

Case No.

7290

Application

Transcripts

Small Exhibits

ETC



**BRUCE KING**  
GOVERNOR  
**LARRY KEHOE**  
SECRETARY

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

July 29, 1981

Mr. Chad Dickerson  
Losee, Carson, & Dickerson  
Attorneys at Law  
Post Office Box 239  
Artesia, New Mexico 88210

Re: CASE NO. 7290  
ORDER NO. R-6741

**Applicant:**

Yates Petroleum Corporation

**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	<u>X</u>
Artesia OCD	<u>X</u>
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. 7290  
Order No. R-6741

APPLICATION OF YATES PETROLEUM  
CORPORATION FOR COMPULSORY POOLING,  
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 2, 1981,  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 28th day of July, 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, Yates Petroleum Corporation, seeks  
an order pooling all mineral interests in the Abo formation  
underlying the NE/4 of Section 26, Township 5 South, Range 24  
East, NMPM, Chaves County, New Mexico.
- (3) That the applicant has the right to drill and proposes  
to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration  
unit 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 gas  
in said pool, the subject application should be approved by  
pooling all mineral interests, whatever they may be, within said  
unit.

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

(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 \$2300.00 per month while drilling and \$230.00 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 November 1, 1981, the order pooling said unit should become null and void and of no effect whatsoever.

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Case No. 7290  
Order No. R-6741

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Abo formation underlying the NE/4 of Section 26, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of November, 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 Yates Petroleum Corporation 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 \$2300.00 per month while drilling and \$230.00 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.

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Case No. 7290  
Order No. R-6741

(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.

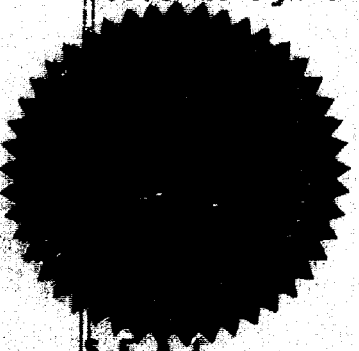
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Chaves 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*  
JOE D. RAMEY  
Director

rd/



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

2 July 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Yates Petroleum Corpor-  
ation for compulsory pooling, Chaves  
County, New Mexico.

CASE  
7290

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:

Chad Dickerson, Esq.  
LOSEE, CARSON, & DICKERSON  
Artesia, New Mexico 88210

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I N D E X

JANET MOREAU

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JIM T. MASON

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E X H I B I T S

Applicant Exhibit One, Plat	4
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Applicant Exhibit Five, AFE	8
Applicant Exhibit Six, Structure Map	11
Applicant Exhibit Seven, Cross Section	11

MR. STAMETS: We'll call next Case 7290.

MR. PEARCE: Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico.

MR. DICKERSON: Mr. Examiner, I'm Chad Dickerson from Artesia, and we have two witnesses to be sworn.

(Witnesses sworn.)

JANET MOREAU

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

DIRECT EXAMINATION

BY MR. DICKERSON:

Q. Will you state your name, please?

A. Janet Moreau.

Q. How do you spell your last name?

A. M-O-R-E-A-U.

Q. Ms. Moreau, what is your occupation?

A. I'm Associate Landman for Yates Petroleum Corporation.

Q. And how long have you been so employed?

A. Six years.



1  
2 Q In your occupation what do your duties  
3 include?

4 A I do most of the paper work that has to  
5 be done in getting the wells together. I type leases. I set  
6 up operating agreements, farm out agreements.

7 Q Are you familiar with the application of  
8 Yates before this Division?

9 A Yes.

10 Q Briefly state the purpose of our applica-  
11 tion.

12 A We are trying to force pool John William  
13 Wood, who we tried to find for several months and have not been  
14 able to do so.

15 Q You're also seeking that Yates be de-  
16 signated operator of the proposed well?

17 A Yes.

18 Q Have you compiled certain exhibits upon  
19 which you intend to rely?

20 A Yes.

21 Q Would you refer first to Exhibit Number  
22 One, describe for the Examiner what it shows?

23 A This shows the Yates acreage around the  
24 well that we are going to drill, and the well location.

25 Q And the well location is outlined in red?

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2

A. Uh-huh.

3

Q. And Yates acreage is all colored yellow?

4

A. Yes.

5

Q. Okay. Turn to Exhibit Number Two and

6

describe what that is.

7

A. This just tells the last known address

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and name of the person we would like to force pool.

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Q. What's the source of this address for

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this person?

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A. It was off the last deed where he received

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his interest.

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Q. And what is that person's interest in

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this acreage described on your Exhibit Number Two?

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A. He has 1/16th of that acreage.

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Q. He owns 1/16th interest in the minerals?

17

A. Yes.

18

Q. Okay. Refer the Examiner to Exhibit

19

Number Three and describe what it is.

20

A. This is a summary of how Bill McCaw

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tried to find Bill Haas, who he bought the lease from, or would

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have, and how he tried to find this 1/16th interest, without

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success.

24

Q. Briefly summarize some of the things

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that you or Mr. McCaw did to locate this person.

1  
2 A. Okay. He contacted the building which  
3 was the last address of John William Wood and found that it was  
4 a, I don't know what to call it, a -- just a business address,  
5 and there were several businesses in it and he contacted the  
6 maintenance man and had him go around trying to find where  
7 John William Wood was. He didn't find him there.

8 And he talked to Mr. Butterfield, who  
9 assigned to John William Wood, and well, Mr. Butterfield's  
10 wife, who did not know John William Wood, and I checked for  
11 death certificates around and had no response.

12 Q I notice among other things that Mr.  
13 McCaw contacted all of the Woods in the Chicago telephone  
14 book.

15 A. Uh-huh.

16 Q And had no success locating this person.

17 A. Yep.

18 Q Did you subsequently write a letter to  
19 his last known address?

20 A. Yes, and we received it back.

21 Q And that's the letter which is -- forms  
22 a part of your Exhibit Number Three?

23 A. Uh-huh, yes.

24 Q You received that letter back "person  
25 unknown"?

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A. Yes.

Q. Okay. Ms. Moreau, turn to Exhibit Number Four and describe what it is.

A. This is the operating agreement we propose to send out to the parties.

Q. Refer the Examiner to the Exhibit A to this agreement and describe where the interest of the party sought to be force pooled is shown on this exhibit.

A. Okay, it's under paragraph 2-1 at the bottom, unleased interest. He has five acres, five acres under the 160 that the well is going to be drilled on.

Q. So that's just 1/16th interest in 80 acres which are under the well.

A. Yes.

Q. Okay. Ms. Moreau, does this operating agreement provide for supervision which Yates seeks to have imposed upon the interests subjected to compulsory pooling?

A. Yes, it does.

Q. Where is that shown?

A. On page three of Exhibit C of the operating agreement.

Q. You're referring to the COPAS accounting procedure form attached?

A. Yes.

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Q

What supervision rates does Yates request be imposed on this interest?

A

The drilling well rate is \$2300 and the producing well rate is \$230.

Q

In your experience are those the customary charges in this area for wells --

A

Yes, they are.

Q

-- of this nature?

A

To this depth.

Q

Okay. Have all the other parties to this proposed operating agreement agreed to join it on these terms?

A

Yes.

Q

Okay. Is there a provision in this operating agreement for a penalty for nonconsenting parties?

A

Yes, 300 percent.

Q

Which would actually be return of the money invested plus 200 percent?

A

Yes.

Q

Ms. Moreau, turn to Exhibit Number Five and describe what it is.

A

This is the Authority for Expenditure that we will send out with the operating agreement, which shows the dry hole cost and completed well cost.

1  
2 Q And this exhibits shows the estimated  
3 cost for drilling, completing this proposed well. Will Yates  
4 keep up with the actual cost incurred in connection with --

5 A Yes, they will.

6 Q -- the drilling of this well?

7 If the Division grants this application,  
8 Ms. Moreau, the Yates Petroleum Corporation intends to treat  
9 the interest that is force pooled with 1/8th of it allocated  
10 to royalty and the remaining 7/8ths to working interest and  
11 to escrow the royalty account in Chaves County, New Mexico, is  
12 that correct?

13 A Yes, that is.

14 Q Okay.

15 MR. DICKERSON: Mr. Examiner, I would  
16 move the admission of Exhibits One through Five at this time  
17 and I have no further questions of this witness.

18 MR. STAMETS: These exhibits will be ad-  
19 mitted.

20 Are there any questions of the witness?  
21 She may be excused.

22 MR. DICKERSON: Call Mr. Jim Mason now.  
23  
24  
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JIM T. MASON

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

DIRECT EXAMINATION

BY MR. DICKERSON:

Q Will you state your name and occupation,  
please?

A James T. Mason, Junior. I'm a geologist-  
geophysicist for Yates Petroleum Corporation in Artesia, New  
Mexico.

Q Mr. Mason, have you previously testified  
before this Division and had your credentials made a matter of  
record?

A Yes, sir, I have.

MR. DICKERSON: Mr. Examiner, I tender  
Mr. Mason as an expert geologist.

MR. STAMETS: He is considered qualified.

Q Mr. Mason, have you made a study to  
ascertain the facts upon which you will express an opinion re-  
garding the proposed risk penalty to be imposed upon this force  
pooled interest?

A Yes, I have.



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Q Would you refer the Examiner to what is marked Exhibit Number Six and describe what it shows?

A Okay. Exhibit Number Six is a structure map on top of the Abo and it's contoured on 50 foot contour interval, and it shows the location of numerous wells in the area surrounding our proposed location in the northeast of Section 26.

Q What pertinent information is reflected by this information that bears on the risk involved in drilling this well?

A Okay. It reflects the structural position and similarity between the proposed location and -- and the Fred Poole Well which is the only well for which we have production data available, and it's located in the southeast corner of Section 24.

Q Mr. Mason, refer to Exhibit Number Seven and describe what it is.

A Exhibit Number Seven is a cross section which is shown on Exhibit Six as A-A'. This cross section involves the porosity logs available on several of these wells.

The lower part of the cross section is also a structure section and shows the total Abo Sand.

From this cross section it's obvious that it's difficult to correlate individual sands and to pre-



dict the actual occurrence of individual sand. From our work, I believe that this location will encounter approximately 40 feet of Abo Sand.

I also call your attention to the production figures at the bottom of this -- this line of section and call particular attention to the Fred Poole Well, which is the second from the right. It had a calculated absolute open flow of 3.2 million and its cumulative flow for two months was 8.8 million for a daily average of 148 Mcf.

And our reservoir engineering department has studied numerous wells in the region and believes the reserves for an average ABo well to be somewhat less than 300 million. So there is an economic risk that these wells may not pay out.

Q. Mr. Mason, based on your review of your Exhibits Six and Seven have you formed an opinion as to the risk that you recommend the Commission impose upon this interest to be pooled?

A. Yes, sir, I have.

Q. In your opinion what would be a reasonable penalty for the risk involved in drilling this well?

A. 200 percent after payout would, I think, be reasonable considering drilling hazards and economic risk involved in this venture.

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In your opinion, Mr. Mason, would the granting of this application be in the interest of conservation, the prevention of waste, and the protection of correlative rights?

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Yes, sir, I think it would.

MR. DICKERSON: Mr. Examiner, I move the

admission of Exhibits Six and Seven, and we have no further questions.

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MR. STAMETS: These exhibits will be

admitted.

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Are there any questions of the witness?

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He may be excused.

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Anything further in this case?

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The case will be taken under advisement.

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(Hearing concluded.)

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## 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) 433-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7296, heard by me on 7-2 1981.

Richard A. Shaw, Examiner  
Oil Conservation Division

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

2 July 1981

EXAMINER HEARING

IN THE MATTER OF:

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BEFORE: Richard L. Stamets

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I N D E X

JANET MOREAU

Direct Examination by Mr. Dickerson 3

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E X H I B I T S

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(Witnesses sworn.)

JANET MOREAU

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

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BY MR. DICKERSON:

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A Janet Moreau.

Q How do you spell your last name?

A M-O-R-E-A-U.

Q Ms. Moreau, what is your occupation?

A I'm Associate Landman for Yates Petroleum Corporation.

Q And how long have you been so employed?

A Six years.

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3 include?

4 A I do most of the paper work that has to  
5 be done in getting the wells together. I type leases. I set  
6 up operating agreements, farm out agreements.

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8 Yates before this Division?

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11 tion.

12 A We are trying to force pool John William  
13 Wood, who we tried to find for several months and have not been  
14 able to do so.

15 Q You're also seeking that Yates be de-  
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17 A Yes.

18 Q Have you compiled certain exhibits upon  
19 which you intend to rely?

20 A Yes.

21 Q Would you refer first to Exhibit Number  
22 One, describe for the Examiner what it shows?

23 A This shows the Yates acreage around the  
24 well that we are going to drill. and the well location.

25 Q And the well location is outlined in red?



- 1
- 2 A Uh-huh.
- 3 Q And Yates acreage is all colored yellow?
- 4 A Yes.
- 5 Q Okay. Turn to Exhibit Number Two and
- 6 describe what that is.
- 7 A This just tells the last known address
- 8 and name of the person we would like to force pool.
- 9 Q What's the source of this address for
- 10 this person?
- 11 A It was off the last deed where he received
- 12 his interest.
- 13 Q And what is that person's interest in
- 14 this acreage described on your Exhibit Number Two?
- 15 A He has 1/16th of that acreage.
- 16 Q He owns 1/16th interest in the minerals?
- 17 A Yes.
- 18 Q Okay. Refer the Examiner to Exhibit
- 19 Number Three and describe what it is.
- 20 A This is a summary of how Bill McCaw
- 21 tried to find Bill Haas, who he bought the lease from, or would
- 22 have, and how he tried to find this 1/16th interest, without
- 23 success.
- 24 Q Briefly summarize some of the things
- 25 that you or Mr. McCaw did to locate this person.



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2 A Okay. He contacted the building which  
3 was the last address of John William Wood and found that it was  
4 a, I don't know what to call it, a -- just a business address,  
5 and there were several businesses in it and he contacted the  
6 maintenance man and had him go around trying to find where  
7 John William Wood was. He didn't find him there.

8 And he talked to Mr. Butterfield, who  
9 assigned to John William Wood, and well, Mr. Butterfield's  
10 wife, who did not know John William Wood, and I checked for  
11 death certificates around and had no response.

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13 McCaw contacted all of the Woods in the Chicago telephone  
14 book.

15 A Uh-huh.

16 Q And had no success locating this person.

17 A Yep.

18 Q Did you subsequently write a letter to  
19 his last known address?

20 A Yes, and we received it back.

21 Q And that's the letter which is -- forms  
22 a part of your Exhibit Number Three?

23 A Uh-huh, yes.

24 Q You received that letter back "person  
25 unknown"?

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2

A. Yes.

3

Q. Okay. Ms. Moreau, turn to Exhibit Number

4

Four and describe what it is.

5

A. This is the operating agreement we pro-

6

pose to send out to the parties.

7

Q. Refer the Examiner to the Exhibit A to

8

this agreement and describe where the interest of the party

9

sought to be force pooled is shown on this exhibit.

10

A. Okay, it's under paragraph 2-1 at the

11

bottom, unleased interest. He has five acres, five acres

12

under the 160 that the well is going to be drilled on.

13

Q. So that's just 1/16th interest in 80

14

acres which are under the well.

15

A. Yes.

16

Q. Okay. Ms. Moreau, does this operating

17

agreement provide for supervision which Yates seeks to have

18

imposed upon the interests subjected to compulsory pooling?

19

A. Yes, it does.

20

Q. Where is that shown?

21

A. On page three of Exhibit C of the oper-

22

ating agreement.

23

Q. You're referring to the COPAS accounting

24

procedure form attached?

25

A. Yes.

1

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Q

What supervision rates does Yates request be imposed on this interest?

A

The drilling well rate is \$2300 and the producing well rate is \$230.

Q

In your experience are those the customary charges in this area for wells --

A

Yes, they are.

Q

-- of this nature?

A

To this depth.

Q

Okay. Have all the other parties to this proposed operating agreement agreed to join it on these terms?

A

Yes.

Q

Okay. Is there a provision in this operating agreement for a penalty for nonconsenting parties?

A

Yes, 300 percent.

Q

Which would actually be return of the money invested plus 200 percent?

A

Yes.

Q

Ms. Moreau, turn to Exhibit Number Five and describe what it is.

A

This is the Authority for Expenditure that we will send out with the operating agreement, which shows the dry hole cost and completed well cost.

1  
2 Q And this exhibits shows the estimated  
3 cost for drilling, completing this proposed well. Will Yates  
4 keep up with the actual cost incurred in connection with --

5 A Yes, they will.

6 Q -- the drilling of this well?

7 If the Division grants this application,  
8 Ms. Moreau, the Yates Petroleum Corporation intends to treat  
9 the interest that is force pooled with 1/8th of it allocated  
10 to royalty and the remaining 7/8ths to working interest and  
11 to escrow the royalty account in Chaves County, New Mexico, is  
12 that correct?

13 A Yes, that is.

14 Q Okay.

15 MR. DICKERSON: Mr. Examiner, I would  
16 move the admission of Exhibits One through Five at this time  
17 and I have no further questions of this witness.

18 MR. STAMETS: These exhibits will be ad-  
19 mitted.

20 Are there any questions of the witness?  
21 She may be excused.

22 MR. DICKERSON: Call Mr. Jim Mason now.  
23  
24  
25

JIM T. MASON

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

DIRECT EXAMINATION

BY MR. DICKERSON:

Q Will you state your name and occupation,  
please?

A James T. Mason, Junior. I'm a geologist-  
geophysicist for Yates Petroleum Corporation in Artesia, New  
Mexico.

Q Mr. Mason, have you previously testified  
before this Division and had your credentials made a matter of  
record?

A Yes, sir, I have.

MR. DICKERSON: Mr. Examiner, I tender  
Mr. Mason as an expert geologist.

MR. STAMETS: He is considered qualified.

Q Mr. Mason, have you made a study to  
ascertain the facts upon which you will express an opinion re-  
garding the proposed risk penalty to be imposed upon this force  
pooled interest?

A Yes, I have.

Q Would you refer the Examiner to what is marked Exhibit Number Six and describe what it shows?

A Okay. Exhibit Number Six is a structure map on top of the Abo and it's contoured on 50 foot contour interval, and it shows the location of numerous wells in the area surrounding our proposed location in the northeast of Section 26.

Q What pertinent information is reflected by this information that bears on the risk involved in drilling this well?

A Okay. It reflects the structural position and similarity between the proposed location and -- and the Fred Poole Well which is the only well for which we have production data available, and it's located in the southeast corner of Section 24.

Q Mr. Mason, refer to Exhibit Number Seven and describe what it is.

A Exhibit Number Seven is a cross section which is shown on Exhibit Six as A-A'. This cross section involves the porosity logs available on several of these wells.

The lower part of the cross section is also a structure section and shows the total Abo Sand.

From this cross section it's obvious that it's difficult to correlate individual sands and to pre-



dict the actual occurrence of individual sand. From our work, I believe that this location will encounter approximately 40 feet of Abo Sand.

I also call your attention to the production figures at the bottom of this -- this line of section and call particular attention to the Fred Poole Well, which is the second from the right. It had a calculated absolute open flow of 3.2 million and its cumulative flow for two months was 8.8 million for a daily average of 148 Mcf.

And our reservoir engineering department has studied numerous wells in the region and believes the reserves for an average ABo well to be somewhat less than 300 million. So there is an economic risk that these wells may not pay out.

Q Mr. Mason, based on your review of your Exhibits Six and Seven have you formed an opinion as to the risk that you recommend the Commission impose upon this interest to be pooled?

A Yes, sir, I have.

Q In your opinion what would be a reasonable penalty for the risk involved in drilling this well?

A 200 percent after payout would, I think, be reasonable considering drilling hazards and economic risk involved in this venture.

1  
2 Q In your opinion, Mr. Mason, would the  
3 granting of this application be in the interest of conservation  
4 the prevention of waste, and the protection of correlative  
5 rights?

6 A Yes, sir, I think it would.

7 MR. DICKERSON: Mr. Examiner, I move the  
8 admission of Exhibits Six and Seven, and we have no further  
9 questions.

10 MR. STAMETS: These exhibits will be  
11 admitted.

12 Are there any questions of the witness?  
13 He may be excused.

14 Anything further in this case?

15 The case will be taken under advisement.

16  
17 (Hearing concluded.)  
18  
19  
20  
21  
22  
23  
24  
25



## 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) 433-7409

EXHIBIT NO. 1  
CASE NO. 7290  
EXAMINER HEARING  
JULY 2, 1981

The person to be pooled under

T5S-R24E

Sec. 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$

Sec. 26: N $\frac{1}{2}$ NE $\frac{1}{4}$

is JOHN WILLIAM WOOD  
207 South LaSalle Street  
Chicago 4, Illinois

EXHIBIT NO. 2  
CASE NO. 7290  
EXAMINER HEARING  
July 2, 1981

February 2, 1981

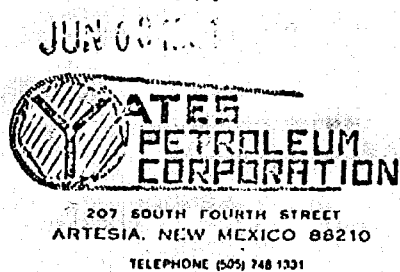
TO:

FROM: BILL McCRAW

RE. INFORMATION ON JOHN WILLIAM WOOD  
(T-5-S, R-24-E, Section 23: SE/4, S/2 NE/4  
Section 26: N/2 NE/4)

1. Deed dated 11/15/50, Book 146, page 469, from A. E. Butterfield and Gladys L. Butterfield, his wife, to John William Wood of 209 S. LaSalle Street, Chicago 4, of Cook County, State of Illinois, conveying a 1/16th interest.
2. As of 11/3/80, there is no Death Certificate in State of Illinois.
3. A. E. Butterfield is deceased. I acquired an Oil & Gas Lease from Gladys L. Butterfield, a widow, of Tuscon, Arizona, for her 1/16th interest.
4. Gladys L. Butterfield did not know John William Wood.
5. I have contacted, through telephone information, all of the Wood's in the Chicago area and have not found any that were related to or that know John William Wood. I contacted numerous law firms that are in the building that John William Wood was in at 209 S. LaSalle Street, and they had not ever heard of John William Wood. It is a large building. I also contacted the Managers of the building and they did not remember a John William Wood and do not keep records of their past tenants due to the size of the building.
6. Mr. Butterfield was an attorney. I felt that John William Wood could possibly be an attorney and there were numerous attorney's located in that building. I wrote the Attorney Registration Commission of Illinois. As of July 21, 1980, the records indicated that John William Wood is not admitted to practice in the State of Illinois.
7. Mr. Butterfield's brother lives in Mt. Pleasant, Michigan. He did not know John William Wood or any of Mr. Butterfield's business associates. Mr. Butterfield lived in Olney, Illinois at one time. I contacted Greag Benford, an abstractor in Mt. Pleasant, Michigan. He did remember Mr. Butterfield. He checked the records in that county to see if Butterfield or Wood had given any deeds or leases in that county and found nothing.
8. I also talked to an attorney in Mt. Pleasant, Michigan that knew Mr. Butterfield; however, he knew no other business associates.
9. Ralph Geror, in Tuscon, Arizona, was once Mr. Butterfield's client, and he did not know any of Mr. Butterfield's associates.

EXHIBIT NO. 3  
CASE NO. 7290  
EXAMINER HEARING  
JULY 2, 1981



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

June 2, 1981

CERTIFIED MAIL  
RETURN RECEIPT  
REQUESTED

Mr. John William Wood  
209 South La Salle Street  
Chicago 4, Illinois 60604

Re: Township 5 South, Range 24 East, NMPM  
Section 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$   
Section 26: N $\frac{1}{2}$ NE $\frac{1}{4}$   
Chaves County, New Mexico

Dear Mr. Wood:

I am writing in regard to your mineral interest under the captioned acreage. Our records show that you own a 1/16 interest in this area.

We would be interested in leasing this acreage from you.

Please call or write me at the above address so we may discuss terms.

Thank you.

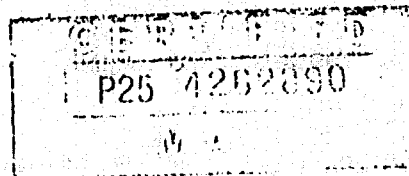
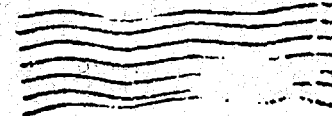
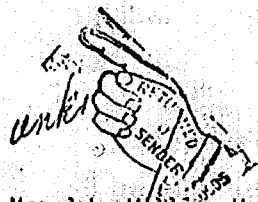
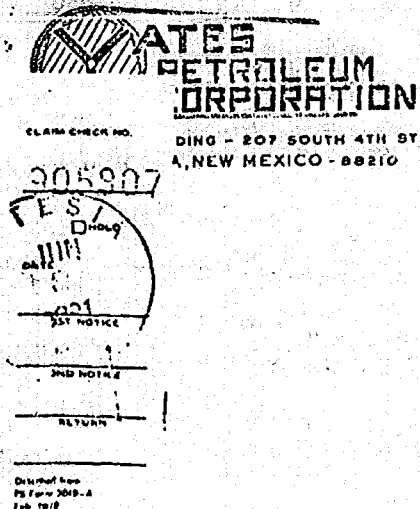
Very truly yours,

Randy G. Patterson  
Land Department

*Janet Moreau*

By: Janet Moreau

JM/gat





DATE: July 1, 1981

FROM: Janet Moreau

In addition to the search instigated by William J. McCaw I also found:

1. Information Center of Chicago Library could not find any current or outdated address for Mr. Wood. The last city directory made for Chicago was in 1929.
2. No death certificates from States of Indiana, California, Florida or Arizona (Sent to last three in hopes that he retired there).



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

# MODEL FORM OPERATING AGREEMENT

CURTIS "QR" COM. #1

## OPERATING AGREEMENT

DATED

July 1, 1981

OPERATOR YATES PETROLEUM CORPORATION, ET AL

CONTRACT AREA Township 5 South, Range 24 East, N.M.P.M.

Section 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$

Section 26: NE $\frac{1}{4}$

COUNTY OR PARISH OF Chaves 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  
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EXHIBIT NO. 4  
CASE NO. 7290  
EXAMINER HEARING  
JULY 2, 1981

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a  
New Mexico corporation, 207 S. 4th Street, Artesia, NM, 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 in-  
 terests 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 cov-  
 ering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

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

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

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

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

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

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

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

ARTICLE II.  
EXHIBITS

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

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

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

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

If any provision of any exhibit, except Exhibit "F", 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 Interest~~, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

**ARTICLE IV.  
TITLES**

**A. Title Examination:**

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

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

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

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

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

**B. Loss of Title:**

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

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



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

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

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

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

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

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

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

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

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

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

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

## 56 57 ARTICLE V. 58 OPERATOR

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

61 YATES PETROLEUM CORPORATION, 207 South 4th Street, Artesia, NM 88210 shall be the  
62 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
63 the Contract Area as permitted and required by and within the limits of, this agreement. It shall con-  
64 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
65 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
66 negligence or willful misconduct.

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 October, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

Township 5 South, Range 24 East, N.M.P.M.  
Section 26: NE $\frac{1}{4}$

and shall thereafter continue the drilling of the well with due diligence to adequately test the Abo formation.

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

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

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



## 1 B. Subsequent Operations:

2  
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area  
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled  
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing  
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-  
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-  
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the  
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.  
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given  
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,  
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed  
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any  
15 notice or response given by telephone shall be promptly confirmed in writing.

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

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

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

59  
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface  
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,  
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the  
63 cost of operation of the well commencing with first production and continuing until each such Non-  
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being  
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which  
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-  
67 ginning of the operation; and

68  
69 (b) 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging  
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

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

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

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

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

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

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

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

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

63  
64 C. Right to Take Production in Kind:

65  
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of  
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-  
68 velopment and producing operations and in preparing and treating oil for marketing purposes and  
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-  
70 sition by any party of its proportionate share of the production shall be borne by such party. Any

1 party taking its share of production in kind shall be required to pay for only its proportionate share  
2 of such part of Operator's surface facilities which it uses.

3  
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its  
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled  
6 to receive payment direct from the purchaser thereof for its share of all production.

7  
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale.

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

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

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

#### 40 E. Abandonment of Wells:

41  
42  
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53  
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvageable  
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
67 formation or formations then open to production. If the interest of the abandoning party is or includes  
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an  
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-



vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "D". 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, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

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

### C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper 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.

## 1 D. Limitation of Expenditures:

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

6  
7 ~~Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing, and~~  
8 ~~equipping of the well, including necessary tankage and/or surface facilities.~~

9  
10 ☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When  
11 such well has reached its authorized depth, and all tests have been completed, Operator shall give im-  
12 mediate notice to the Non-Operators who have the right to participate in the completion costs. The parties  
13 receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holi-  
14 days) in which to elect to participate in the setting of casing and the completion attempt. Such election,  
15 when made, shall include consent to all necessary expenditures for the completing and equipping of such  
16 well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice  
17 to reply within the period above fixed shall constitute an election by that party not to participate in  
18 the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and  
19 to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or  
20 plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to  
21 the operations thereafter conducted by less than all parties.

22  
23 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged  
24 back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agree-  
25 ment, it being understood that the consent to the reworking or plugging back of a well shall include  
26 consent to all necessary expenditures in conducting such operations and completing and equipping of  
27 said well, including necessary tankage and/or surface facilities.

28  
29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require  
30 an expenditure in excess of TWENTY FIVE THOUSAND----- Dollars (\$ 25,000.00 )  
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-  
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-  
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different  
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with  
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-  
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,  
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project  
38 costing in excess of FIFTEEN THOUSAND----- Dollars (\$ 15,000.00 ).

## 40 E. Royalties, Overriding Royalties and Other Payments:

41  
42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of  
43 1/8 of 8/8ths due on its share of production and shall hold the other parties free  
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-  
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above  
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account  
47 for or cause to be accounted for, such interest to the owners thereof.

48  
49 No party shall ever be responsible, on any price basis higher than the price received by such party,  
50 to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should  
51 demand and receive settlements on a higher price basis, the party contributing such lease shall bear the  
52 royalty burden insofar as such higher price is concerned.

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

55  
56 Rentals, shut-in well payments and minimum royalties which may be required under the terms of  
57 any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their  
58 expense. In the event two or more parties own and have contributed interests in the same lease to this  
59 agreement, such parties may designate one of such parties to make said payments for and on behalf of all  
60 such parties. Any party may request, and shall be entitled to receive, proper evidence of all such pay-  
61 ments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum  
62 royalty through mistake or oversight where such payment is required to continue the lease in force,  
63 any loss which results from such non-payment shall be borne in accordance with the provisions of Article  
64 IV.B.2.

65  
66 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shut-  
67 ting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sun-  
68 day and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action,  
69 but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-  
70 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



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

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

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

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

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

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

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

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

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

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

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

55 **D. Subsequently Created Interest:**

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

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

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 VII.E. hereof, or (3) elects to surrender a lease under provisions of Article VII.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 proportion 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

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

#### 10 ARTICLE X. 11 CLAIMS AND LAWSUITS

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

#### 24 ARTICLE XI. 25 FORCE MAJEURE

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

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

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

#### 45 ARTICLE XII. 46 NOTICES

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

#### 59 ARTICLE XIII. 60 TERM OF AGREEMENT

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

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



1 ☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled  
 2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this  
 3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-  
 4 tion, and for an additional period of 180 days from cessation of all production; provided, however,  
 5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in  
 6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-  
 7 erations have been completed and if production results therefrom, this agreement shall continue in  
 8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well  
 9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil  
 10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-  
 11 tions are commenced within 120 days from the date of abandonment of said well.

12  
 13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from  
 14 any liability which has accrued or attached prior to the date of such termination.

#### 15 16 ARTICLE XIV. 17 COMPLIANCE WITH LAWS AND REGULATIONS

##### 18 19 A. Laws, Regulations and Orders:

20  
 21 This agreement shall be subject to the conservation laws of the state in which the committed  
 22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of  
 23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and  
 24 orders.

##### 25 26 B. Governing Law:

27  
 28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-  
 29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-  
 30 terpretation or construction, shall be governed and determined by the law of the state in which the  
 31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most  
 32 of the land in the Contract Area is located shall govern.

#### 33 34 ARTICLE XV. 35 OTHER PROVISIONS

36A. Substitute Well: If, in the drilling of the Initial Well, Operator loses the hole or  
 37 encounters mechanical difficulties rendering it impracticable, in the opinion of Operator  
 38 to drill the well to the Objective depth, then and in any of such events, on or before  
 39 30 days after completion of the Initial Well, Operator shall have the option to commence  
 40 the actual drilling of another well ("Substitute Well") at a lawful location of Operator's  
 41 selection on the Unit Area, and prosecute the drilling of said well with due diligence  
 42 and in a good and workmanlike manner to the Objective Depth. For all purposes of this  
 43 agreement, the drilling of the Substitute Well shall be considered as the drilling of  
 44 the Initial Well.

45  
 46 B. Option Well: Within 90 days after the completion of the Initial Well and, if drilled  
 47 the Substitute Well, as a dry hole, Operator shall have the option of commencing an "Option  
 48 Well" at a lawful location of Operator's selection in the Unit Area. The Option Well shall  
 49 be drilled to the Objective Depth in the same manner as provided for in the Initial Well.

50  
 51 C. Any provision herein concerning the Initial Well shall also apply to the Substitute  
 52 and Option Wells, and any provision herein excepting the Initial Well shall also except the  
 53 Substitute and Option Wells.

54  
 55 D. Notwithstanding any other provisions herein, if during the term of this agreement,  
 56 well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recom-  
 57 pleted, or any other operation that may be required in order to (1) continue a lease or  
 58 leases in force and effect, or (2) maintain a unitized area or any portion thereof in force  
 59 and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals  
 60 which may be owned by a third party or which, failing in such operation, may revert to  
 61 third party, or, (4) comply with an order issued by a regulatory body having jurisdiction  
 62 in the premises, failing in which certain rights would terminate, the following shall ap-  
 63 ply. Should less than all of the parties hereto elect to participate and pay their pro-  
 64 portionate part of the costs to be incurred in such operation, those parties desiring  
 65 to participate shall have the right to do so at their sole cost, risk, and expense. Prompt  
 66 following the conclusion of such operation, each of those parties not participating agree-  
 67 to execute and deliver an appropriate assignment to the total interest of each non-parti-  
 68 cipating party in and to the lease, leases, or rights which would have terminated  
 69 which otherwise may have been preserved by virtue of such operation and in the drill-  
 70 ing unit upon which the well was drilled excepting, however, wells theretofore completed and  
 71 capable of producing in paying quantities. Such assignment shall be delivered to the  
 participating parties in the proportion that they bore the expense attributable to the  
 non-participating parties interest.

ARTICLE XVI  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, 1981.

OPERATOR

YATES PETROLEUM CORPORATION

By: \_\_\_\_\_  
Attorney-in-Fact

NON-OPERATORS

ATTEST:

DEPCO, INC.

By: \_\_\_\_\_  
President

Secretary

STATE OF NEW MEXICO )

: ss

COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1981, by \_\_\_\_\_, Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

Notary Public

STATE OF TEXAS )

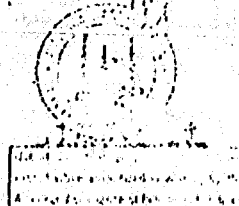
: ss

COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1981, by \_\_\_\_\_, President of DEPCO, INC. a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

Notary Public



**EXHIBIT "A"**

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

**I. 1. Lands Subject to Agreement:**

Township 5 South, Range 24 East, N.M.P.M.  
Section 23: S/2NE/4, SE/4  
Section 26: NE/4  
Containing 400.00 acres, more or less.  
Chaves County, New Mexico

**2. Depth Restriction:**

100' below stratigraphic equivalent of total depth drilled

**3. Drilling Unit for the First Well:**

Proration Unit established by the New Mexico OCD.

**II. 1. Percentage Interests of Parties Under the NE/4 of Section 26,  
Township 5 South, Range 24 East, N.M.P.M.**

<u>NAME</u>	<u>ACRES</u>	<u>INITIAL TEST WELL BEFORE PAYOUT</u>	<u>INITIAL TEST WELL AFTER PAYOUT</u>
DEPCO, INC.	60.000000	37.500000	37.500000
YATES PETROLEUM CORPORATION	20.000000	19.375000	15.937500
YATES DRILLING COMPANY	20.000000	12.500000	12.500000
MYCO INDUSTRIES, INC.	20.000000	12.500000	12.500000
ABO PETROLEUM CORPORATION	20.000000	12.500000	12.500000
YATES EMPLOYEES 80' LTD.	-0-	2.500000	1.250000
RALPH NIX	8.333334	F/O	2.604167
JERRY CURTIS	3.333333	F/O	1.041667
ELIZABETH HANNIFIN	3.333333	F/O	1.041666
UNLEASED	5.000000	3.125000	3.125000
	<u>160.000000</u>	<u>100.000000</u>	<u>100.000000</u>

**2. Percentage Interests of Parties Under the S/2NE/4, SE/4 of Section 23,  
Township 5 South, Range 24 East, N.M.P.M.**

<u>NAME</u>	<u>ACRES</u>	<u>BEFORE PAYOUT</u>	<u>AFTER PAYOUT</u>
DEPCO, INC.	180.000000	75.000000	75.000000
YATES PETROLEUM CORPORATION	-0-	13.750000	6.875000
YATES EMPLOYEES 80' LTD.	-0-	5.000000	2.500000
RALPH NIX	25.000000	F/O	5.208334
JERRY CURTIS	10.000000	F/O	2.083333
ELIZABETH HANNIFIN	10.000000	F/O	2.083333
UNLEASED	15.000000	6.250000	6.250000
	<u>240.000000</u>	<u>100.000000</u>	<u>100.000000</u>

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

**1. Lessor**

United States

**Present Lessee:**

Yates Petroleum Corporation - 25%  
Yates Drilling Company - 25  
Myco Industries, Inc. - 25  
Abo Petroleum Corporation - 25

**Serial No. of Lease:**

NM-28297

**Expiration Date:**

September 1, 1986

**Description:**

Township 5 South, Range 24 East, NMPM  
Section 26: S/2NE/4  
Containing 80.00 acres, more or less



2. Lessor: J. R. Miller  
Present Lessee: Depco, Inc.  
Serial No. of Lease: Fee  
Expiration Date: August 3, 1989  
Description: Township 5 South, Range 24 East, NMPM  
Section 26: N/2NE/4  
Section 23: S/2NE/4, SE/4  
Containing 320.00 acres, more or less
3. Lessor: Gladys Butterfield  
Present Lessee: Ralph Nix, et al  
Serial No. of Lease: Fee  
Expiration Date: June 13, 1983  
Description: Township 5 South, Range 24 East, NMPM  
Section 23: S/2NE/4, SE/4  
Section 26: N/2NE/4  
Containing 320.00 acres, more or less

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

Yates Petroleum Corporation  
Yates Drilling Company  
Myco Industries, Inc.  
Abo Petroleum Corporation  
Yates Employees 80' Ltd.  
207 South 4th Street  
Artesia, New Mexico 88210  
Attention: Janet Moreau

Depco, Inc.  
620 Permian Building  
Midland, Texas 79701  
Attention: Mr. John Hubbard  
  
Ralph Nix, et al  
P. O. Box 617  
Artesia, New Mexico 88210

## EXHIBIT " C "

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

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

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

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

### 4. Adjustments

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

### 5. Audits

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

### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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



**10. Taxes**

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

**11. Insurance**

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

**12. Other Expenditures**

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

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

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

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

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

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

**A. Overhead - Fixed Rate Basis**

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

Drilling Well Rate \$ 2,300.00  
Producing Well Rate \$ 230.00

- (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 \$ 25,000.00 :

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

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

## 3. Amendment of Rates

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

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

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

### 1. Purchases

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

### 2. Transfers and Dispositions

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

#### A. New Material (Condition A)

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

#### (2) Line Pipe

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

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

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

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

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

#### (1) Material moved to the Joint Property

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

#### (2) Material moved from the Joint Property

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



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

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

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

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

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

**3. Premium Prices**

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

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

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

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

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

ADDITIONAL INSURANCE PROVISIONS

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

- (A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.
- (B) Public Liability Insurance:  
Bodily Injury - \$500,000.00 each occurrence.
- (C) Automobile Public Liability Insurance:  
Bodily Injury - \$250,000.00 each person.  
\$500,000.00 each occurrence.  
  
Property Damage - \$100,000.00 each occurrence.

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

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit 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, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of 300% of its current share of the volumes capable of being delivered or its current share of allowable gas production if regulated thereto by State regulatory body having jurisdiction, unless that party has gas in place. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

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

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

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

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

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

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas sold in intrastate commerce, the price basis shall be the price received for sale of the gas. For gas sold in interstate commerce, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Power Commission pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Notwithstanding the provisions of the last preceding paragraph, it is expressly agreed that any underproduced party hereunder shall have the optional right, with respect to each proration unit separately, to receive a cash settlement bringing such underproduced party's gas account into balance at any time prior to the permanent discontinuance of gas production, by first giving each overproduced party ninety (90) days written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the 1st day of the calendar month following the date of such written demands) within ninety (90) days following the actual receipt of such written demands by the overproduced parties, in the same manner provided in the last preceding paragraph hereof. The optional right provided for in this paragraph can only be exercised one (1) time by any particular underproduced party on the same proration unit; and each underproduced party agrees that it will not exercise such option unless it is of the opinion that the remaining underproduced recoverable gas reserves are inadequate for its gas account to be brought into balance by actual production prior to permanent discontinuance of gas production from such proration unit.

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

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



ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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



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

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

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

#### CERTIFICATION OF NON-SEGREGATED FACILITIES

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

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

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

Exhibit "F"  
Page 2



207 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748 1331

AUTHORITY FOR EXPENDITURE

A/E # 81-113-0  
REVISION #  
DATE May 14, 1981

LEASE NAME Curtis "QR" Com #1  
COUNTY Chaves STATE New Mexico  
HORIZON Albo EST. T.D. 4500'  
EST. COMPLETION DATE \_\_\_\_\_

LOCATION 660/N 660/E, Sec. 26-5S-24E  
FIELD \_\_\_\_\_  
EST. SPUD DATE \_\_\_\_\_  
DRILLING CONTRACTOR \_\_\_\_\_

PRIMARY OBJECTIVE: ☐ OIL ☒ GAS ☐ OIL AND/OR GAS  
PURPOSE : ☒ DRILLING-NEW ☐ RECOMPLETION ☐ OTHER (SUPPLEMENT A/E, ETC)  
TYPE WELL : ☐ DEVELOPMENT ☒ EXPLORATORY

INTANGIBLE COSTS:

9210	STAKING PERMIT & LEGAL FEES
9211	LOCATION, RIGHT-OF-WAY
9212	DRILLING, FOOTAGE <u>4500</u> @ <u>\$19/ft</u>
9213	DRILLING, DAYWORK <u>4</u> DAYS @ <u>\$4100</u> /DAY
9212/9213	MOVING IN, RIGGING UP, RIGGING DOWN
9224	BITS, TOOLS & SUPPLIES
9214	DRILLING WATER
9215	DRILLING MUD & ADDITIVES
9216	MUD LOGGING UNIT
9217	CEMENT, TOOLS & SERVICES, TEMP. SURVEYS
9218	DRILL STEM TESTING
9219	ELECTRIC LOGS
9220	TOOL & EQUIP. RENTAL, TRUCKING, WELDING
9221	SUPERVISION & OVERHEAD
9223	CORING, TOOLS & SERVICES
9241	COMPLETION UNIT <u>10</u> DAYS @ <u>\$1130</u> /DAY
9247	STIMULATION
9222	CONTINGENCY

	<u>DRY HOLE</u>	<u>COMPLETION</u>
\$	<u>200</u>	<u>\$ 200</u>
	<u>8800</u>	<u>9300</u>
	<u>85500</u>	<u>85500</u>
	<u>16400</u>	<u>16400</u>
	<u>500</u>	<u>800</u>
	<u>17700</u>	<u>19200</u>
	<u>28500</u>	<u>28500</u>
	<u>12000</u>	<u>18000</u>
	<u>16000</u>	<u>23000</u>
	<u>2500</u>	<u>3800</u>
	<u>3200</u>	<u>4000</u>
	<u>11300</u>	<u>27000</u>
	<u>18700</u>	<u>25000</u>
	<u>210000</u>	<u>272000</u>

TOTAL INTANGIBLES

WELL EQUIPMENT COSTS:

9301	CHRISTMAS TREE AND WELL HEAD
9302	CASING: <u>13-3/8" 48# H-40 @400'</u>
9302	<u>8-5/8" 24# K-55 @1500'</u>
9302	<u>4-1/2" 9.5# K-55 @4500'</u>
9303	TUBING: <u>2-3/8" 4.7# J-55 @4300'</u>
9304	PACKER & SPECIAL EQUIPMENT
9350	CONTINGENCY

	<u>DRY HOLE</u>	<u>COMPLETION</u>
	<u>1200</u>	<u>7300</u>
	<u>9500</u>	<u>9500</u>
	<u>19500</u>	<u>19500</u>
	<u>25100</u>	<u>15900</u>
	<u>4000</u>	<u>4700</u>
	<u>1800</u>	<u>86000</u>
	<u>32000</u>	

TOTAL WELL EQUIPMENT

LEASE & BATTERY EQUIPMENT COSTS:

9401	PUMPING EQUIPMENT
9402	STORAGE <u>1-210 bbl. welded w/stair, walk, fbrgls tnk.</u>
9403	SEPARATION EQ., FLOWLINES, VALVES & FITTINGS
9404	TRUCKING & CONSTRUCTION COSTS

TOTAL LEASE & BATTERY EQUIP.

	<u>DRY HOLE</u>	<u>COMPLETION</u>
	<u>7900</u>	<u>19800</u>
	<u>4300</u>	<u>32000</u>

TOTALS

\$242000 \$ 390000

APPROVAL OF THIS A/E CONSTITUTES APPROVAL OF THE OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE, UNLESS THE NON-OPERATOR GIVES NOTIFICATION ON THIS FORM OF HIS INTENT TO FURNISH HIS PROPORTIONATE SHARE IN KIND.

YATES PETROLEUM CORPORATION

BY Al Springer

DATE 5/14/81

SHARE -





The person to be pooled under

T5S-R24E

Sec. 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$

Sec. 26: N $\frac{1}{2}$ NE $\frac{1}{4}$

is JOHN WILLIAM WOOD  
207 South LaSalle Street  
Chicago 4, Illinois

1/16 interest

EXHIBIT NO. 2  
CASE NO. 7290  
EXAMINER HEARING  
July 2, 1981



February 2, 1981

TO:

FROM: BILL McCaw

RE. INFORMATION ON JOHN WILLIAM WOOD  
(T-5-S, R-24-E, Section 23: SE/4, S/2 NE/4  
Section 26: N/2 NE/4)

1. Deed dated 11/15/50, Book 146, page 469, from A. E. Butterfield and Gladys L. Butterfield, his wife, to John William Wood of 209 S. LaSalle Street, Chicago 4, of Cook County, State of Illinois, conveying a 1/16th interest.
2. As of 11/3/80, there is no Death Certificate in State of Illinois.
3. A. E. Butterfield is deceased. I acquired an Oil & Gas Lease from Gladys L. Butterfield, a widow, of Tuscon, Arizona, for her 1/16th interest.
4. Gladys L. Butterfield did not know John William Wood.
5. I have contacted, through telephone information, all of the Wood's in the Chicago area and have not found any that were related to or that know John William Wood. I contacted numerous law firms that are in the building that John William Wood was in at 209 S. LaSalle Street, and they had not ever heard of John William Wood. It is a large building. I also contacted the Managers of the building and they did not remember a John William Wood and do not keep records of their past tenants due to the size of the building.
6. Mr. Butterfield was an attorney. I felt that John William Wood could possibly be an attorney and there were numerous attorney's located in that building. I wrote the Attorney Registration Commission of Illinois. As of July 21, 1980, the records indicated that John William Wood is not admitted to practice in the State of Illinois.
7. Mr. Butterfield's brother lives in Mt. Pleasant, Michigan. He did not know John William Wood or any of Mr. Butterfield's business associates. Mr. Butterfield lived in Olney, Illinois at one time. I contacted Greag Benford, an abstractor in Mt. Pleasant, Michigan. He did remember Mr. Butterfield. He checked the records in that county to see if Butterfield or Wood had given any deeds or leases in that county and found nothing.
8. I also talked to an attorney in Mt. Pleasant, Michigan that knew Mr. Butterfield; however, he knew no other business associates.
9. Ralph Geror, in Tuscon, Arizona, was once Mr. Butterfield's client, and he did not know any of Mr. Butterfield's associates.

EXHIBIT NO. 3  
CASE NO. 7290  
EXAMINER HEARING  
JULY 2, 1981



207 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 745-1331

G. P. YATES  
PRESIDENT  
MARTIN YATES, III  
VICE PRESIDENT  
JOHN A. YATES  
VICE PRESIDENT  
D. W. HARPER  
SEC. TREAS.

June 2, 1981

CERTIFIED MAIL  
RETURN RECEIPT  
REQUESTED

Mr. John William Wood  
209 South La Salle Street  
Chicago 4, Illinois 60604

Re: Township 5 South, Range 24 East, NMPM  
Section 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$   
Section 26: N $\frac{1}{2}$ NE $\frac{1}{4}$   
Chaves County, New Mexico

Dear Mr. Wood:

I am writing in regard to your mineral interest under the captioned acreage. Our records show that you own a 1/16 interest in this area.

We would be interested in leasing this acreage from you.

Please call or write me at the above address so we may discuss terms.

Thank you.

Very truly yours,

Randy G. Patterson  
Land Department

*Janet Moreau*

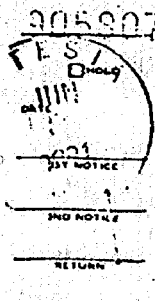
By: Janet Moreau

JM/gat

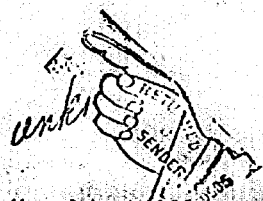


CLAIM CHECK NO.

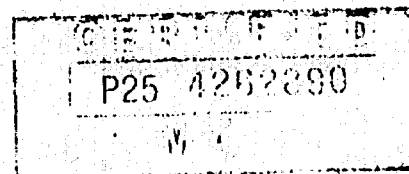
DING - 207 SOUTH 4TH ST.  
ARTESIA, NEW MEXICO - 88210



Described from  
PS Form 3849, 4  
Feb. 1978



Mr. John William Wood  
209 South La Salle Street  
Chicago 4, Illinois 60604



DATE: July 1, 1981

FROM: Janet Moreau

In addition to the search instigated by William J. McCaw I also found:

1. Information Center of Chicago Library could not find any current or outdated address for Mr. Wood. The last city directory made for Chicago was in 1929.
2. No death certificates from States of Indiana, California, Florida or Arizona (Sent to last three in hopes that he retired there).

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

MODEL FORM OPERATING AGREEMENT

CURTIS "QR" COM. #1

OPERATING AGREEMENT

DATED

July 1, 1981

OPERATOR YATES PETROLEUM CORPORATION, ET AL

CONTRACT AREA Township 5 South, Range 24 East, N.M.P.M.

Section 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$

Section 26: NE $\frac{1}{4}$

COUNTY OR PARISH OF Chaves 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 74101

EXHIBIT NO. 4  
CASE NO. 7290  
EXAMINER HEARING  
JULY 2, 1981

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a  
New Mexico corporation, 207 S. 4th Street, Artesia, NM, 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 in-  
 terests 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 cov-  
 ering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

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

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

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

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

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

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

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

ARTICLE II.  
EXHIBITS

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

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

(1) Identification of lands subject to agreement,

(2) Restrictions, if any, as to depths or formations,

(3) Percentages or fractional interests of parties to this agreement,

(4) Oil and gas leases and/or oil and gas interests subject to this agreement,

(5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

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

ARTICLE III.  
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Lessees~~, 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:

YATES PETROLEUM CORPORATION, 207 South 4th Street, Artesia, NM 88210 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.



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

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

17  
18 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Op-  
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning  
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that  
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the  
22 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown  
23 on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the  
24 Operator that was removed.

25  
26 C. Employees:

27  
28 The number of employees used by Operator in conducting operations hereunder, their selection,  
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,  
30 and all such employees shall be the employees of Operator.

31  
32 D. Drilling Contracts:

33  
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual  
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the  
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate  
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-  
38 menced, and such work shall be performed by Operator under the same terms and conditions as are  
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-  
40 ilar nature.

41  
42 ARTICLE VI.  
43 DRILLING AND DEVELOPMENT

44  
45 A. Initial Well:

46  
47 On or before the 1st day of October, 1981, Operator shall commence the drill-  
48 ing of a well for oil and gas at the following location:

49  
50 Township 5 South, Range 24 East, N.M.P.M.  
51 Section 26: NE $\frac{1}{4}$

52  
53 and shall thereafter continue the drilling of the well with due diligence to adequately test the Abo  
54 formation.

55  
56  
57 unless granite or other practically impenetrable substance or condition in the hole, which renders  
58 further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or  
59 abandon the well at a lesser depth.

60  
61 Operator shall make reasonable tests of all formations encountered during drilling which give in-  
62 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited  
63 in its application to a specific formation or formations, in which event Operator shall be required to  
64 test only the formation or formations to which this agreement may apply.

65  
66  
67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes  
68 to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall  
69 plug and abandon same as provided in Article VI.E.1. hereof.

1 B. Subsequent Operations:

2  
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area  
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled  
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing  
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-  
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-  
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the  
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.  
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given  
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,  
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed  
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any  
15 notice or response given by telephone shall be promptly confirmed in writing.

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

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

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

59  
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface  
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,  
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the  
63 cost of operation of the well commencing with first production and continuing until each such Non-  
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being  
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which  
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-  
67 ginning of the operation; and

68  
69 (b) 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging  
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and



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

1 party taking its share of production in kind shall be required to pay for only its proportionate share  
2 of such part of Operator's surface facilities which it uses.

3  
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its  
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled  
6 to receive payment direct from the purchaser thereof for its share of all production.

7  
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale.

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

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

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

#### 40 E. Abandonment of Wells:

41  
42  
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53  
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvageable  
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
67 formation or formations then open to production. If the interest of the abandoning party is or includes  
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an  
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

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, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

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

### C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper 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.



## 1 D. Limitation of Expenditures:

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

6  
7 ~~Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and~~  
8 ~~equipping of the well, including necessary tankage and/or surface facilities.~~

9  
10 ☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When  
11 such well has reached its authorized depth, and all tests have been completed, Operator shall give im-  
12 mediate notice to the Non-Operators who have the right to participate in the completion costs. The parties  
13 receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holi-  
14 days) in which to elect to participate in the setting of casing and the completion attempt. Such election,  
15 when made, shall include consent to all necessary expenditures for the completing and equipping of such  
16 well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice  
17 to reply within the period above fixed shall constitute an election by that party not to participate in  
18 the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and  
19 to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or  
20 plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to  
21 the operations thereafter conducted by less than all parties.

22  
23 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged  
24 back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agree-  
25 ment, it being understood that the consent to the reworking or plugging back of a well shall include  
26 consent to all necessary expenditures in conducting such operations and completing and equipping of  
27 said well, including necessary tankage and/or surface facilities.

28  
29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require  
30 an expenditure in excess of TWENTY FIVE THOUSAND-----Dollars (\$ 25,000.00 )  
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-  
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-  
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different  
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with  
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-  
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,  
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project  
38 costing in excess of FIFTEEN THOUSAND-----Dollars (\$ 15,000.00 ).

## 40 E. Royalties, Overriding Royalties and Other Payments:

41  
42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of  
43 1/8 of 8/8ths due on its share of production and shall hold the other parties free  
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-  
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above  
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account  
47 for or cause to be accounted for, such interest to the owners thereof.

48  
49 No party shall ever be responsible, on any price basis higher than the price received by such party,  
50 to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should  
51 demand and receive settlements on a higher price basis, the party contributing such lease shall bear the  
52 royalty burden insofar as such higher price is concerned.

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

55  
56 Rentals, shut-in well payments and minimum royalties which may be required under the terms of  
57 any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their  
58 expense. In the event two or more parties own and have contributed interests in the same lease to this  
59 agreement, such parties may designate one of such parties to make said payments for and on behalf of all  
60 such parties. Any party may request, and shall be entitled to receive, proper evidence of all such pay-  
61 ments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum  
62 royalty through mistake or oversight where such payment is required to continue the lease in force,  
63 any loss which results from such non-payment shall be borne in accordance with the provisions of Article  
64 IV.B.2.

65  
66 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shut-  
67 ting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sun-  
68 day and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action,  
69 but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-  
70 Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

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

3  
4 **G. Taxes:**

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

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

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

29  
30 **H. Insurance:**

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

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

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

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

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

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

#### 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, Substitute, or Option 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 VII.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 J, 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 FIFTEEN THOUSAND Dollars (\$ 15,000.00 ) 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 notice 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.~~



1 ☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled  
 2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this  
 3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-  
 4 tion, and for an additional period of 180 days from cessation of all production; provided, however,  
 5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in  
 6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-  
 7 erations have been completed and if production results therefrom, this agreement shall continue in  
 8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well  
 9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil  
 10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-  
 11 tions are commenced within 120 days from the date of abandonment of said well.

12  
 13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from  
 14 any liability which has accrued or attached prior to the date of such termination.

15  
 16 **ARTICLE XIV.**  
 17 **COMPLIANCE WITH LAWS AND REGULATIONS**  
 18

19 **A. Laws, Regulations and Orders:**

20  
 21 This agreement shall be subject to the conservation laws of the state in which the committed  
 22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of  
 23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and  
 24 orders.

25  
 26 **B. Governing Law:**

27  
 28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-  
 29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-  
 30 terpretation or construction, shall be governed and determined by the law of the state in which the  
 31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most  
 32 of the land in the Contract Area is located shall govern.

33  
 34 **ARTICLE XV.**  
 35 **OTHER PROVISIONS**

36A. Substitute Well: If, in the drilling of the Initial Well, Operator loses the hole or  
 37 encounters mechanical difficulties rendering it impracticable, in the opinion of Operator  
 38 to drill the well to the Objective depth, then and in any of such events, on or before  
 39 30 days after completion of the Initial Well, Operator shall have the option to commence  
 40 the actual drilling of another well ("Substitute Well") at a lawful location of Operator's  
 41 selection on the Unit Area, and prosecute the drilling of said well with due diligence  
 42 and in a good and workmanlike manner to the Objective Depth. For all purposes of this  
 43 agreement, the drilling of the Substitute Well shall be considered as the drilling of  
 44 the Initial Well.

45  
 46 B. Option Well: Within 90 days after the completion of the Initial Well and, if drilled  
 47 the Substitute Well, as a dry hole, Operator shall have the option of commencing an "Option  
 48 Well" at a lawful location of Operator's selection in the Unit Area. The Option Well shall  
 49 be drilled to the Objective Depth in the same manner as provided for in the Initial Well.

50  
 51 C. Any provision herein concerning the Initial Well shall also apply to the Substitute  
 52 and Option Wells, and any provision herein excepting the Initial Well shall also except the  
 53 Substitute and Option Wells.

54  
 55 D. Notwithstanding any other provisions herein, if during the term of this agreement,  
 56 well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recom-  
 57 pleted, or any other operation that may be required in order to (1) continue a lease or  
 58 leases in force and effect, or (2) maintain a unitized area or any portion thereof in force  
 59 and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals  
 60 which may be owned by a third party or which, failing in such operation, may revert to  
 61 third party, or, (4) comply with an order issued by a regulatory body having jurisdiction  
 62 in the premises, failing in which certain rights would terminate, the following shall ap-  
 63 ply. Should less than all of the parties hereto elect to participate and pay their pro-  
 64 portionate part of the costs to be incurred in such operation, those parties desiring  
 65 to participate shall have the right to do so at their sole cost, risk, and expense. Prompt  
 66 following the conclusion of such operation, each of those parties not participating agree  
 67 to execute and deliver an appropriate assignment to the total interest of each non-part  
 68 icipating party in and to the lease, leases, or rights which would have terminated,  
 69 which otherwise may have been preserved by virtue of such operation and in the drilling  
 70 unit upon which the well was drilled excepting, however, wells theretofore completed and  
 71 capable of producing in paying quantities. Such assignment shall be delivered to the  
 participating parties in the proportion that they bore the expense attributable to the  
 non-participating parties interest.

ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, 1981.

OPERATOR

YATES PETROLEUM CORPORATION

By: \_\_\_\_\_

Attorney-in-Fact

NON-OPERATORS

ATTEST:

DEPCO, INC.

By: \_\_\_\_\_

Secretary

President

STATE OF NEW MEXICO )  
: ss  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1981, by \_\_\_\_\_, Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

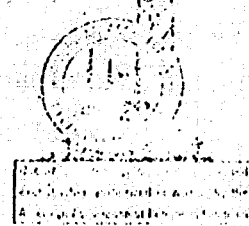
Notary Public

STATE OF TEXAS )  
: ss  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1981, by \_\_\_\_\_, President of DEPCO, INC. a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_

Notary Public





# EXHIBIT "A"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

## I. Lands Subject to Agreement:

Township 5 South, Range 24 East, N.M.P.M.  
Section 23: S/2NE/4, SE/4  
Section 26: NE/4  
Containing 400.00 acres, more or less.  
Chaves County, New Mexico

### 2. Depth Restriction:

100' below stratigraphic equivalent of total depth drilled

### 3. Drilling Unit for the First Well:

Proration Unit established by the New Mexico OCD.

## II. 1. Percentage Interests of Parties Under the NE/4 of Section 26, Township 5 South, Range 24 East, N.M.P.M.

<u>NAME</u>	<u>ACRES</u>	<u>INITIAL TEST WELL BEFORE PAYOUT</u>	<u>INITIAL TEST WELL AFTER PAYOUT</u>
DEPCO, INC.	60.000000	37.500000	37.500000
YATES PETROLEUM CORPORATION	20.000000	19.375000	15.937500
YATES DRILLING COMPANY	20.000000	12.500000	12.500000
MYCO INDUSTRIES, INC.	20.000000	12.500000	12.500000
ABO PETROLEUM CORPORATION	20.000000	12.500000	12.500000
YATES EMPLOYEES 80' LTD.	-0-	2.500000	1.250000
RALPH NIX	8.333334	F/O	2.604167
JERRY CURTIS	3.333333	F/O	1.041667
ELIZABETH HANNIFIN	3.333333	F/O	1.041666
UNLEASED	5.000000	3.125000	3.125000
	160.000000	100.000000	100.000000

## 2. Percentage Interests of Parties Under the S/2NE/4, SE/4 of Section 23, Township 5 South, Range 24 East, N.M.P.M.

<u>NAME</u>	<u>ACRES</u>	<u>BEFORE PAYOUT</u>	<u>AFTER PAYOUT</u>
DEPCO, INC.	180.000000	75.000000	75.000000
YATES PETROLEUM CORPORATION	-0-	13.750000	6.875000
YATES EMPLOYEES 80' LTD.	-0-	5.000000	2.500000
RALPH NIX	25.000000	F/O	5.208334
JERRY CURTIS	10.000000	F/O	2.083333
ELIZABETH HANNIFIN	10.000000	F/O	2.083333
UNLEASED	15.000000	6.250000	6.250000
	240.000000	100.000000	100.000000

## III. Leasehold Interest of Each Party:

### 1. Lessor

United States

#### Present Lessee:

Yates Petroleum Corporation - 25%  
Yates Drilling Company - 25  
Myco Industries, Inc. - 25  
Abo Petroleum Corporation - 25

#### Serial No. of Lease:

NM-28297

#### Expiration Date:

September 1, 1986

#### Description:

Township 5 South, Range 24 East, NMPM  
Section 26: S/2NE/4  
Containing 80.00 acres, more or less

2. Lessor: J. R. Miller  
Present Lessee: Depco, Inc.  
Serial No. of Lease: Fee  
Expiration Date: August 3, 1989  
Description: Township 5 South, Range 24 East, NMPM  
Section 26: N/2NE/4  
Section 23: S/2NE/4, SE/4  
Containing 320.00 acres, more or less
3. Lessor: Gladys Butterfield  
Present Lessee: Ralph Nix, et al  
Serial No. of Lease: Fee  
Expiration Date: June 13, 1983  
Description: Township 5 South, Range 24 East, NMPM  
Section 23: S/2NE/4, SE/4  
Section 26: N/2NE/4  
Containing 320.00 acres, more or less

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

Yates Petroleum Corporation  
Yates Drilling Company  
Myco Industries, Inc.  
Abo Petroleum Corporation  
Yates Employees 801 Ltd.  
207 South 4th Street  
Artesia, New Mexico 88210  
Attention: Janet Moreau

Depco, Inc.  
620 Permian Building  
Midland, Texas 79701  
Attention: Mr. John Hubbard

Ralph Nix, et al  
P. O. Box 617  
Artesia, New Mexico 88210

## EXHIBIT " C "

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

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

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

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

### 4. Adjustments

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

### 5. Audits

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

### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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



**10. Taxes**

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

**11. Insurance**

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

**12. Other Expenditures**

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

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

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

(XX ) Fixed Rate Basis, Paragraph 1A, or

( ) Percentage Basis, Paragraph 1B.

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

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

**A. Overhead - Fixed Rate Basis**

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

Drilling Well Rate \$	2,300.00
Producing Well Rate \$	230.00

- (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 \$ 25,000.00 :

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

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

### 3. Amendment of Rates

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

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

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

#### 1. Purchases

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

#### 2. Transfers and Dispositions

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

##### A. New Material (Condition A)

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

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

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

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

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

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

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

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

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

**3. Premium Prices**

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

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

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

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

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

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

ADDITIONAL INSURANCE PROVISIONS

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

- (A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.
- (B) Public Liability Insurance:  
Bodily Injury - \$500,000.00 each occurrence.
- (C) Automobile Public Liability Insurance:  
Bodily Injury - \$250,000.00 each person.  
\$500,000.00 each occurrence.  
  
Property Damage - \$100,000.00 each occurrence.

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

## EXHIBIT "C"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit 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, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of 300% of its current share of the volumes capable of being delivered or its current share of allowable gas production if regulated thereto by State regulatory body having jurisdiction, unless that party has gas in place. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

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

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



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

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

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

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas sold in intrastate commerce, the price basis shall be the price received for sale of the gas. For gas sold in interstate commerce, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Power Commission pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Notwithstanding the provisions of the last preceding paragraph, it is expressly agreed that any underproduced party hereunder shall have the optional right, with respect to each proration unit separately, to receive a cash settlement bringing such underproduced party's gas account into balance at any time prior to the permanent discontinuance of gas production, by first giving each overproduced party ninety (90) days written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the 1st day of the calendar month following the date of such written demands) within ninety (90) days following the actual receipt of such written demands by the overproduced parties, in the same manner provided in the last preceding paragraph hereof. The optional right provided for in this paragraph can only be exercised one (1) time by any particular underproduced party on the same proration unit; and each underproduced party agrees that it will not exercise such option unless it is of the opinion that the remaining underproduced recoverable gas reserves are inadequate for its gas account to be brought into balance by actual production prior to permanent discontinuance of gas production from such proration unit.

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

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

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

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

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

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

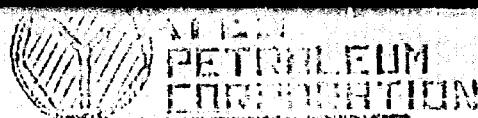
#### CERTIFICATION OF NON-SEGREGATED FACILITIES

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

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

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

Exhibit "F"  
Page 2



207 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748 1331

AUTHORITY FOR EXPENDITURE

A/E # 81-113-0  
REVISION #  
DATE May 14, 1981

LEASE NAME Chaves "QR" Com #1  
COUNTY Chaves STATE New Mexico  
HORIZON Abo EST. T.D. 4500'  
EST. COMPLETION DATE \_\_\_\_\_

LOCATION 660/N 660/E, Sec. 26-58-24E  
FIELD \_\_\_\_\_  
EST. SPUD DATE \_\_\_\_\_  
DRILLING CONTRACTOR \_\_\_\_\_

PRIMARY OBJECTIVE: ☐ OIL ☒ GAS ☐ OIL AND/OR GAS  
PURPOSE : ☒ DRILLING-NEW ☐ RECOMPLETION ☐ OTHER (SUPPLEMENT A/E, ETC)  
TYPE WELL : ☐ DEVELOPMENT ☒ EXPLORATORY

INTANGIBLE COSTS:

		<u>DRY HOLE</u>	<u>COMPLETION</u>
9210	STAKING PERMIT & LEGAL FEES	\$ 200	\$ 200
9211	LOCATION, RIGHT-OF-WAY	8800	9300
9212	DRILLING, FOOTAGE <u>4500</u> @ \$19/ft	85500	85500
9213	DRILLING, DAYWORK <u>4</u> DAYS @ \$4100 /DAY	16400	16400
9212/9213	MOVING IN, RIGGING UP, RIGGING DOWN	-----	-----
9224	BITS, TOOLS & SUPPLIES	500	800
9214	DRILLING WATER	17700	19200
9215	DRILLING MUD & ADDITIVES	28500	28500
9216	MUD LOGGING UNIT	-----	-----
9217	CEMENT, TOOLS & SERVICES, TEMP. SURVEYS	12000	18000
9218	DRILL STEM TESTING	-----	-----
9219	ELECTRIC LOGS	16000	23000
9220	TOOL & EQUIP. RENTAL, TRUCKING, WELDING	2500	3800
9221	SUPERVISION & OVERHEAD	3200	4000
9223	CORING, TOOLS & SERVICES	-----	-----
9241	COMPLETION UNIT <u>10</u> DAYS @ \$1130 /DAY	-----	11300
9247	STIMULATION	-----	27000
9222	CONTINGENCY	18700	25000
	TOTAL INTANGIBLES	210000	272000

WELL EQUIPMENT COSTS:

9301	CHRISTMAS TREE AND WELL HEAD	1200	7300
9302	CASING: <u>13-3/8" 48# H-40 @400'</u>	9500	9500
9302	<u>8-5/8" 24# K-55 @1500'</u>	19500	19500
9302	<u>4-1/2" 9.5# K-55 @4500'</u>	-----	25100
9303	TUBING: <u>2-3/8" 4.7# J-55 @4300'</u>	-----	15900
9304	PACKER & SPECIAL EQUIPMENT	-----	4000
9350	CONTINGENCY	1800	4700
	TOTAL WELL EQUIPMENT	32000	86000

LEASE & BATTERY EQUIPMENT COSTS:

9401	PUMPING EQUIPMENT	-----	-----
9402	STORAGE <u>1-210 bbl. welded w/stair, walk, fbrgls tnk.</u>	-----	7900
9403	SEPARATION EQ., FLOWLINES, VALVES & FITTINGS	-----	19800
9404	TRUCKING & CONSTRUCTION COSTS	-----	4300
	TOTAL LEASE & BATTERY EQUIP.	-----	32000
	TOTALS	\$242000	\$ 390000

APPROVAL OF THIS A/E CONSTITUTES APPROVAL OF THE OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE, UNLESS THE NON-OPERATOR GIVES NOTIFICATION ON THIS FORM OF HIS INTENT TO FURNISH HIS PROPORTIONATE SHARE IN KIND.

YATES PETROLEUM CORPORATION

BY Al Springer

DATE 5/14/81

SHARE -

MW SCARLE



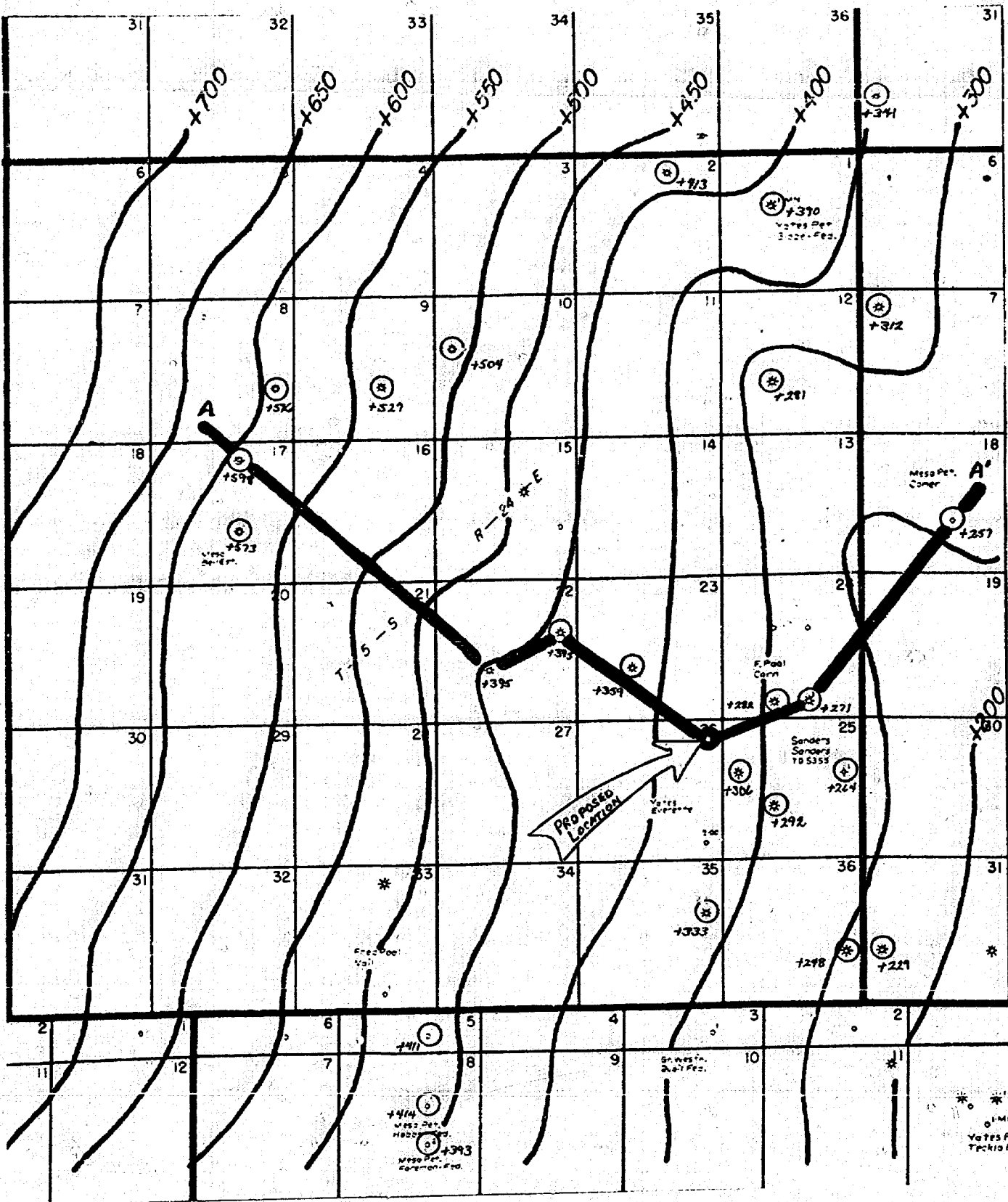


EXHIBIT NO. 6  
CASE NO. 7290  
EXAMINER HEARING  
July 2, 1981



The person to be pooled under

T5S-R24E

Sec. 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$

Sec. 26: N $\frac{1}{2}$ NE $\frac{1}{4}$

is JOHN WILLIAM WOOD  
207 South LaSalle Street  
Chicago 4, Illinois

EXHIBIT NO. 2  
CASE NO. 7290  
EXAMINER HEARING  
July 2, 1981

February 2, 1981

TO:

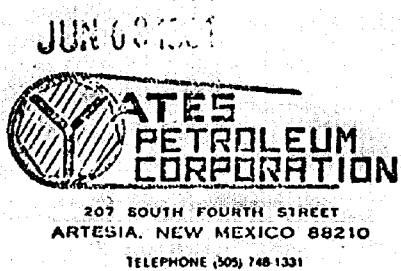
FROM: BILL McCRAW

RE. INFORMATION ON JOHN WILLIAM WOOD  
(T-5-S, R-24-E, Section 23: SE/4, S/2 NE/4  
Section 26: N/2 NE/4)

1. Deed dated 11/15/50, Book 146, page 469, from A. E. Butterfield and Gladys L. Butterfield, his wife, to John William Wood of 209 S. LaSalle Street, Chicago 4, of Cook County, State of Illinois, conveying a 1/16th interest.
2. As of 11/3/80, there is no Death Certificate in State of Illinois.
3. A. E. Butterfield is deceased. I acquired an Oil & Gas Lease from Gladys L. Butterfield, a widow, of Tuscon, Arizona, for her 1/16th interest.
4. Gladys L. Butterfield did not know John William Wood.
5. I have contacted, through telephone information, all of the Wood's in the Chicago area and have not found any that were related to or that know John William Wood. I contacted numerous law firms that are in the building that John William Wood was in at 209 S. LaSalle Street, and they had not ever heard of John William Wood. It is a large building. I also contacted the Managers of the building and they did not remember a John William Wood and do not keep records of their past tenants due to the size of the building.
6. Mr. Butterfield was an attorney. I felt that John William Wood could possibly be an attorney and there were numerous attorney's located in that building. I wrote the Attorney Registration Commission of Illinois. As of July 21, 1980, the records indicated that John William Wood is not admitted to practice in the State of Illinois.
7. Mr. Butterfield's brother lives in Mt. Pleasant, Michigan. He did not know John William Wood or any of Mr. Butterfield's business associates. Mr. Butterfield lived in Olney, Illinois at one time. I contacted Greag Benford, an abstractor in Mt. Pleasant, Michigan. He did remember Mr. Butterfield. He checked the records in that county to see if Butterfield or Wood had given any deeds or leases in that county and found nothing.
8. I also talked to an attorney in Mt. Pleasant, Michigan that knew Mr. Butterfield; however, he knew no other business associates.
9. Ralph Geror, in Tuscon, Arizona, was once Mr. Butterfield's client, and he did not know any of Mr. Butterfield's associates.

EXHIBIT NO. 3  
CASE NO. 7290  
EXAMINER HEARING  
JULY 2, 1981





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

**CERTIFIED MAIL  
RETURN RECEIPT  
REQUESTED**

June 2, 1981

Mr. John William Wood  
209 South La Salle Street  
Chicago 4, Illinois 60604

Re: Township 5 South, Range 24 East, NMPM  
Section 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$   
Section 26: N $\frac{1}{2}$ NE $\frac{1}{4}$   
Chaves County, New Mexico

Dear Mr. Wood:

I am writing in regard to your mineral interest under the captioned acreage. Our records show that you own a 1/16 interest in this area.

We would be interested in leasing this acreage from you.

Please call or write me at the above address so we may discuss terms.

Thank you.

Very truly yours,

Randy G. Patterson  
Land Department

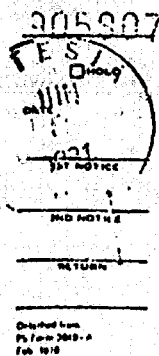
*Janet Moreau*

By: Janet Moreau

JM/gat

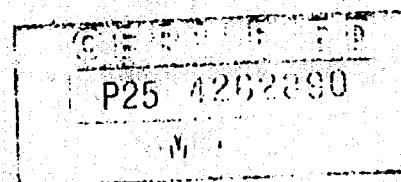


CLAIM CHECK NO. DING - 207 SOUTH 4TH ST.  
A, NEW MEXICO - 88210



*under*

Mr. John William Wood  
209 South La Salle Street  
Chicago 4, Illinois 60604



DATE: July 1, 1981

FROM: Janet Moreau

In addition to the search instigated by William J. McCaw I also found:

1. Information Center of Chicago Library could not find any current or outdated address for Mr. Wood. The last city directory made for Chicago was in 1929.
2. No death certificates from States of Indiana, California, Florida or Arizona (Sent to last three in hopes that he retired there).

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

MODEL FORM OPERATING AGREEMENT

CURTIS "QR" COM. #1

OPERATING AGREEMENT

DATED

July 1, 1981

OPERATOR YATES PETROLEUM CORPORATION, ET AL

CONTRACT AREA Township 5 South, Range 24 East, N.M.P.M.

Section 23: S $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$

Section 26: NE $\frac{1}{4}$

COUNTY OR PARISH OF Chaves 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 74101

EXHIBIT NO. 4  
CASE NO. 17290  
EXAMINER HEARING  
JULY 2, 1981

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# OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a  
New Mexico corporation, 207 S. 4th Street, Artesia, NM, 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 in-  
terests 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 cov-  
ering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

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

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

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

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

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

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

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

## ARTICLE II. EXHIBITS

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

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

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

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

If any provision of any exhibit, except Exhibit "F", 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 venturers~~, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.  
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

56  
57 ARTICLE V.  
58 OPERATOR

59  
60 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

61 YATES PETROLEUM CORPORATION, 207 South 4th Street, Artesia, NM 88210 shall be the  
62 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
63 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-  
64 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
65 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
66 negligence or willful misconduct.  
67  
68  
69  
70

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

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

17  
18 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Op-  
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning  
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that  
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the  
22 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown  
23 on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the  
24 Operator that was removed.

25  
26 C. Employees:

27  
28 The number of employees used by Operator in conducting operations hereunder, their selection,  
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,  
30 and all such employees shall be the employees of Operator.

31  
32 D. Drilling Contracts:

33  
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual  
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the  
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate  
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-  
38 menced, and such work shall be performed by Operator under the same terms and conditions as are  
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-  
40 ilar nature.

41  
42 ARTICLE VI  
43 DRILLING AND DEVELOPMENT

44  
45 A. Initial Well:

46  
47 On or before the 1st day of October, 1981, Operator shall commence the drill-  
48 ing of a well for oil and gas at the following location:

49  
50 Township 5 South, Range 24 East, N.M.P.M.  
51 Section 26: NE $\frac{1}{4}$

52  
53 and shall thereafter continue the drilling of the well with due diligence to adequately test the Abo  
54 formation.

55  
56  
57 unless granite or other practically impenetrable substance or condition in the hole, which renders  
58 further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or  
59 abandon the well at a lesser depth.

60  
61 Operator shall make reasonable tests of all formations encountered during drilling which give in-  
62 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited  
63 in its application to a specific formation or formations, in which event Operator shall be required to  
64 test only the formation or formations to which this agreement may apply.

65  
66  
67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes  
68 to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall  
69 plug and abandon same as provided in Article VI.E.1. hereof.



1 **B. Subsequent Operations:**

2  
3 **1. Proposed Operations:** Should any party hereto desire to drill any well on the Contract Area  
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled  
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing  
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-  
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-  
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the  
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.  
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given  
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,  
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed  
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any  
15 notice or response given by telephone shall be promptly confirmed in writing.

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

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

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

59  
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface  
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,  
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the  
63 cost of operation of the well commencing with first production and continuing until each such Non-  
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being  
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which  
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-  
67 ginning of the operation; and

68  
69 (b) 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging  
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and



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

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

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

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

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

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

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

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

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

65  
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of  
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-  
68 velopment and producing operations and in preparing and treating oil for marketing purposes and  
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-  
70 sition by any party of its proportionate share of the production shall be borne by such party. Any

1 party taking its share of production in kind shall be required to pay for only its proportionate share  
2 of such part of Operator's surface facilities which it uses.

3  
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its  
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled  
6 to receive payment direct from the purchaser thereof for its share of all production.

7  
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale.

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

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

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

#### 40 E. Abandonment of Wells:

41  
42 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
43 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
44 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
45 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
46 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
47 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
48 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
49 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
50 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
51 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

52  
53 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
54 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
55 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
56 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
57 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
58 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
59 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
60 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable  
61 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
62 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
63 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
64 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
65 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
66 formation or formations then open to production. If the interest of the abandoning party is or includes  
67 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an  
68 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
69 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-  
70

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, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

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

### C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper 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 TWENTY FIVE THOUSAND----- Dollars (\$ 25,000.00 ) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of FIFTEEN THOUSAND----- Dollars (\$ 15,000.00 ).

## E. Royalties, Overriding Royalties and Other Payments:

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

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

## 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

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

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

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

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

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

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

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

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

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

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

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

55 **D. Subsequently Created Interest:**

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

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

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 VII.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

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

#### 10 ARTICLE X. 11 CLAIMS AND LAWSUITS

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

#### 24 ARTICLE XI. 25 FORCE MAJEURE

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

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

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

#### 45 ARTICLE XII. 46 NOTICES

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

#### 59 ARTICLE XIII. 60 TERM OF AGREEMENT

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

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



1 ☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled  
 2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this  
 3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-  
 4 tion, and for an additional period of 180 days from cessation of all production; provided, however,  
 5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in  
 6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-  
 7 erations have been completed and if production results therefrom, this agreement shall continue in  
 8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well  
 9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil  
 10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-  
 11 tions are commenced within 120 days from the date of abandonment of said well.

12  
 13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from  
 14 any liability which has accrued or attached prior to the date of such termination.

#### 15 16 ARTICLE XIV. 17 COMPLIANCE WITH LAWS AND REGULATIONS

##### 18 19 A. Laws, Regulations and Orders:

20  
 21 This agreement shall be subject to the conservation laws of the state in which the committed  
 22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of  
 23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and  
 24 orders.

##### 25 26 B. Governing Law:

27  
 28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-  
 29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-  
 30 terpretation or construction, shall be governed and determined by the law of the state in which the  
 31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most  
 32 of the land in the Contract Area is located shall govern.

#### 33 34 ARTICLE XV. 35 OTHER PROVISIONS

36A. Substitute Well: If, in the drilling of the Initial Well, Operator loses the hole or  
 37 encounters mechanical difficulties rendering it impracticable, in the opinion of Operator  
 38 to drill the well to the Objective depth, then and in any of such events, on or before  
 39 30 days after completion of the Initial Well, Operator shall have the option to commence  
 40 the actual drilling of another well ("Substitute Well") at a lawful location of Operator's  
 41 selection on the Unit Area, and prosecute the drilling of said well with due diligence  
 42 and in a good and workmanlike manner to the Objective Depth. For all purposes of this  
 43 agreement, the drilling of the Substitute Well shall be considered as the drilling of  
 44 the Initial Well.

45  
 46 B. Option Well: Within 90 days after the completion of the Initial Well and, if drilled  
 47 the Substitute Well, as a dry hole, Operator shall have the option of commencing an "Option  
 48 Well" at a lawful location of Operator's selection in the Unit Area. The Option Well shall  
 49 be drilled to the Objective Depth in the same manner as provided for in the Initial Well.

50  
 51 C. Any provision herein concerning the Initial Well shall also apply to the Substitute  
 52 and Option Wells, and any provision herein excepting the Initial Well shall also except the  
 53 Substitute and Option Wells.

54  
 55 D. Notwithstanding any other provisions herein, if during the term of this agreement,  
 56 well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recom-  
 57 pleted, or any other operation that may be required in order to (1) continue a lease  
 58 leases in force and effect, or (2) maintain a unitized area or any portion thereof in force  
 59 and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals  
 60 which may be owned by a third party or which, failing in such operation, may revert to  
 61 third party, or, (4) comply with an order issued by a regulatory body having jurisdiction  
 62 in the premises, failing in which certain rights would terminate, the following shall ap-  
 63 ply. Should less than all of the parties hereto elect to participate and pay their pro-  
 64 portionate part of the costs to be incurred in such operation, those parties desiring  
 65 participate shall have the right to do so at their sole cost, risk, and expense. Promptly  
 66 following the conclusion of such operation, each of those parties not participating agree  
 67 to execute and deliver an appropriate assignment to the total interest of each non-parti-  
 68 cipating party in and to the lease, leases, or rights which would have terminated  
 69 which otherwise may have been preserved by virtue of such operation and in the drill-  
 70 unit upon which the well was drilled excepting, however, wells theretofore completed and  
 71 capable of producing in paying quantities. Such assignment shall be delivered to the  
 participating parties in the proportion that they bore the expense attributable to the  
 non-participating parties interest.

ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, 1981.

OPERATOR

YATES PETROLEUM CORPORATION

By: \_\_\_\_\_  
Attorney-in-Fact

NON-OPERATORS

DEPCO, INC.

ATTEST:

By: \_\_\_\_\_  
President

\_\_\_\_\_  
Secretary

STATE OF NEW MEXICO )  
: ss  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1981, by \_\_\_\_\_, Attorney-in-Fact for YATES PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public

STATE OF TEXAS )  
: ss  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1981, by \_\_\_\_\_, President of DEPCO, INC. a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

## EXHIBIT "A"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

## I. 1. Lands Subject to Agreement:

Township 5 South, Range 24 East, N.M.P.M.  
Section 23: S/2NE/4, SE/4  
Section 26: NE/4  
Containing 400.00 acres, more or less.  
Chaves County, New Mexico

## 2. Depth Restriction:

100' below stratigraphic equivalent of total depth drilled

## 3. Drilling Unit for the First Well:

Proration Unit established by the New Mexico OCD.

II. 1. Percentage Interests of Parties Under the NE/4 of Section 26,  
Township 5 South, Range 24 East, N.M.P.M.

<u>NAME</u>	<u>ACRES</u>	<u>INITIAL TEST WELL BEFORE PAYOUT</u>	<u>INITIAL TEST WELL AFTER PAYOUT</u>
DEPCO, INC.	60.000000	37.500000	37.500000
YATES PETROLEUM CORPORATION	20.000000	19.375000	15.937500
YATES DRILLING COMPANY	20.000000	12.500000	12.500000
MYCO INDUSTRIES, INC.	20.000000	12.500000	12.500000
ABO PETROLEUM CORPORATION	20.000000	12.500000	12.500000
YATES EMPLOYEES 80' LTD.	-0-	2.500000	1.250000
RALPH NIX	8.333334	F/O	2.604167
JERRY CURTIS	3.333333	F/O	1.041667
ELIZABETH HANNIFIN	3.333333	F/O	1.041666
UNLEASED	5.000000	3.125000	3.125000
	160.000000	100.000000	100.000000

2. Percentage Interests of Parties Under the S/2NE/4, SE/4 of Section 23,  
Township 5 South, Range 24 East, N.M.P.M.

<u>NAME</u>	<u>ACRES</u>	<u>BEFORE PAYOUT</u>	<u>AFTER PAYOUT</u>
DEPCO, INC.	180.000000	75.000000	75.000000
YATES PETROLEUM CORPORATION	-0-	13.750000	6.875000
YATES EMPLOYEES 80' LTD.	-0-	5.000000	2.500000
RALPH NIX	25.000000	F/O	5.208334
JERRY CURTIS	10.000000	F/O	2.083333
ELIZABETH HANNIFIN	10.000000	F/O	2.083333
UNLEASED	15.000000	6.250000	6.250000
	240.000000	100.000000	100.000000

## III. Leasehold Interest of Each Party:

## 1. Lessor

United States

## Present Lessee:

Yates Petroleum Corporation - 25%  
Yates Drilling Company - 25  
Myco Industries, Inc. - 25  
Abo Petroleum Corporation - 25

## Serial No. of Lease:

NM-28297

## Expiration Date:

September 1, 1986

## Description:

Township 5 South, Range 24 East, NMPM  
Section 26: S/2NE/4  
Containing 80.00 acres, more or less

2. Lessor: J. R. Miller  
Present Lessee: Depco, Inc.  
Serial No. of Lease: Fee  
Expiration Date: August 3, 1989  
Description: Township 5 South, Range 24 East, NMPM  
Section 26: N/2NE/4  
Section 23: S/2NE/4, SE/4  
Containing 320.00 acres, more or less
3. Lessor: Gladys Butterfield  
Present Lessee: Ralph Nix, et al  
Serial No. of Lease: Fee  
Expiration Date: June 13, 1983  
Description: Township 5 South, Range 24 East, NMPM  
Section 23: S/2NE/4, SE/4  
Section 26: N/2NE/4  
Containing 320.00 acres, more or less

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

Yates Petroleum Corporation  
Yates Drilling Company  
Myco Industries, Inc.  
Abo Petroleum Corporation  
Yates Employees 801 Ltd.  
207 South 4th Street  
Artesia, New Mexico 88210  
Attention: Janet Moreau

Depco, Inc.  
620 Permian Building  
Midland, Texas 79701  
Attention: Mr. John Hubbard

Ralph Nix, et al  
P. O. Box 617  
Artesia, New Mexico 88210



COPAS

## EXHIBIT "C"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

## ACCOUNTING PROCEDURE JOINT OPERATIONS

### I. GENERAL PROVISIONS

#### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies 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 1. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

#### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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

# 10. Taxes

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

# 11. Insurance

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

# 12. Other Expenditures

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

## III. OVERHEAD

### 1. Overhead - Drilling and Producing Operations

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

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

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

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

#### A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$	2,300.00
Producing Well Rate \$	230.00

- (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 \$ 25,000.00 :

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

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

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

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

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

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

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



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

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

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

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

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

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

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

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

ADDITIONAL INSURANCE PROVISIONS

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

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

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

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

Property Damage - \$100,000.00 each occurrence.

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

## EXHIBIT "E"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit 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, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of 300% of its current share of the volumes capable of being delivered or its current share of allowable gas production if regulated thereto by State regulatory body having jurisdiction, unless that party has gas in place. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

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

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

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

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

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

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas sold in intrastate commerce, the price basis shall be the price received for sale of the gas. For gas sold in interstate commerce, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Power Commission pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Notwithstanding the provisions of the last preceding paragraph, it is expressly agreed that any underproduced party hereunder shall have the optional right, with respect to each proration unit separately, to receive a cash settlement bringing such underproduced party's gas account into balance at any time prior to the permanent discontinuance of gas production, by first giving each overproduced party ninety (90) days written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the 1st day of the calendar month following the date of such written demands) within ninety (90) days following the actual receipt of such written demands by the overproduced parties, in the same manner provided in the last preceding paragraph hereof. The optional right provided for in this paragraph can only be exercised one (1) time by any particular underproduced party on the same proration unit; and each underproduced party agrees that it will not exercise such option unless it is of the opinion that the remaining underproduced recoverable gas reserves are inadequate for its gas account to be brought into balance by actual production prior to permanent discontinuance of gas production from such proration unit.

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

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



ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT  
DATED JULY 1, 1981,  
BETWEEN YATES PETROLEUM CORPORATION, ET AL "OPERATOR",  
AND DEPCO, INC., "NON-OPERATOR".

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

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

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

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

#### CERTIFICATION OF NON-SEGREGATED FACILITIES

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

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

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

Exhibit "F"  
Page 2

707 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1331

AUTHORITY FOR EXEMPTION

A/E # 81-113-0  
REVISION #  
DATE May 14, 1981

LEASE NAME Curtis "QR" Com #1 LOCATION 660/N 660/E, Sec. 26-5S-24E  
COUNTY Chaves STATE New Mexico FIELD  
HORIZON Abo Est. T.D. 4500' Est. Spud Date  
Est. Completion Date DRILLING CONTRACTOR

PRIMARY OBJECTIVE: ☐ OIL ☒ GAS ☐ OIL AND/OR GAS  
PURPOSE : ☒ DRILLING-NEW ☐ RECOMPLETION ☐ OTHER (SUPPLEMENT A/E, ETC  
TYPE WELL : ☐ DEVELOPMENT ☒ EXPLORATORY

INTANGIBLE COSTS:

		<u>DRY HOLE</u>	<u>COMPLETION</u>
9210	STAKING PERMIT & LEGAL FEES	\$ 200	\$ 200
9211	LOCATION, RIGHT-OF-WAY	8800	9300
9212	DRILLING, FOOTAGE 4500' @ \$19/ft	85500	85500
9213	DRILLING, DAYWORK 4 DAYS @ \$4100 /DAY	16400	16400
9212/9213	MOVING IN, RIGGING UP, RIGGING DOWN	-----	-----
9224	BITS, TOOLS & SUPPLIES	500	800
9214	DRILLING WATER	17700	19200
9215	DRILLING MUD & ADDITIVES	28500	28500
9216	MUD LOGGING UNIT	-----	-----
9217	CEMENT, TOOLS & SERVICES, TEMP. SURVEYS	12000	18000
9218	DRILL STEM TESTING	-----	-----
9219	ELECTRIC LOGS	16000	23000
9220	TOOL & EQUIP. RENTAL, TRUCKING, WELDING	2500	3800
9221	SUPERVISION & OVERHEAD	3200	4000
9223	CORING, TOOLS & SERVICES	-----	-----
9241	COMPLETION UNIT 10 DAYS @ \$1130 /DAY	-----	11300
9247	STIMULATION	-----	27000
9222	CONTINGENCY	18700	25000
	TOTAL INTANGIBLES	210000	272000

WELL EQUIPMENT COSTS:

9301	CHRISTMAS TREE AND WELL HEAD	1200	7300
9302	CASING: 13-3/8" 48# H-40 @400'	9500	9500
9302	8-5/8" 24# K-55 @1500'	19500	19500
9302	4-1/2" 9.5# K-55 @4500'	-----	25100
9303	TUBING: 2-3/8" 4.7# J-55 @4300'	-----	15900
9304	PACKER & SPECIAL EQUIPMENT	-----	4000
9350	CONTINGENCY	1800	4700
	TOTAL WELL EQUIPMENT	32000	86000

LEASE & BATTERY EQUIPMENT COSTS:

9401	PUMPING EQUIPMENT	-----	-----
9402	STORAGE 1-210 bbl. welded w/stair, walk, fbrgls tnk.	-----	7900
9403	SEPARATION EQ., FLOWLINES, VALVES & FITTINGS	-----	19800
9404	TRUCKING & CONSTRUCTION COSTS	-----	4300
	TOTAL LEASE & BATTERY EQUIP.	-----	32000
	TOTALS	\$242000	\$ 390000

APPROVAL OF THIS A/E CONSTITUTES APPROVAL OF THE OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE, UNLESS THE NON-OPERATOR GIVES NOTIFICATION ON THIS FORM OF HIS INTENT TO FURNISH HIS PROPORTIONATE SHARE IN KIND.

YATES PETROLEUM CORPORATION

BY Al Springer

DATE 5/14/81

SURE -

MW SCARF





Dockets Nos. 22-81 and 23-81 are tentatively set for July 15 and 29, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - JULY 2, 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 7283: Application of Harvey E. Yates Company for amendment of Division Order No. R-6387, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Division Order No. R-6382 to provide that said order authorizing the McDonald Unit Agreement shall have an effective date of June 1, 1981.
- CASE 7284: Application of Energy Reserves Group, Inc. for an unorthodox gas well location, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Cisco location of its Miller Well No. 1 located 660 feet from the South and West lines of Section 12, Township 6 South, Range 33 East, the S/2 of said Section 12 to be dedicated to the well.
- CASE 7285: Application of J. C. Williamson for two non-standard gas proration units and two unorthodox locations, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for two non-standard 320-acre Wolfcamp gas proration units in Section 10, Township 23 South, Range 34 East, the first comprising the NW/4, W/2 NE/4, and N/2 SW/4, and the second comprising the E/2 NE/4, S/2 SW/4, and SE/4. Applicant further seeks approval for two unorthodox locations, the first for a well drilled 1560 feet from the North line and 1830 feet from the West line of said Section 10, and the second for a well to be drilled 1980 feet from the South and East lines of the section.
- CASE 7286: Application of Supron Energy Corporation for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Basin-Dakota and Blanco Mesaverde production in the wellbore of its Jicarilla F Well No. 6 located in the SW/4 of Section 34, Township 26 North, Range 4 West.
- CASE 7287: Application of Benson-Montin-Greer Drilling Corporation 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 a previously approved 640-acre non-standard proration unit comprising the W/2 of Section 17 and the W/2 of Section 20, Township 26 North, Range 1 West, to be dedicated to a well to be drilled 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 7288: Application of Southern Union Exploration Company of Texas for contraction of the West Puerto Chiquito-Mancos Oil Pool, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the West Puerto Chiquito-Mancos Oil Pool by the deletion of Section 36, Township 24 North, Range 1 West, therefrom.
- CASE 7251: (Continued from June 3, 1981, Examiner Hearing)
- 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 7289: Application of Exxon Corporation for a salt water disposal well, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Queen formation at a depth of 2638 feet to 2774 feet in its Strange Federal Well No. 3 in Unit J of Section 25, Township 7 South, Range 31 East, Tomahawk-Sun Andres Pool.
- CASE 7290: Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Abo formation underlying the NE/4 of Section 26, Township 5 South, Range 24 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 7291: Application of ARCO Oil and Gas Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Silurian and Fusselman formations underlying the N/2 of Section 6, Township 25 South, Range 37 East, Custer Field, 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 7292: Application of ARCO Oil and Gas Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Devonian thru Ellenburger formations underlying the S/2 of Section 6, Township 25 South, Range 37 East, Custer Field, 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 7293: Application of ARCO Oil and Gas Company for an amendment to Order No. R-6649, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an amendment to Division Order No. R-6649 which authorized compulsory pooling in Section 33, Township 22 South, Range 36 East, Langlie Field, to extend to February 1, 1982, the commencement of drilling required in said order.
- CASE 7294: Application of ARCO Oil and Gas Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Seven Rivers-Queen formation at a depth of 2996 feet to 3186 feet in its R. S. Crosby Well No. A-2 located in Unit L of Section 28, Township 25 South, Range 37 East, Langlie Mattix Pool.
- CASE 7248: (Continued from June 3, 1981, Examiner Hearing)  
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 7280: (Continued from June 17, 1981, Examiner Hearing)  
Application of Northwest Pipeline Corporation for a dual completion and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete its Rosa Unit Well No. 77 located in Unit L of Section 33, Township 31 North, Range 5 West, to produce gas from the Mesaverde formation and commingled Gallup and Dakota production through separate strings of tubing.
- CASE 7295: Application of Gulf Oil Corporation for rescission of Division Order No. R-2429-C, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the rescission of Division Order No. R-2429-C which authorized 320-acre spacing units in the White City-Pennsylvanian Gas Pool. Applicant seeks the reinstatement of 640-acre spacing units in said pool with provision for 320-acre infill drilling and appropriate findings relative thereto.
- CASE 7296: Application of J. Gregory Merriam and Robert L. Bayless for amendment of pool rules, contraction of the Otero-Gallup Pool, and extension of the Devils Fork-Gallup Associated Pool, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of the Devils Fork-Gallup Associated Pool Rules to provide for 160-acre spacing rather than 80 acres. Applicant further seeks the contraction of the Otero-Gallup Pool by the deletion of the following acreage: E/2 and NE/4 SW/4 of Section 2, Township 24 North, Range 6 West, and the E/2 of Section 35, Township 25 North, Range 6 West. Applicant seeks the extension of the Devils Fork-Gallup Associated Pool to include the following acreage: In Township 24 North, Range 6 West: All of Sections 2 and 3; S/2 and NE/4 of Section 4; S/2 of Section 5; S/2 of Section 6; and N/2 of Section 11. In Township 25 North, Range 6 West: SE/4 of Section 33; S/2 of Section 34; and all of Section 35.
- CASE 7297: (This case will be dismissed.)  
Application of Amoco Production Company for an NCPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its Alley Unit Well No. 1 in Unit E of Section 1, Township 19 South, Range 25 East.

**CASE 7298:** (This case will be dismissed.)

Application of Amoco Production Company for an NCPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its Lancaster Springs Com Well No. 1 in Unit I of Section 1, Township 22 South, Range 26 East.

**CASE 7299:** (This case will be dismissed.)

Application of Amoco Production Company for an NCPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its State IL Com Well No. 1 in Unit G of Section 3, Township 19 South, Range 24 East.

**CASE 7300:** Application of Dome Petroleum Corporation for designation of a tight formation, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Chacra formation underlying portions of Townships 21 and 22 North, Ranges 5, 6, and 7 West, containing 73,016 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 7301:** In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, redesignating, and extending vertical and horizontal limits of certain pools in Chaves, Eddy, Lea, and Roosevelt Counties, New Mexico:

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the East Lusk-Morrow Gas Pool. The discovery well is Grace Petroleum Corporation West Tonto Federal Com Well No. 1 located in Unit L of Section 24, Township 19 South, Range 32 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM  
Section 24: W/2

(b) CREATE a new pool in Roosevelt County, New Mexico, classified as an oil pool for Mississippian production and designated as the Peterson Mississippian Pool. The discovery well is Entech Exploration, Inc. Finley Well No. 1 located in Unit A of Section 6, Township 5 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM  
Section 28: SW/4  
Section 29: S/2  
Section 32: W/2

TOWNSHIP 5 SOUTH, RANGE 33 EAST, NMPM  
Section 5: NW/4  
Section 6: NE/4

(c) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the Salado Draw-Wolfcamp Gas Pool. The discovery well is Amoco Production Company State GR Well No. 1 located in Unit G of Section 17, Township 26 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 33 EAST, NMPM  
Section 17: E/2

(d) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Strawn production and designated as the Talco-Strawn Gas Pool. The discovery well is American Trading and Producing Corporation Talco Unit Well No. 1 located in Unit H of Section 11, Township 26 South, Range 35 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 35 EAST, NMPM  
Section 11: E/2

(e) REDESIGNATE the Lusk-Seven Rivers Pool in Lea County, New Mexico, to the North Lusk-Seven Rivers Pool described as:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM  
Section 3: All

- (f) EXTEND the vertical limits of the Lusk-Yates Pool in Eddy and Lea Counties, New Mexico, to include the Seven Rivers formation and redesignate pool as the Lusk Yates-Seven Rivers Pool described as:

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM  
Section 24: All

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM  
Section 19: W/2 and W/2 NE/4

- (g) EXTEND the Angell Ranch Atoka-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 27 EAST, NMPM  
Section 11: S/2  
Section 14: All

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM  
Section 32: S/2

- (h) EXTEND the Antelope Ridge-Atoka Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM  
Section 2: W/2 and NE/4  
Section 11: W/2

- (i) EXTEND the Atoka-Yeso Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 26 EAST, NMPM  
Section 26: NW/4 SW/4  
Section 33: S/2 SE/4

TOWNSHIP 19 SOUTH, RANGE 26 EAST, NMPM  
Section 4: NW/4 NE/4

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

TOWNSHIP 18 SOUTH, RANGE 24 EAST, NMPM  
Section 34: S/2

TOWNSHIP 18 SOUTH, RANGE 25 EAST, NMPM  
Section 34: E/2

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM  
Section 3: All  
Section 10: N/2  
Section 11: W/2

- (k) EXTEND the Bull's Eye-San Andres Pool in Chaves 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: N/2 SW/4

- (l) EXTEND the South Culebra Bluff-Bone Springs Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM  
Section 27: N/2 NE/4

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

TOWNSHIP 22 SOUTH, RANGE 28 EAST, NMPM  
Section 33: N/2

- (n) EXTEND the East Eagle Creek Atoka-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM  
Section 30: N/2



- (o) EXTEND the Southwest Eunice-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM  
Section 17: NE/4

- (p) EXTEND the Gem-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM  
Section 31: E/2

- (q) EXTEND the Gladiola-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 12 SOUTH, RANGE 38 EAST, NMPM  
Section 20: NE/4  
Section 21: N/2

- (r) EXTEND the Grayburg Jackson Seven Rivers-Queen-Grayburg-San Andres Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 31 EAST, NMPM  
Section 1: W/2 SW/4

- (s) EXTEND the North Illinois Camp-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM  
Section 16: E/2

- (t) EXTEND the Langlie Mattix Seven Rivers-Queen-Grayburg Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM  
Section 31: SW/4

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

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM  
Section 7: S/2

- (v) EXTEND the West Nadine-Blaine Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM  
Section 5: E/2  
Section 8: NE/4

- (w) EXTEND the East Red Lake Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM  
Section 25: W/2 NE/4 and NW/4 SE/4

- (x) EXTEND the Richard Knob Atoka-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 25 EAST, NMPM  
Section 9: N/2

- (y) EXTEND the West Sawyer-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 37 EAST, NMPM  
Section 16: S/2

- (z) EXTEND the Scharb-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 35 EAST, NMPM  
Section 5: E/2

(aa) EXTEND the Tomahawk-San Andres Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 32 EAST, NMPM  
Section 19: NW/4

(bb) EXTEND the Wantz-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM  
Section 11: SW/4  
Section 14: NW/4

\*\*\*\*\*

Docket No. 21-81

DOCKET: COMMISSION HEARING - WEDNESDAY - JULY 8, 1981

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 7226: (DE NOVO)

Application of Enserch Exploration, Inc. for salt water disposal, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Montoya formation in the interval from 7902 feet to 7930 feet in its Radar Well No. 2 in Unit E of Section 32, Township 5 South, Range 33 East.

Upon application of Enserch Exploration, Inc. this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7275: (Continued from June 17, 1981, Examiner Hearing)

Application of S. P. Yates for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Pennsylvanian formations underlying the N/2 of Section 21, Township 19 South, Range 27 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 7270: (Continued from June 17, 1981, Examiner Hearing)

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 19 South, Range 27 East, to be dedicated to its Pecos River Federal 21-A Com 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.

A.J. LOSEE  
JOEL M. CARSON  
CHAD DICKERSON  
DAVID R. VANDIVER

LAW OFFICES  
LOSEE, CARSON & DICKERSON, P.A.  
300 AMERICAN HOME BUILDING OIL CONSERVATION DIVISION  
P. O. DRAWER 239 AREA CODE 505  
ARTESIA, NEW MEXICO 88210 SANTA FE 746-3508

RECEIVED  
JUN 04 1981

June 2, 1981

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

Case 7290

Re: Curtis "QR" Com. No. 1 Well  
NE/4 Sec. 26, T-5-S, R-24-E, NMPM  
Chaves County, New Mexico

Dear Mr. Ramey:

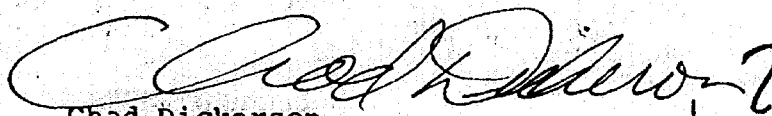
Enclosed for filing, please find three copies of the Application of Yates Petroleum Corporation for Compulsory Pooling in Chaves County, New Mexico.

We ask that this case be set for hearing before an examiner and that you furnish us with a docket of said hearing.

Thank you.

Sincerely yours,

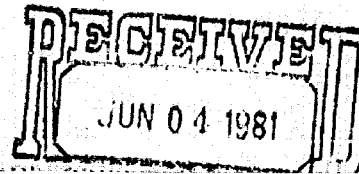
LOSEE, CARSON & DICKERSON, P.A.

  
Chad Dickerson

CD:pvm  
Enclosures

cc w/enclosure: Mrs. Janet Moreau

non-aid  
proration unit?



OIL CONSERVATION DIVISION  
SANTA FE

BEFORE THE OIL CONSERVATION DIVISION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF :  
YATES PETROLEUM CORPORATION FOR :  
COMPULSORY POOLING, CHAVES COUNTY, :  
NEW MEXICO :

CASE NO. 7290

APPLICATION

COMES NOW Yates Petroleum Corporation, by its attorneys, and in support hereof, respectfully states:

1. Applicant has the right to drill its Curtis "QR" Com. No. 1 Well, to a depth sufficient to test all formations from the surface through the <sup>Abo</sup> Pennsylvanian formation, which is to be located at a point 660 feet from the north line and 660 feet from the east line of Section 26, Township 5 South, Range 24 East, N.M.P.M., Chaves County, New Mexico.

2. The applicant will dedicate the NE/4 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests. The party who has not agreed to pool his interest, and his last known address is as follows:

<u>NAME</u>	<u>ADDRESS</u>
John William Wood	209 S. LaSalle Street Chicago 4, Illinois

3. Applicant should be designated the operator of the well and the proration unit.

4. 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 gas in said unit, all mineral interests, whatever they may be, from the surface through the Pennsylvanian formation, underlying the NE/4 of said Section 26, should be pooled.



5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

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 hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface through the Pennsylvanian formation underlying the NE/4 of Section 26, Township 5 South, Range 24 East, N.M.P.M., Chaves County, New Mexico, to form a 160-acre spacing unit dedicated to applicant's well.

C. And for such other and further relief as may be just in the premises.

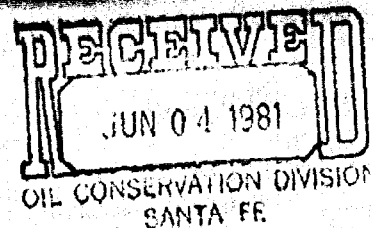
YATES PETROLEUM CORPORATION

By:

  
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.  
P. O. Drawer 239  
Artesia, New Mexico 88210

Attorneys for Applicant



BEFORE THE OIL CONSERVATION DIVISION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF :  
YATES PETROLEUM CORPORATION FOR :  
COMPULSORY POOLING, CHAVES COUNTY, :  
NEW MEXICO :

CASE NO. 7290

APPLICATION

COMES NOW Yates Petroleum Corporation, by its attorneys, and in support hereof, respectfully states:

1. Applicant has the right to drill its Curtis "QR" Com. No. 1 Well, to a depth sufficient to test all formations from the surface through the <sup>Abo</sup> Pennsylvanian formation, which is to be located at a point 660 feet from the north line and 660 feet from the east line of Section 26, Township 5 South, Range 24 East, N.M.P.M., Chaves County, New Mexico.

2. The applicant will dedicate the NE/4 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests. The party who has not agreed to pool his interest, and his last known address is as follows:

<u>NAME</u>	<u>ADDRESS</u>
John William Wood	209 S. LaSalle Street Chicago 4, Illinois

3. Applicant should be designated the operator of the well and the proration unit.

4. 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 gas in said unit, all mineral interests, whatever they may be, from the surface through the Pennsylvanian formation, underlying the NE/4 of said Section 26, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

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 hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface through the Pennsylvanian formation underlying the NE/4 of Section 26, Township 5 South, Range 24 East, N.M.P.M., Chaves County, New Mexico, to form a 160-acre spacing unit dedicated to applicant's well.

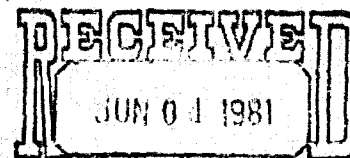
C. And for such other and further relief as may be just in the premises.

YATES PETROLEUM CORPORATION

By: Chad Dickerson  
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.  
P. O. Drawer 239  
Artesia, New Mexico 88210

Attorneys for Applicant



OIL CONSERVATION DIVISION  
SANTA FE

BEFORE THE OIL CONSERVATION DIVISION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF :  
YATES PETROLEUM CORPORATION FOR :  
COMPULSORY POOLING, CHAVES COUNTY, :  
NEW MEXICO :

CASE NO. 7290

APPLICATION

COMES NOW Yates Petroleum Corporation, by its attorneys, and in support hereof, respectfully states:

1. Applicant has the right to drill its Curtis "QR" Com. No. 1 Well, to a depth sufficient to test all formations from the surface through the <sup>Abo</sup> Pennsylvanian formation, which is to be located at a point 660 feet from the north line and 660 feet from the east line of Section 26, Township 5 South, Range 24 East, N.M.P.M., Chaves County, New Mexico.

2. The applicant will dedicate the NE/4 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests. The party who has not agreed to pool his interest, and his last known address is as follows:

<u>NAME</u>	<u>ADDRESS</u>
John William Wood	209 S. LaSalle Street Chicago 4, Illinois

3. Applicant should be designated the operator of the well and the proration unit.

4. 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 gas in said unit, all mineral interests, whatever they may be, from the surface through the Pennsylvanian formation, underlying the NE/4 of said Section 26, should be pooled.



5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

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 hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface through the Pennsylvanian formation underlying the NE/4 of Section 26, Township 5 South, Range 24 East, N.M.P.M., Chaves County, New Mexico, to form a 160-acre spacing unit dedicated to applicant's well.

C. And for such other and further relief as may be just in the premises.

YATES PETROLEUM CORPORATION

By: Chad Dickerson  
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.  
P. O. Drawer 239  
Artesia, New Mexico 88210

Attorneys for Applicant

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. 7290

Order No. R- 6241

APPLICATION OF YATES PETROLEUM  
CORPORATION FOR COMPULSORY POOLING,  
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 2  
1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets  
NOW, on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, 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, Yates Petroleum Corporation,  
seeks an order pooling all mineral interests in the Abo  
formation underlying the NE/4  
of Section 26, Township 5 South, Range 24 East  
NMPM, \_\_\_\_\_, Chaves County, New  
Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit 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 gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(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 20 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 \$ 2300<sup>00</sup> per month while drilling and \$ 230<sup>00</sup> 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 November 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 Abo formation underlying the NE/4 of Section 26, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, are hereby pooled to form a standard 160 - acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of November, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Abo formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of November, 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 Yates Petroleum Corporation 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 \$ 2300<sup>00</sup> per month while drilling and \$ 230<sup>00</sup> 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.

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(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 Chaves 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 herein-  
above designated.