
	Walter M. Martin, Jr.	160.0	4.000000		NW/4 Sec. 3, T-14S, R-36E
	Thomas P. Arnold	160.0	1.333328		NW/4 Sec. 3, T-14S, R-36E
	Tenneco Oil Company	80.0	40.000000		S/2 SW/4 Sec. 3, T-14S, R-36E
	Lewis Beeman, et ux	1.0	1.000000		1 acre in the NW/4 corner of Lot 4, Sec. 4, T-14S, R-36E
	Total Unleased Minerals:		158.419551		
	Committed to Operating Agreement:		112.086223		
	Unleased and Uncommitted:		46.333328		

REVISED 9-18-80

MCDONALD UNIT
EXHIBIT "A-1"

UNLEASED MINERALS

	GROSS ACRES	NET ACRES		DESCRIPTION
	120.0	0.468750		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
	120.0	0.234375		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
ion	120.0	4.375000		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
.	280.0	86.875000		N/2 SW/4 & SE/4 SW/4 Sec. 34, T-13S, R-36E
al	315.0	10.963539		SE/4 Sec. 4 , T-14S, R-36E; N/2 SW/4 & SE/4 SW/4, Sec. 34, T-13S, R-36E
	160.0	1.875000		NW/4 Sec. 3 & SE/4 Sec. 4, T-14S, R-36E
r Co	70.0	2.592592		SW/4 Sec. 3, T-14S, R-36E
	70.0	2.592592		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW corner)
	160.0	4.000000		W/2 SW/4 Sec. 33, T-13S, R-36E (Less 10-acre o/o the SW corner)
	160.0	1.333328		NW/4 Sec. 3, T-14S, R-36E
	80.0	40.000000		NW/4 Sec. 3, T-14S, R-36E
	1.0	1.000000		S/2 SW/4 Sec. 3, T-14S, R-36E
				1 acre in the NW/4 corner of Lot 4, Sec. 4, T-14S, R-36E
ls:		158.419551		
Agreement:		112.086223		
ed:		46.333328		

EXHIBIT "B"

Producers 88 Rev. (5 Year Lease) 10-57 | (FIVE YEAR PAID UP LEASE) | Form 345 Hall-Poorbaugh Press Roswell, New Mexico

OIL AND GAS LEASE

THIS AGREEMENT made this 17th day of June, 1980, between

.....

.....

Lessor (whether one or more), whose address is: .....

and ..... Lessee, WITNESSETH:

1. Lessor in consideration of ..... Dollars

($.....) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in ..... County, ..., to-wit:

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to paid by Lessee are: (a) on oil, 1/8 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 1/8 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/8 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of $1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and, Lessee shall record in the County in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. 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 feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision 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 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 or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

9. 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 either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

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Lessor

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Lessor

Kraftbilt 601, BOX 600 TULSA OK 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies of North America

COPAS

EXHIBIT "C"

Attached to and made a part of the Operating Agreement dated June 17, 1980 between HARVEY E. YATES COMPANY as Operator and the other parties signatory thereto as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

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II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

B. Expense, including salaries, of Operator's legal staff and expenses of outside attorneys incurred in matters before administrative agencies, where in operators opinion, such representation is necessary to the proper conduct of joint operations. Expenses of Operators legal staff shall be billed on the basis of actual cost to the Operator.

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates. Such expense attributable to Operator's technical employees shall be prorated and charged to the joint account on the basis of actual cost to the Operator.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,500.00
Producing Well Rate $ 500.00

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

(a) Drilling Well Rate

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

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

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

(b) Producing Well Rates

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

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

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

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

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

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

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

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

*To Be Negotiated

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated June 17, 1980, by and between HARVEY E. YATES COMPANY, as Operator and the other parties signatory thereto as Non-Operators.

Operator shall carry or provide for the benefit of the Joint Account:

(1) Worker's Compensation Insurance to cover full liability under the law of the State where the operations are being conducted.

(2) Employer's Liability Insurance with a limit of not less than $500,000 for accidental injuries or deaths of one or more employees as a result of one accident.

No other insurance will be provided by the Operator, for the benefit of the Joint Account. Each party may, at his own option, carry additional insurance at his own expense. In the event additional insurance is purchased by a party, such insurance policy or policies shall contain a Waiver of Subrogation in favor of the other parties.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED June 17, 1980 BETWEEN HARVEY E. YATES COMPANY AS OPERATOR, AND the other parties signatory thereto ET AL AS NON-OPERATORS.

GAS BALANCING AGREEMENT

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

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

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

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

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party or parties' share of gas produced from the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in the Contract Area.

In the event production of gas from the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement between the parties. Such settlement shall be based upon the price actually received by the parties for overproduction when it occurred of a volume of gas equal to that for which settlement is made.

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

EXHIBIT "F"

Attached to and made a part of the Operating Agreemtn dated June 17, 1980, by and between HARVEY E. YATES COMPANY, as Operator, and the other signatory parties thereto as Non-Operators

In order to insure compliance with Federal Equal Employment provisions, Operator agrees and certifies as follows

I. Equal Opportunity Clause (41 CFR §60-1.4) (Applicable to contracts and purchase orders in excess of $10,000)

Operator certifies that it shall comply with the Equal Opportunity Clause contained in Section 202 of Executive Order 11246, effective September 24, 1965, as amended by Executive Order 11375, dated October 13, 1967, and as set forth in 41 CFR §60-1.4(a), which clause is incorporated herein by reference thereto as though fully set forth herein in haec verba in accordance with 41 CFR §60-1.4(d).

II. Certification of Non-Segregated Facilities (41 CFR §60-1.8) (Applicable to contracts and purchase orders which are not exempt from the provisions of the Equal Opportunity Clause incorporated by reference hereinabove)

Operator certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its locations, 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. Operator understands and agrees that a breach of this certification is a violation of the Equal Opportunity Clause incorporated by reference hereinabove. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, restaurants and other eating areas, time clocks, restrooms, wash rooms, 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 directive or are in fact segregated on the basis of race, color, religion, or national origin because of habit, local custom, or otherwise; Operator's policies and practices must assure appropriate physical facilities to both sexes. Operator further agrees that (except where it 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 he will retain such certifications in his files; and that he 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 NON-SEGREGATED FACILITIES

A Certification of Non-Segregated Facilities, as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions 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, or annually).

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

Operator certifies that it will 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 Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress, or such form as may hereafter be promulgated in its place, in compliance with 41 CFR §60-1.7, and that it shall require a similar certification from each of its non-exempt sub-contractors.

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

Operator certifies that it shall develop a written affirmative action compliance program for each of its establishments, and within 120 days from commencement of this contract or purchase order, shall maintain a copy of separate affirmative action compliance programs for each establishment, including evaluations of utilization of minority group personnel and job classification tables, at each local office responsible for the personnel matters of such establishment and that it shall require a similar certification from each of its non-exempt sub-contractors.

V. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause (41 CFR §60-250.4) (Applicable to contracts and purchase orders for $10,000 or more)

Operator agrees and certifies that it shall comply with the Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause set forth in 41 CFR §60-250.4, which clause and the regulations contained in 41 CFR Part 60-250 are incorporated herein by this reference thereto, as though fully set forth herein in haec verba, in accordance with 41 CFR §60-250.22. Operator also agrees and certifies that if (a) it has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, within 120 days of the commencement of this contract or purchase order, 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 41 CFR §60-250.6.

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

Operator agrees and certifies that it shall comply with the Affirmative Action for Handicapped Workers Clause contained in 41 CFR § 60-741.4, which clause and the regulations contained in 41 CFR Part 60-741 are incorporated herein by this reference thereto, as though fully set forth herein in haec verba, in accordance with 41 CFR §60-741.22. Operator also agrees and certifies that if (a) it has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, within 120 days of the commencement of this contract or purchase order, 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 41 CFR §60-741.6.

VII. Utilization of Minority Business Enterprises (41 CFR §1-1.1310-2(a)) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (b) contracts for services which are personal in nature)

A. 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.

B. Operator agrees to use its best efforts to carry out this policy in the award of its 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 purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American Orientals, American-Indians, American-Eskimos and American-Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

VIII. Minority Business Enterprises Subcontracting Program (41 CFR §1-1.310-2(b)) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Minority Business Enterprises Clause and which offer substantial subcontracting possibilities)

A. Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, Operator shall —

1. Designate a liaison officer who will administer Operator's minority business enterprises program.

2. Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.

3. Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

4. Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

5. Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

6. Cooperate with the Contracting Officer (as defined in 41 CFR §1-1.207) in any studies and surveys of Operator's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.

7. Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph 4 above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

B. Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 provisions which shall conform substantially to the language of this clause, including this paragraph B., and to notify the Contracting Officer of the names of such subcontractors.

IX. Utilization of Small Business Concerns (41 CFR §1-1.710-3(a)) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (b) contracts for services which are personal in nature)

A. It is the policy of the Government as declared by the Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.

B. The Operator agrees to accomplish the maximum amount of subcontracting to small business concerns that the Operator finds to be consistent with the efficient performance of this contract.

X. Small Business Subcontracting Program (41 CFR §1-1.710-3(b)) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Small Business Concerns Clause and which offer substantial subcontracting possibilities)

A. The Operator agrees to establish and conduct a small business subcontracting program which will enable small business concerns to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Operator shall —

1. Designate a liaison officer who will (i) maintain liaison with the Government on small business matters, (ii) supervise compliance with the Utilization of Small Business Concerns clause, and (iii) administer the Operator's "Small Business Subcontracting Program."

2. Provide adequate and timely consideration of the potentialities of small business concerns in all "make-or-buy" decisions.

3. Assure that small business concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of small business concerns. Where the Operator's lists of potential small business subcontractors are excessively long, reasonable effort shall be made to give all such small business concerns an opportunity to compete over a period of time.

4. Maintain records showing (i) whether each prospective subcontractor is a small business concern, (ii) procedures which have been adopted to comply with the policies set forth in this clause, and (iii) with respect to the letting of any subcontract (including purchase orders) exceeding $10,000, information substantially as follows:

   a. Whether the award went to large or small business.

   b. Whether less than three or more than two small business firms were solicited.

   c. The reason for non solicitation of small business if such was the case.

   d. The reason for small business failure to receive the award if such was the case when small business was solicited.

   The records maintained in accordance with (iii) above may be in such form as the Operator may determine, and the information shall be summarized quarterly and submitted by the purchasing department of each individual plant or division to the Operator's cognizant small business liaison officer. Such quarterly summaries will be considered to be management records only and need not be submitted routinely to the Government; however, records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulation.

5. Notify the Contracting Officer (as defined in 41 CFR §1-1.207) before soliciting bids or quotations on any subcontract (including purchase orders) in excess of $10,000 if (i) no small business concern is to be solicited, and (ii) the Contracting Officer's consent to the subcontract (or ratification) is required by a "Subcontracts" clause in this contract. Such notice will state the Operator's reasons for nonsolicitation of small business concerns, and will be given as early in the procurement cycle as possible so that the Contracting Officer may give SBA timely notice to permit SBA a reasonable period to suggest potentially qualified small business concerns through the Contracting Officer. In no case will the procurement action be held up when to do so would, in the Operator's judgement, delay performance under the contract.

6. Include the Utilization of Small Business Concerns clause in subcontracts which offer substantial small business subcontracting opportunities.

7. Cooperate with the Contracting Officer in any studies and surveys of the Operator's subcontracting procedures and practices that the Contracting Officer may from time to time conduct.

8. Submit quarterly reports of subcontracting to small business concerns on either Optional Form 61, Small Business Subcontracting Program Quarterly Report of Participating Large Company on Subcontract Commitments to Small Business Concerns, or such other form as may be specified in the contract. Except as otherwise provided in this contract, the reporting requirements of this subparagraph 8. do not apply to small business contractors, small business subcontractors, educational and nonprofit institutions, and contractors or subcontractors for standard commercial items.

B. A "small business concern" is a concern that meets the pertinent criteria established by the Small Business Administration and set forth in §1-1.701 of the Federal Procurement Regulations.

C. The Operator agrees that, in the event he fails to comply with his contractual obligations concerning the small business subcontracting program, this contract may be terminated, in whole or in part, for default.

D. The Operator further agrees to insert in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Small Business Concerns clause provisions which shall conform substantially to the language of this clause, including this paragraph D, and to notify the Contracting Officer of the names of such subcontractors.

XI. Utilization of Labor Surplus Area Concerns (41 CFR §1-1.805-3(a)) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts with foreign contractors which, including all subcontracts thereunder, are to be performed entirely outside the United States, its territories and possessions, Puerto Rico, and Trust Territory of the Pacific Islands, and the District of Columbia; (b) contracts for services which are personal in nature; and (c) contracts for construction)

A. It is the policy of the Government to award contracts to labor surplus area concerns that (1) have been certified by the Secretary of Labor (hereafter referred to as certified-eligible concerns with first or second preferences) regarding the employment of a proportionate number of disadvantaged individuals and have agreed to perform substantially (i) in or near sections of concentrated unemployment or underemployment or in persistent or substantial labor surplus areas or (ii) in other areas of the United States, respectively, or (2) are non certified concerns which have agreed to perform substantially in persistent or substantial labor surplus areas, where this can be done consistent with the efficient performance of the contract and at prices no higher than are obtainable elsewhere. The Operator agrees to use his best efforts to place his subcontracts in accordance with this policy.

B. In complying with paragraph A of this clause and with paragraph B of the clause of this contract entitled "Utilization of Small Business Concerns" the Operator in placing his subcontract shall observe the following order of preference. (1) Certified eligible concerns with a first preference which are also small business concerns, (2) other certified eligible concerns with a first preference, (3) certified eligible concerns with a second preference which are also small business concerns, (4) other certified eligible concerns with a second preference; (5) persistent or substantial labor surplus area concerns which are also small business concerns, (6) other persistent or substantial labor surplus area concerns; and (7) small business concerns which are not labor surplus area concerns.

XII. Labor Surplus Area Subcontracting Program (41 CFR §1-1.805-3(b)) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Labor Surplus Area Concerns Clause and which offer substantial subcontracting possibilities)

A. The Operator agrees to establish and conduct a program which will encourage labor surplus area concerns to compete for subcontracts within their capabilities. In this connection, the Operator shall --

   1. Designate a liaison officer who will (i) maintain liaison with duly authorized representatives of the Government on labor surplus area matters, (ii) supervise compliance with the Utilization of Concerns in Labor Surplus Areas clause, and (iii) administer the Operator's "Labor Surplus Area Subcontracting Program."

   2. Provide adequate and timely consideration of the potentialities of labor surplus area concerns in all "make-or-buy" decisions.

   3. Assure that labor surplus area concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of labor surplus area concerns.

   4. Maintain records showing procedures which have been adopted to comply with the policies set forth in this clause. Records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulations, and

   5. Include the Utilization of Concerns in Labor Surplus Areas clause in subcontracts which offer substantial labor surplus area subcontracting opportunities.

B. A "labor surplus area concern" is a concern that (1) has been certified by the Secretary of Labor (hereafter referred to as a certified-eligible concern) regarding the employment of a proportionate number of disadvantaged individuals and has agreed to perform substantially in or near sections of concentrated unemployment or underemployment, in persistent or substantial labor surplus areas, or in other areas of the United States or (2) is a non-certified concern which has agreed to perform a substantial proportion of a contract in persistent or substantial labor surplus area. A certified-eligible concern shall be deemed to have performed a substantial proportion of a contract in or near sections of concentrated unemployment or underemployment in persistent or substantial labor surplus areas, or in other areas if the costs that the concern will incur on account of manufacturing or production in or near such sections or in such areas (by itself, if a certified concern, or by certified concerns acting as first-tier subcontractors) amount to more than 25 percent of the contract price. A concern shall be deemed to have performed a substantial proportion of a contract in persistent or substantial labor surplus areas (by itself or its first-tier subcontractors) if the costs that the concern will incur on account of production or manufacturing in such areas amount to more than 50 percent of the contract price.

C. The Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Concerns in Labor Surplus Areas clause, provisions which shall conform substantially to the language of this clause, including this paragraph C, and to notify the Contracting Officer (as defined in 41 CFR §1-1.207) of the names of subcontractors.

XIII. Clean Air and Water (41 CFR §1-1.2302-2) (Applicable to contracts and purchase orders in excess of $100,000, or if the Contracting Officer (as defined in 41 CFR §1-1.207) has determined that orders under an indefinite quantity contract in any one year will exceed $100,000, or a facility to be used has been the subject of a conviction under the Clean Air Act (42 U.S.C. 1857c-8(c)(1)) or the Federal Water Pollution Control Act (33 U.S.C. 1319(c)) and is listed by EPA, or the contract is not otherwise exempt).

The Operator agrees as follows:

A. To comply with all the requirements of section 114 of the Clean Air Act, as amended (42 U.S.C. 1857, et seq., as amended by Pub. L. 91-604) and section 308 of the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq., and amended by Pub. L. 92-500) respectively, relating to inspection, monitoring, entry, reports, and information, as well as other requirements specified in section 114 and section 308 of the Air Act and the Water Act, respectively, and all regulations and guidelines issued thereunder before the award of the contract.

B. That no portion of the work required by this contract will be performed in a facility listed on the Environmental Protection Agency List of Violating Facilities on the date of contract award unless and until the EPA eliminates the name of such facility or facilities from such listing.

C. To use his best efforts to comply with clean air standards and clean water standards at the facility in which the contract is being performed.

D. To insert the substance of the provisions of this clause into any non exempt subcontract, including this paragraph D.

LEASE McDonald Unit WELL NUMBER 1

LOCATION 660' FSL & 990' FEL, Section 33, T-13S, R-36E

COUNTY Lea DEPTH 14,700' PRODUCING FORMATION Devonian

	Producing Well Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Location	$ 15,000	$ 15,000
Footage 10,000 @ $26.00/ft	260,000	260,000
Daywork 38 days @ $7,255/day	275,690	275,690
Surface casing service	4,000	4,000
Intermediate casing service	20,000	20,000
Mud, water	35,000	35,000
Company supervisor, engineer	8,000	8,000
Rentals, caring service	15,000	15,000
Miscellaneous	10,000	10,000
Total intangible drilling costs	642,690	642,690
Intangible formation evaluation cost		
Logs, CNL-D , DLL-Rxo ,	30,000	30,000
DST 10 @ 2,500/ea.	25,000	25,000
Geological mud logging service	12,000	12,000
Miscellaneous	5,000	5,000
Total intangible formation evaluation	72,000	72,000
Intangible completion costs		
Unit cost 25 days @ $1,200/day	30,000	
Production casing service	20,000	
Completion fluid	3,000	
Perforating/production logging	36,000	
Treating	30,000	
Company supervision	7,500	
Plugging expense		10,000
Miscellaneous	5,000	5,000
Total intangible completion costs	131,500	15,000
Tangible drilling costs and completion costs		
Surface casing		
375' of 13 3/8"	6,500	6,500
Intermediate casing		
4600' of 8 5/8"	58,000	46,300
Production casing		
14,700' of 5 1/2"	170,260	
Production tubing		
14,200' of 2 3/8"	60,400	
Casing head	5,000	
Tubing head	7,000	
Christmas tree	7,000	
Subsurface equipment	3,000	
Total tangible drilling costs and completion costs	317,160	52,800
Lease equipment		
Tanks 2 , 210 bbl	8,000	
Separator	15,000	
Flow lines	3,000	
Meter runs	1,500	
Pumping unit		
Installation costs	3,500	
Total lease equipment	31,000	
Total intangible costs	846,190	729,690
Total tangible costs	317,160	52,800
Total lease equipment	31,000	
Administrative	6,500	4,500
TOTAL COSTS	$1,200,850	$ 786,990

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 3
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

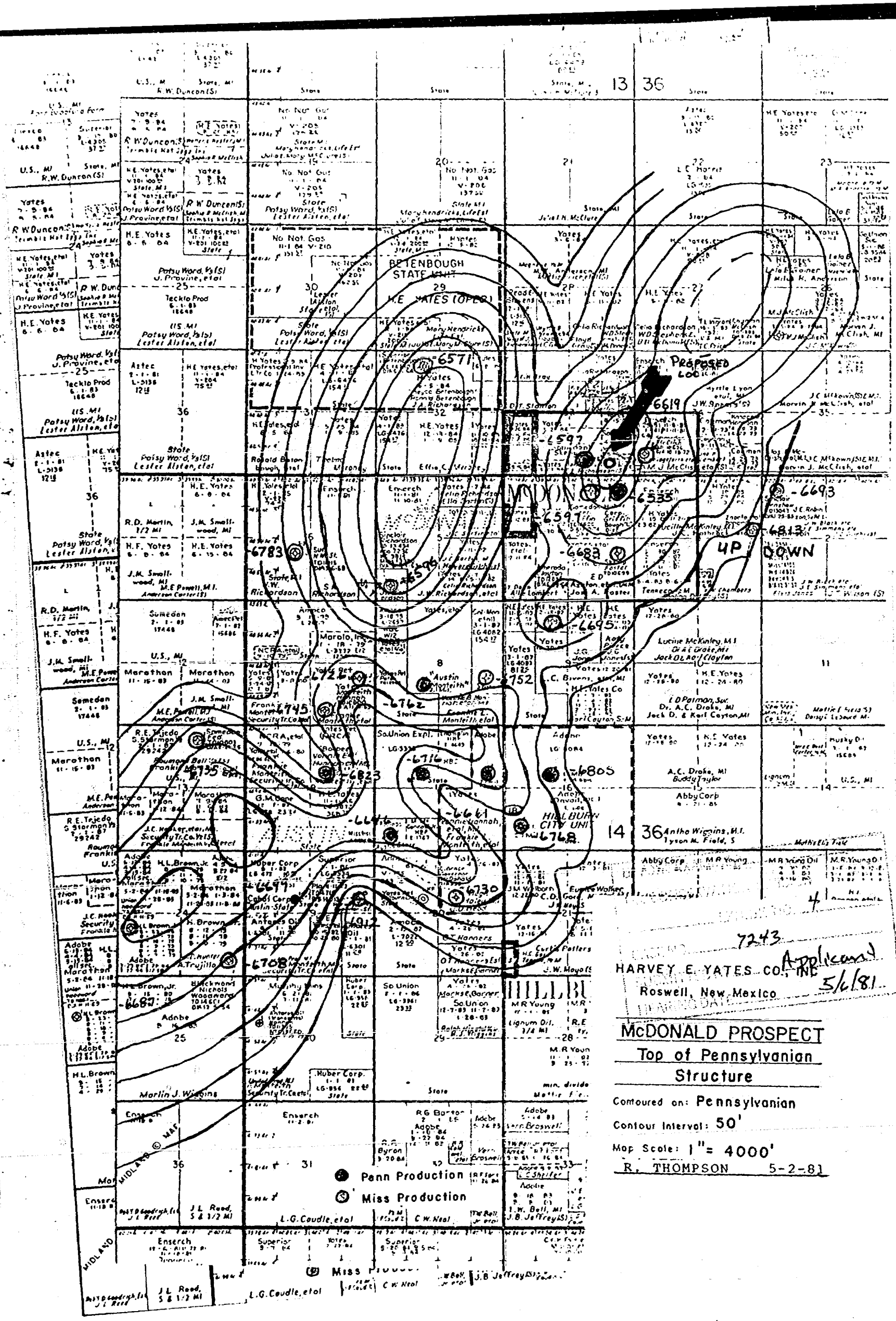
Prepared by: Fred G. Yates Date: 2/4/81

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

APPROVED BY:

Company

Date



7243

HARVEY E. YATES CO., INC. — Applicant

Roswell, New Mexico — 5/6/81

McDONALD PROSPECT

Top of Pennsylvanian Structure

Contoured on: Pennsylvanian

Contour Interval: 50'

Map Scale: 1" = 4000'

R. THOMPSON 5-2-81

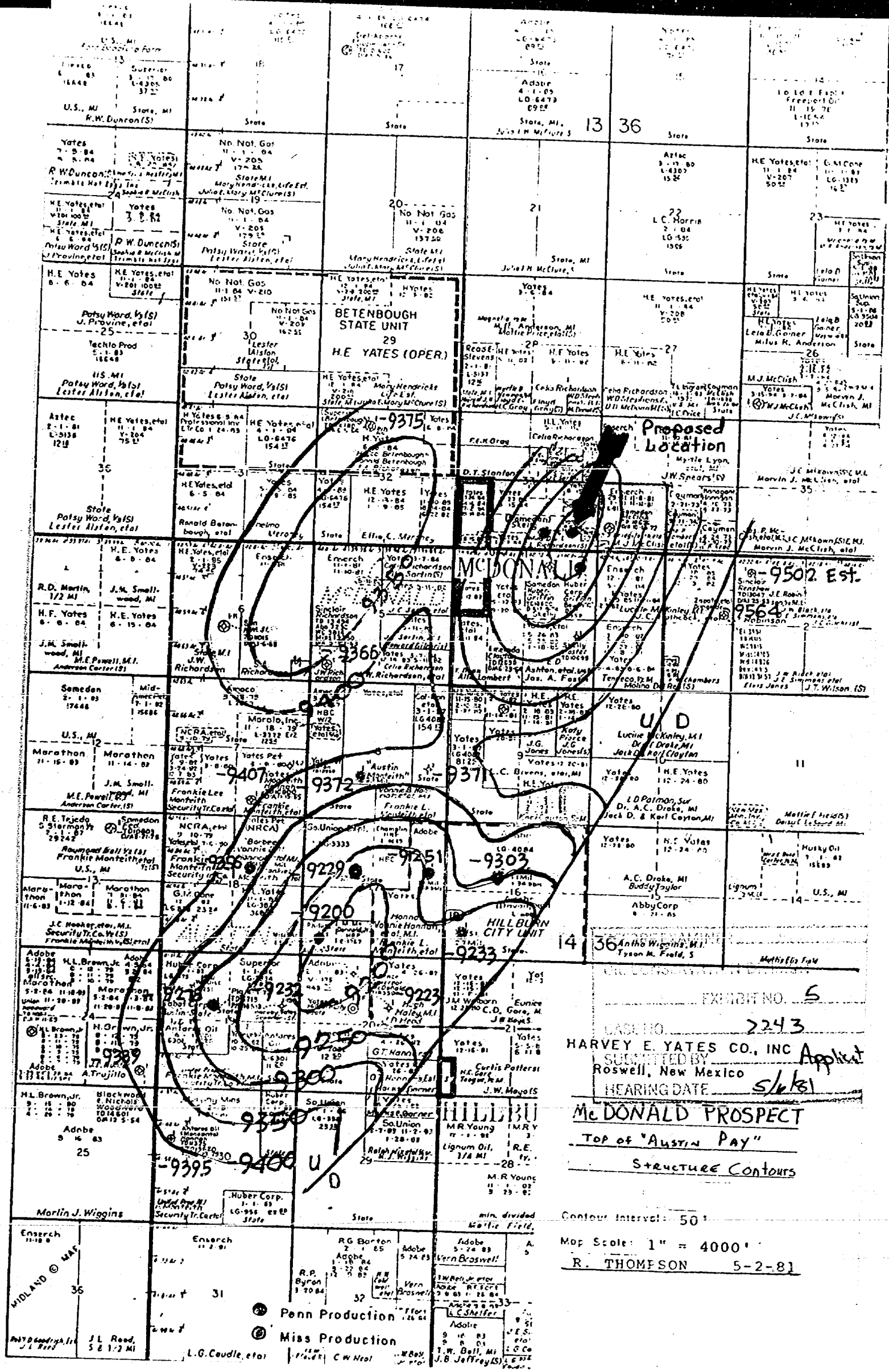


EXHIBIT NO. 5

CASE NO. 7243

HARVEY E. YATES CO., INC Applicant
SUBMITTED BY
Roswell, New Mexico
HEARING DATE 5/6/81

McDONALD PROSPECT

Top of "Austin Pay"

Structure Contours

Contour Interval: 50'

Map Scale: 1" = 4000'

R. THOMPSON 5-2-81

HEYCO

PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY

P O BOX 1933 SUITE 300 SECURITY NATIONAL BANK BUILDING 505/623 6601
ROSWELL NEW MEXICO 88201

June 24, 1980

J. M. Huber Corporation
1900 Wilco Building
Midland, Texas 79701

Attention: Mr. Gary Bailey

Geo-Dynamics Oil & Gas, Inc.
C/O Adobe Oil Corporation
1100 Western United Life Bldg
Midland, Texas 79701

Attention: Mr. Kelley Barnes

Re: Proposed McDonald Unit
Lea County, New Mexico

Gentlemen:

As we have discussed previously, I enclose an Operating Agreement covering the above referenced unit. The agreement contains farmout provisions whereby your respective Companies agree to farmout your interests to HEYCO on the basis of a 1/8 overriding royalty interest proportionately reduced to your unit interests.

Due to your request that 120.06 acres, from the surface to the base of the Strawn formation, be deleted from the Operating Agreement due to proximity of producing wells, it was necessary to structure the agreement to provide for a shallow and deep unit covering the different gross acreages involved. I have recalculated interests for Cayman, Huber, Getty, Samedan and Geo-Dynamics using the same procedure I discussed with you previously, and the results, averaged as to shallow and deep units, are quite close to my original calculations.

Also, please note that there are approximately sixty-five net acres under both the shallow and deep units which have not been committed to the Operating Agreement. Forty net acres of minerals are owned thereunder by Tenneco Oil Company, which has refused to join in the operating agreement or to lease their interests. The remaining twenty-five acres consists of a number of small unleased mineral interests whose owners have declined to participate or lease or cannot be located. If we are successful in leasing any of these additional interests prior to commencing the initial well, they will be committed to the Operating Agreement by HEYCO, and all of the interests shown on Exhibit "A" would change slightly. In such event, we will provide you with a revised Exhibit "A".

If the Operating Agreement and your interests as shown on Exhibit "A" are satisfactory, please execute and return the enclosed extra set of signature pages.

If you have any questions, please let me know.

OIL CONSERVATION DIVISION
EXHIBIT NO. 2A
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

Sincerely yours,

Robert H. Strand

RHS/cj
Enclosures

HEYCO
PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY
P O BOX 1933 SUITE 300 SECURITY NATIONAL BANK BUILDING 505/623-6601
ROSWELL, NEW MEXICO 88201

February 9, 1981

J. M. Huber Corp.
Wilco Bldg.
Midland, Texas 79701

Attention: Mr. Bill Ennis

Re: McDonald Unit #1
Lea County, New Mexico

Dear Bill:

As we discussed in your office on Friday, I am enclosing two copies of an updated AFE for the proposed McDonald Unit #1 Well. If you have any further questions, please let me know.

Sincerely,

Robert H. Strand
Attorney

RHS/lhc

Enclosure

DIVISION
EXHIBIT NO. 7B
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

7243

PHONE (505) 623-6601

HEYCO HARVEY E. YATES COMPANY

PETROLEUM PRODUCERS P.O. BOX 1933 SECURITY NATIONAL BANK BUILDING ROSWELL, NEW MEXICO 88201

May 4, 1981

WORKING INTEREST OWNERS
McDonald Unit

Re: McDonald Unit
T-13S, R-36E, N.M.P.M.
Section 33: S/2
Section 34: SW/4

T-14S, R-36E, N.M.P.M.
Section 3: W/2
Section 4: All
Lea County, New Mexico

Gentlemen:

Enclosed for your review are several revisions to the McDonald Unit Operating Agreement which have been requested by Getty Oil Company.

1. Page 14: Lines 4 and 11 under Option No.2 have been revised to read 90 (ninety) days.

2. Page 14: Article XIV, Paragraph B, Line 28: "The essential validity of," has been deleted.

3. Page 14d: Paragraphs D through H have been included.

4. Exhibit "D" has been revised.

5. Exhibit "F" has been added.

Also, Mr. C. E. Marsh II will be participating in the unit with three net acres. We are therefore enclosing copies of pages 2 and 3 to Exhibit "A" of the Operating Agreement which sets out his interest in the unit.

BEFORE EXAMINER _____
OIL CONSERVATION DIVISION
EXHIBIT NO. 7C
CASE NO. 7243
SUBMITTED BY Applicant
HEARING DATE 5/6/81

If you are in agreement with the revisions as set out above, please execute and return one copy of this letter as indicated below. If you have any questions, please advise.

Yours truly,

Carlyn M. Jarm

Carlyn M. Jarm
Land Department

CMJ:ds

Enclosures

I Agree With The Revisions To The McDonald Unit Operating Agreement As Set Out Above.

_____
COMPANY

By _____

Dockets Nos. 16-81 and 17-81 are tentatively set for May 20 and June 3, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 6, 1981

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM, STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 7235: Application of Public Lands Exploration Inc. for a unit agreement, Guadalupe County, New Mexico. Applicant, in the above-styled cause, seeks approval for the O'Connell Ranch Unit Area, comprising 640 acres, more or less, of State and fee lands in Township 11 North, Range 25 East, said unit being for the purpose of conducting an enhanced oil recovery project by the injection of steam.

CASE 7236: Application of Belco Petroleum Corporation for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its James Ranch Well No. 11 located in Unit E of Section 36, Township 22 South, Range 30 East, to produce gas from the Atoka and Morrow formations thru parallel strings of tubing.

CASE 7237: Application of Conoco Inc. for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its State F-1 Well No. 10 located in Unit V of Section 1, Township 21 South, Range 36 East, to produce oil from the Hardy-Drinkard Pool and an undesignated Tubb pool thru parallel strings of tubing.

CASE 7238: Application of Holly Energy, Inc. for directional drilling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to directionally drill its Salt Lake South Deep Well No. 1, the surface location of which is 2189 feet from the North line and 500 feet from the East line of Section 6, Township 21 South, Range 32 East, South Salt Lake-Morrow Gas Pool, in a northerly direction to bottom it within 150 feet of the center of Unit A (Lot 1) of said Section 6, Lots 1 thru 8 to be dedicated to the well.

CASE 7239: Application of Troy Strickland and E. V. Isbell for a non-standard proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 75.5-acre non-standard proration unit comprising Lot 3 and that portion of Lot 4 North of the San Juan River mid-channel, all in Section 14, Township 29 North, Range 15 West, to be dedicated to a well to be drilled at a standard location thereon.

CASE 7240: Application of El Paso Natural Gas Company for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Fruitland and Blanco-Pictured Cliffs production in the wellbore of its Sunray B Well No. 6 located in Unit G of Section 1, Township 30 North, Range 10 West.

CASE 7241: Application of Harvey E. Yates Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Mississippian location of its Austin State 18 Well No. 1 to be drilled 1980 feet from the South line and 1650 feet from the East line of Section 18, Township 14 South, Range 36 East, the S/2 of said Section 18 to be dedicated to the well.

CASE 7242: Application of Harvey E. Yates Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Wolfcamp-Pennsylvanian location of its McDonald Well No. 1 to be drilled 660 feet from the South line and 990 feet from the East line of Section 33, Township 13 South, Range 36 East, the S/2 of said Section 33 to be dedicated to the well.

CASE 7243: Application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests in the Devonian formation underlying the SE/4 SE/4 of said Section 33 for an oil completion. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7217: (Continued from April 8, 1981, Examiner Hearing)

Application of Harvey E. Yates Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Morrow location of its Travis Ohio State Com Well No. 1 to be drilled 660 feet from the South and West lines of Section 13, Township 18 South, Range 28 East, the S/2 of said Section 13 to be dedicated to the well.

CASE 7244: Application of Crescent Energy Corp. for an unorthodox oil well location and non-standard oil proration unit, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Bough "C" location of a well to be drilled 2630 feet from the North line and 1980 feet from the East line of Section 32, Township 8 South, Range 37 East, Allison-Pennsylvanian Field, the SW/4 NE/4 and NW/4 SE/4 of said Section 32 to be dedicated to the well.

CASE 7245: Application of The Superior Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the N/2 of Section 21, Township 20 South, Range 35 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well. (This case will be dismissed.)

CASE 7246: Application of Getty Oil Company for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Getty 32 State Com. Well No. 1 located in Unit G of Section 32, Township 21 South, Range 32 East, to produce gas from the Atoka and Morrow formations.

CASE 7247: Application of Getty Oil Company for a gas well classification, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the reclassification of its State 29-J Well No. 1, an oil well located in Unit J of Section 29, Township 24 South, Range 33 East, as a retrograde gas condensate well with the S/2 of said Section 29 to be dedicated to the well.

CASE 7248: Application of Inexco Oil Company for pool creation, special pool rules, and an oil discovery allowable, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Wolfcamp oil pool for its Federal 10 State Com. Well No. 1 located in Unit L of Section 10, Township 21 South, Range 26 East, and the promulgation of special rules therefor, including provisions for 160-acre spacing. Applicant further seeks the assignment of approximately 42,290 barrels of discovery allowable to the aforesaid well.

CASE 7249: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 21, Township 18 South, Range 29 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7250: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 22, Township 18 South, Range 29 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7251: Application of Southern Union Exploration Company of Texas for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the West Puerto Chiquito-Mancos Oil Pool underlying all of Section 36, Township 24 North, Range 1 West, to be dedicated to its Mobil Federal Well No. 1 drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7252: Application of Four Corners Gas Producers Association for designation of a tight formation, San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying portions of Townships 24 and 25 North, Ranges 7, 8, 9, and 10 West, containing 135,040 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

PHONE (505) 623-6601

HEYCO **HARVEY E. YATES COMPANY**

PETROLEUM PRODUCERS P.O. BOX 1933 SECURITY NATIONAL BANK BUILDING ROSWELL, NEW MEXICO 88201

April 23, 1981

RECEIVED
APR 24 1981
OIL CONSERVATION DIVISION
SANTA FE

Case 7243

Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Application for
Compulsory Pooling
SE/4 SE/4 and S/2
Sec. 33, T-13S, R-36E,
Lea County, New Mexico

Gentlemen:

Enclosed for filing is an original and two copies of the above reference application.

This application was previously called into your office and is set for hearing on the May 6, 1981 docket.

Sincerely,

Robert H. Strand

Robert H. Strand
Attorney

RHS/smb
Encl.

BEFORE THE OIL CONSERVATION DIVISION

ENERGY AND MINERALS DEPARTMENT OF

THE STATE OF NEW MEXICO

APR 24 1981
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE APPLICATION :
OF HARVEY E. YATES COMPANY :
FOR COMPULSORY POOLING : Case No. 7243
LEA COUNTY, NEW MEXICO :

APPLICATION

COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well situated 660 FSL and 900 FEL, Section 33, Township 13 South, Range 36 East, N.M.P.M., Lea County, New Mexico, to the Devonian formation and dedicate the SE/4 SE/4 of Section 33, if the well is completed as an oil well, and the S/2 of Section 33 if the well is completed as a gas well in a formation subject to 320 acre spacing.

2. Applicant is the owner of, and/or holds the contractual right to drill and develop all formations from the surface through the Devonian underlying the S/2 of said Section 33.

3. Applicant has obtained voluntary consent to pooling of interests in all of the above described formations underlying the S/2 of said Section 33, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:

Owner	Description	Interest Owned	Type of Interests	Net Acres
J.M. Huber Corp.	SW/4 SE/4 from 11,385' to 12,474' subsurface	36.33%	Leasehold	14.532

Owner	Description	Interest Owned	Type of Interest	Net Acres
J.M. Huber Corp.	NW/4 NW/4 SE/4, S/2 NE/4 NE/4, E/2 SE/4 SE/4, from surface to 12,474' subsurface	36.33%	Leasehold	18.165

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests from the surface through the Devonian formation underlying (1) the SE/4 SE/4 of said Section 33 and (2) S/2 of said Section 33 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A., 1978 (formerly §65-3-14 N.M.S.A., 1953).

5. Applicant should be designated Operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant prays:

A. That this application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. That upon such hearing the Division enter its pooling all interests from the surface through the Devonian formation underlying (1) the SE/4 SE/4 and (2) S/2 of Section 33, Town-

ship 13 South, Range 36 East, N.M.P.M., Lea County, New Mexico, designating applicant as operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just and proper.

DATED this 23rd day of April, 1981.

HARVEY E. YATES COMPANY

BY: Robert H. Strand

Robert H. Strand
Attorney for Applicant
P. O. Box 1933
Roswell, New Mexico 88201

BEFORE THE OIL CONSERVATION DIVISION

ENERGY AND MINERALS DEPARTMENT OF

THE STATE OF NEW MEXICO

RECEIVED
APR 24 1981
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE APPLICATION OF HARVEY E. YATES COMPANY FOR COMPULSORY POOLING LEA COUNTY, NEW MEXICO : Case No. 7243

APPLICATION

COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well situated 660 FSL and 900 FEL, Section 33, Township 13 South, Range 36 East, N.M.P.M., Lea County, New Mexico, to the Devonian formation and dedicate the SE/4 SE/4 of Section 33, if the well is completed as an oil well, and the S/2 of Section 33 if the well is completed as a gas well in a formation subject to 320 acre spacing.

2. Applicant is the owner of, and/or holds the contractual right to drill and develop all formations from the surface through the Devonian underlying the S/2 of said Section 33.

3. Applicant has obtained voluntary consent to pooling of interests in all of the above described formations underlying the S/2 of said Section 33, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:

Owner	Description	Interest Owned	Type of Interests	Net Acres
J.M. Huber Corp.	SW/4 SE/4 from 11,385' to 12,474' subsurface	36.33%	Leasehold	14.532

Owner	Description	Interest Owned	Type of Interest	Net Acres
J.M. Huber Corp.	NW/4 NW/4 SE/4, S/2 NE/4 NE/4, E/2 SE/4 SE/4, from surface to 12,474' subsurface	36.33%	Leasehold	18.165

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests from the surface through the Devonian formation underlying (1) the SE/4 SE/4 of said Section 33 and (2) S/2 of said Section 33 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A., 1978 (formerly §65-3-14 N.M.S.A., 1953).

5. Applicant should be designated Operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant prays:

A. That this application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. That upon such hearing the Division enter its pooling all interests from the surface through the Devonian formation underlying (1) the SE/4 SE/4 and (2) S/2 of Section 33, Town-

ship 13 South, Range 36 East, N.M.P.M., Lea County, New Mexico, designating applicant as operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just and proper.

DATED this 23rd day of April, 1981.

HARVEY E. YATES COMPANY

BY: _____

Robert H. Strand
Attorney for Applicant
P. O. Box 1933
Roswell, New Mexico 88201

BEFORE THE OIL CONSERVATION DIVISION

ENERGY AND MINERALS DEPARTMENT OF

THE STATE OF NEW MEXICO

RECEIVED
APR 24 1981
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE APPLICATION :
OF HARVEY E. YATES COMPANY :
FOR COMPULSORY POOLING : Case No. 7243
LEA COUNTY, NEW MEXICO :

APPLICATION

COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well situated 660 FSL and 900 FEL, Section 33, Township 13 South, Range 36 East, N.M.P.M., Lea County, New Mexico, to the Devonian formation and dedicate the SE/4 SE/4 of Section 33, if the well is completed as an oil well, and the S/2 of Section 33 if the well is completed as a gas well in a formation subject to 320 acre spacing.

2. Applicant is the owner of, and/or holds the contractual right to drill and develop all formations from the surface through the Devonian underlying the S/2 of said Section 33.

3. Applicant has obtained voluntary consent to pooling of interests in all of the above described formations underlying the S/2 of said Section 33, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:

Owner	Description	Interest Owned	Type of Interests	Net Acres
J.M. Huber Corp.	SW/4 SE/4 from 11,385' to 12,474' subsurface	36.33%	Leasehold	14.532

Owner	Description	Interest Owned	Type of Interest	Net Acres
J.M. Huber Corp.	NW/4 NW/4 SE/4, S/2 NE/4 NE/4, E/2 SE/4 SE/4, from surface to 12,474' subsurface	36.33%	Leasehold	18.165

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests from the surface through the Devonian formation underlying (1) the SE/4 SE/4 of said Section 33 and (2) S/2 of said Section 33 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A., 1978 (formerly §65-3-14 N.M.S.A., 1953).

5. Applicant should be designated Operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant prays:

A. That this application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. That upon such hearing the Division enter its pooling all interests from the surface through the Devonian formation underlying (1) the SE/4 SE/4 and (2) S/2 of Section 33, Town-

ship 13 South, Range 36 East, N.M.P.M., Lea County, New Mexico, designating applicant as operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just and proper.

DATED this 23rd day of April, 1981.

HARVEY E. YATES COMPANY

BY: _____
Robert H. Strand
Attorney for Applicant
P. O. Box 1933
Roswell, New Mexico 88201

11-15-81

Bob Strand

Application of Nursey & Yates Co for

(1) Unorthodox gas well location
McDonald Well No 1 660 S
990 E 33 - 13S - 36E
Lea County Penn-Miss
S/2 dedicated

✓

(2) Compulsory pooling S/2 Sec 33
-13S-36E Penn Miss
Surface - Devonian

Pool - SE/SE 33 Surface - Devonian
To be committed to an oil well
to be drilled at a std location
in the SE/SE Sec 33

and for gas well
unorthodox loc

J. M. Huber Corp.
Adobe Oil Corp.

624-0251

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

CASE NO. 7243

Order No. R-6697

APPLICATION OF HARVEY E. YATES COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 6, 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this _____ day of May, 19 81, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Harvey E. Yates Company, seeks an order pooling all mineral interests in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests in the Devonian formation underlying the SE/4 SE/4 of said Section 33 for an oil completion, Lea County, New Mexico.

Case No.
Order No. R-

(3) That the applicant has the right to drill and proposes to drill a well at a standard oil well location thereon, ~~a~~ being an unorthodox gas well location, previously approved.

(4) That there are interest owners in the proposed proration units who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil and gas ~~in said pool~~ underlying the aforesaid lands, the subject application should be approved by pooling all mineral interests, whatever they may be, within each of said units.

(6) That the applicant should be designated the operator of the subject well and units

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $ 3500.00 per month while drilling and $ 500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1981, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian and Mississippian formations underlying the S/2 of Section 33, Township 13 South, Range 36 East, for a gas completion and/or all mineral interests ~~in the Pennsylvanian~~ from the surface down through the Devonian formation, underlying the SE/4 SE/4 of said Section 33 for an oil completion, Lea County, New Mexico, are hereby pooled to form a standard 320- acre gas ~~oil~~ and/or a standard 40 acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location thereon, being a previously approved unorthodox gas well location.

July, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Mississippian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of July, 1981, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Harvey E. Yates Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $ 3500.00 per month while drilling and $ 500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.