CASE 7476: JACK J. GRYNBERG FOR COMPUL-
SORY POOLING, CHAVES COUNTY, NEW MEXICO
DE NOVO MAY 17, 1982

CASE NO.

7476 De Novo

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

GRYNBERG PETROLEUM COMPANY

5000 SOUTH QUEBEC • SUITE 600 • DENVER, COLORADO 80237 USA • PHONE 303 · 850-7490

TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303 · 753-9997

January 24, 1983

State of New Mexico
Oil Conservation Division
ATTN: Mr. Joe D. Ramey, Director
Post Office Box 2088
Santa Fe, NM 87501

RECEIVED
JAN 28 1983
OIL CONSERVATION DIVISION
SANTA FE

Case 7926

Mesa Petroleum Company
ATTN: Mr. Mark Hannifin
Vaughn Building, Suite 1000
Midland, TX 79701

Corona Oil Company
ATTN: Mr. Don Williams
4835 LBJ Freeway, Suite 635
Dallas, TX 75234

RE: Actual Well Costs
Jack J. Grynberg
#1 Grynberg 12 State "Com"
NE¼SE¼ Sec. 12, T5S-R24E
Chaves County, New Mexico

Gentlemen:

In accordance with Provision 5 of the NMOCD Order No. R-6925, the Division and each known working interest owner are to be furnished an itemized schedule of actual well costs for the captioned well within 90 days following completion of the well.

Checking our records, it appears that we have not yet provided the Division and each known working interest owner with such a schedule.

We apologize for the delay and are enclosing same for your review.

Very truly yours,

JACK J. GRYNBERG

Nancy Stolzle

By: Nancy Stolzle
Assistant Land Manager

NS/ggd
encl. 1

ACTUAL WELL COSTS
#1 GRYNBERG 12 STATE "COM"
NE/4SE/4 SECTION 12, T5S-R24E
CHAVES COUNTY, NEW MEXICO

Site & Location			
Mann Engineering	05/19/82	$ 549.14	
Sweatt Construction	06/17/82	3,840.04	
Oilfield Construction	07/06/82	430.04	
Oilfield Construction	08/19/82	675.34	
Oilfield Construction	09/23/82	761.25	
			$ 6,255.81
Drilling			
Aztec	06/02/82	49,238.46	
			49,238.46
Supplies			
Hughes Tool	06/17/82	13,145.89	
Double L Anchor	06/30/82	425.38	
Standard Service	07/06/82	497.22	
			14,068.49
Well Equipment			
Hondo 10-3/4	05/28/82	14,098.35	
Hondo Larkin (head & fit.)	06/02/82	1,399.13	
Hondo (jl. & bearing)	06/08/82	3,896.09	
Big Red Supply (flapper & pattern guide)	08/19/82	937.72	
Big Red Supply	11/29/82	(461.61)	
Big Red Supply	09/11/82	461.61	
			20,331.29
Water & Mud			
Double Mud	06/02/82	3,531.56	
Jim's Water	06/08/82	451.78	
Jim's Water	06/30/82	9,148.36	
Jim's Water	08/19/82	1,316.52	
			14,448.22
Services			
C. Pennels, Field Personnel	04/82	189.95	
C. Pennels, Field Personnel	05/82	1,054.70	
Kenny's Inspection	06/18/82	391.56	
J. Ahlen, Geologist	06/18/82	2,196.81	
Lankford	06/30/82	3,996.34	
Crawford Well	06/30/82	637.56	
Big Red	07/06/82	117.32	
			8,584.24
Logs			
Schlumberger	05/28/82	7,572.20	
Gearhart	06/02/82	10,109.82	
			17,682.02

Actual Well Costs
#1 Grynberg 12 State "Com"
NE/4SE/4 Sec. 12, T5S-R24E
Chaves County, New Mexico
Page 2

Completion			
Halliburton - Plugging	05/25/82	$ 4,705.59	
Byrd Casing	07/06/82	2,984.50	
R&R Lease	08/08/82	271.17	
Byrd Casing	08/09/82	2,906.00	
			$ 10,867.26
Cement			
Halliburton	05/24/82	6,732.72	
			6,732.72
Truck			
Dawn Truck	06/17/82	706.65	
Dawn Truck	06/18/82	962.55	
Dawn Truck	07/06/82	5,042.52	
			6,711.72
Overhead			
(Well Spudded 05/10/82 - P & A 05/19/82)			
9 Days @ $80.65/Day		725.85	725.85
	TOTAL ACTUAL WELL COSTS:		$ 155,646.08

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

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

MEMORANDUM

TO: JOE D. RAMEY AND EMERY ARNOLD, COMMISSIONERS
OIL CONSERVATION COMMISSION

FROM: W. PERRY PEARCE, GENERAL COUNSEL

RE: MOTION TO DISMISS IN CASE NO. 7476, APPLICATION OF JACK J. GRYNBERG

As you recall, Case No. 7476, the application of Jack J. Grynberg for compulsory pooling and Case No. 7513, application of Mesa Petroleum Petroleum Company for compulsory pooling, were heard jointly on May 17, 1982. During the course of that Commission Hearing, Counsel for Mesa Petroleum Company moved that the application of Grynberg filed in Case No. 7476 be dismissed on the basis that Grynberg did not meet the qualifications set forth in the pooling section of the New Mexico Oil & Gas Act and, therefore, had no right to make application.

Specifically, Mesa argued that the Oil & Gas Act requires that application for forced pooling be made by "one such separate owner, or owners, who has the right to drill...". Exhibits offered by Mesa at the hearing show that the State lease originally issued to Celeste C. Grynberg has been assigned to a Colorado Limited Partnership, JJ-CC Limited. Relying upon Section 54-3-6 NMSA, 1978, (transaction of business by foreign limited partnerships without registration) and Section 70-2-17 NMSA, 1978, (forced pooling), Mesa moved to dismiss the application of Grynberg on the grounds that JJ-CC is the owner of the mineral interest and is disqualified to maintain this proceeding.

Attached to this Memorandum are the briefs submitted by Mesa and Grynberg on these questions. Essentially, Mesa argues that JJ-CC is the owner, JJ-CC is not registered to transact business in the State of New Mexico, and therefore JJ-CC does not have a right to drill on the land nor does Grynberg.

Grynberg argues that the Act requiring registration of foreign limited partnerships affects only the question of liability and not the right of the entity to transact business, that the limited partnership, JJ-CC, is formed under the auspices of the bankruptcy court and that on the date of the hearing the property was held by Grynberg, or the Estate of Grynberg established by the Federal bankruptcy court, and that on May 17, 1982, (the date of the hearing) title vested in the limited partnership, JJ-CC Limited, and Jack J. Grynberg was the General Partner of that partnership authorized to act on its behalf. In fact, the brief submitted by Grynberg suggests that the technically precise applicant in this matter is Jack J. Grynberg as managing General Partner of JJ-CC Limited.

It is my opinion that since the Foreign Limited Partnership Act specifically refuses to affect the validity of any contract or act done by any Foreign Limited Partnership which has not registered, and since Foreign Limited Partnerships which do not register are only forbidden to proceed in the "courts" of this State, that the application was proper and the motion to dismiss submitted by Mesa at the hearing should be denied.

If you would like some additional discussion of the questions behind this opinion, I will provide it.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

June 28, 1982

Mr. J. E. Gallegos
Jones, Gallegos, Snead & Wertheim
Attorneys at Law
P. O. Box 2228
Santa Fe, New Mexico 87501

Re: CASE NO. 7476
ORDER NO. R-6925-A

Applicant:

Jack J. Grynberg

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other William F. Carr, Steven James

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION OF NEW MEXICO FOR THE PURPOSE OF CONSIDERING:

CASE NO. 7476 DE NOVO
Order No. R-6925-A

APPLICATION OF JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 17, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 25th day of June, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Jack J. Grynberg, seeks an order pooling all mineral interests down through and including the Abo formation underlying two 160-acre gas spacing units, being the NE/4 and the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico.

(3) That the applicant's request for dismissal of his request to pool the mineral interests under the NE/4 of said Section 12 was approved, and this case now involves only the SE/4 of said Section 12.

(4) That the matter came on for hearing at 9 a.m. on March 16, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets and, pursuant to this hearing, Order No. R-6925 was issued on April 5, 1982, which granted Grynberg's application.

(5) That on April 6, 1982, application for Hearing De Novo was made by Mesa Petroleum Co. and the matter was set for hearing before the Commission.

(6) That the matter came on for hearing de novo on May 17, 1982.

(7) That on May 9, 1982, Grynberg did spud a well located 1980 feet from the South line and 660 feet from the East line of said Section 12.

(8) The records of the Oil Conservation Division reflect that said well was drilled to the Abo formation at a total depth of 4100 feet and was plugged and abandoned as a dry hole on May 19, 1982.

(9) That as a result of said dry hole, Order No. R-6925 should no longer be in force and effect.

(10) That the application of Jack J. Grynberg should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Jack J. Grynberg for an order pooling all mineral interests, whatever they may be, from the surface down through the Abo formation underlying the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, to form a standard 160-acre gas proration unit is hereby denied.

(2) That that portion of this application which seeks the pooling of mineral interests underlying the NE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, is hereby dismissed.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

EMERY C. ARNOLD, Chairman

ALEX J. ARMIJO, Member

JOE D. RAMEY, Member & Secretary

SEAL
fd/

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

MODEL FORM OPERATING AGREEMENT

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Grynberg EXHIBIT NO. 2
CASE NO. 7476
Submitted by Grynberg
Hearing Date 5/17/82

OPERATING AGREEMENT

DATED

January 12th, 1982,

OPERATOR JACK J. GRYNBERG

CONTRACT AREA TOWNSHIP 5 SOUTH - RANGE 24 EAST, Section 12:
SE/4 N.M.P.M.

COUNTY OR PARISH OF Chaves STATE OF New Mexico

COPYRIGHT 1977 — ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

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

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

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

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

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

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

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

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

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

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

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

14. Signature Page - Enter effective date.

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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to 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 ~~[illegible] herein provided~~, 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 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.~~

[X] 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:

JACK J. GRYNBERG, 1050 17th St., Ste. 1950, Denver, CO. 80265 shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1982*, Operator shall commence the drilling of a well for oil and gas at the following location:

TOWNSHIP 5 SOUTH - RANGE 24 EAST
Section 12: SE/4

and shall thereafter continue the drilling of the well with due diligence to

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.

*or within 30 days from the date, the New Mexico Oil and Gas Division declares JACK GRYNBERG Operator of the spacing unit encompassing this location, whichever date is later.

B. Subsequent Operations:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Right to Take Production in Kind:

Each party electing to take in kind or separately dispose of its proportionate share of production from the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-operators shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "H". The assignments of leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments of 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. It is not the intention of the parties that this contract is made of intended for the benefit of any third person.

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.

including reasonable attorneys' fees in the event of a suit to collect any delinquency.

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.~~

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of TWENTY FIVE THOUSAND Dollars ($ 25000) 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).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 12.5% of 8/8 due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.
No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any 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.

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

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 party assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

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

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

B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases. 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 the contribution of acreage by the Contributing Parties toward the Initial or any Substitute Test Well.

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

~~G. Preferential Right to Purchase:~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

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

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifteen Thousand and NO/100 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 notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

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

[redacted]

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

Non-Operator(s) agree(s) to indemnify and hold Operator harmless from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of any statute, law, resolution or similar mandate, or any rules, rulings, regulations or orders of any regulatory agency having any jurisdiction over the Contract Area to the extent Operator's interpretation or application was made in good faith. Non-Operator(s) further agree to reimburse Operator for theNon-Operators' proportionate part of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation, or rulings, regulations or orders, together with the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

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 12 day of January, 1982.

OPERATOR

JACK J. GRYNBERG

NON-OPERATORS

MTS, LIMITED PARTNERSHIP

BY: _____

ATTEST: _____

STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

BEFORE ME, the undersigned authority, on this day personally appeared JACK J. GRYNBERG, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purpose and consideration therein expressed and in the capacity therein stated.

GIVEN under my hand and seal of office, this _____ day of JAN 7 1982, 1982.

My Commission Expires:

5/20/85

NOTARY PUBLIC in and for the County of Denver, State of Colorado
JANET D. KERBY NOTARY PUBLIC
1038 GARFIELD STREET
DENVER, COLORADO 80206

* * * * * * *

STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

BEFORE ME, the undersigned authority, on this day personally appeared _____ as Attorney-in-Fact, of MTS, LIMITED PARTNERSHIP, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that (s)he executed the same for the purpose and consideration therein expressed and in the capacity therein stated.

GIVEN under my hand and seal of office, this _____ day of _____, 1982.

My Commission Expires:

_____

NOTARY PUBLIC in and for the County of Midland, State of Texas

Attached to and made part of Operating Agreement dated January 12, 1982, between JACK J. GRYNBERG, OPERATOR, and MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators.

Attached to and made part of Operating Agreement dated January 12, 1982, between JACK J. GRYNBERG, OPERATOR, and MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators.

NON-OPERATORS

ATTEST:

CORONA OIL COMPANY

_____

_____
ATTORNEY-IN-FACT

* * * * * * * * * * * * * * *

STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

BEFORE ME, the undersigned authority, on this day personally appeared _____ as Attorney-in-Fact, of CORONA OIL COMPANY, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that (s)he executed the same for the purpose and the consideration therein expressed and in the capacity therein stated.

GIVEN under my hand and seal of office, this _____ day of _____,

My Commission Expires:

_____
NOTARY PUBLIC in and for the County of Dallas, State of Texas

_____ _____

EXHIBIT "A"

Attached to and made part of Operating Agreement dated January 12, 1982, between JACK J. GRYNBERG as Operator, and MTS, LIMITED and CORONA OIL COMPANY, Non-Operators, and covering Section 12 - 5S - 24E; SE/4, Chaves County, New Mexico.

I. 1. Land Subject to Agreement:

TOWNSHIP 5 SOUTH - RANGE 24 EAST, N.M.P.M.
Section 12: SE/4
Containing 160 Acres, more or less
Chaves County, New Mexico

2. Depth Restriction:
Abo formation

3. Drilling Unit for the First Well:

Proration Unit established by the New Mexico OCC.

II. Percentage Interest of Parties Under Agreement:

NAME	ACRES	WORKING INTEREST
JACK J. GRYNBERG	80 acres	50%
MTS, LIMITED PARTNERSHIP	40 acres	25%
CORONA OIL COMPANY	40 acres	25%

III. Leasehold Interest of Parties of Operating Agreement:

1. Lessor: State of New Mexico
Lessee: JACK J. GRYNBERG
Serial Number: STA-NM-LG-0565
Description: E/2SE/4 of Section 12 - 5S - 24E
(Limited to portion included in Contract Areas)

2. Lessor: United States
Lessee: a. MTS, LIMITED PARTNERSHIP
b. CORONA OIL COMPANY
Serial Number: USA-NM-22615
Description: W/2SE/4
(Limited to portion included in Contract Areas)

IV. Addresses of Parties:

JACK J. GRYNBERG
1050 17th Street, Suite 1950
Denver, Colorado 80265

CORONA OIL COMPANY
ATTN: Mr. Don Williams
4835 LBJ Freeway, Suite 635
Richardson, Texas 75234

MTS, LIMITED PARTNERSHIP
c/o MESA PETROLEUM COMPANY
ATTN: Mr. Mark Hannifin
1000 Vaugh Bldg.
Midland, Texas 79701

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

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated January 12th, 1982, between JACK J. GRYNBERG as Operator, and MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators, and covering Section 12 - 5# - 24E; SE/4, Chaves County, New Mexico.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. **Definitions**

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. **Statement and Billings**

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

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

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of * (below) 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.

* 2% above the prime rate (posted by the Bank of America, San Francisco) on the date any such default occurs

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II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

   Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%) or the 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 (XX) 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 $ 2500.00
Producing Well Rate $ 250.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

** 2. Overhead - Major Construction

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

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

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

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

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

3. Amendment of Rates

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

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

** To be negotiated at a later date.

(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 JANUARY 12TH, 1982, BETWEEN
JACK J. GRYNBERG AS OPERATOR, AND
NTS, LIMITED PARTNERSHIP AND CORONA
OIL COMPANY, NON-OPERATORS, AND
COVERING SECTION 12 - 5S - 24E; SE/4,
CHAVES COUNTY, NEW MEXICO.

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) Workmens Compensation Insurance as contemplated by the state in which operations will be conducted, and Employers' Liability Insurance with limits of not less than $100,000.00 per employee

(B) Public Liability Insurance:
Bodily injury - $500,000.00 each occurrence

(C) Automobile Public Liability Insurance:
Bodily injury - $250,000.00 each person
$500,000.00 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 January 12th, 1982, between JACK J. GRYNBERG as Operator, and MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators, and covering Section 12 - 5S - 24E; SE/4, Chaves County, New Mexico.

GAS BALANCING AGREEMENT

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 per cent (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 claim 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 resonable 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, the price of which is not regulated by Federal, State or other Governmental Agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by Federal, State or other Governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other Governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority. Such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

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 overporduced 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 THAT CERTAIN OPERATING AGREEMENT DATED January 12th, 1982, BETWEEN: JACK J. GRINBERG "OPERATOR" AND MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators, and Covering Section 12 - 5S - 24E; SE/4.

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 relevent 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 or 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 fraundulent representation may be liable to criminal prosecution under 18 U.S.C. S 1001.

JACK GRYNBERG AND ASSOCIATES
PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS
1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455
TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

#4

April 7, 1982

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 3
Submitted by Gryn
Hearing Date 5/17/82

Mr. Dan Nutter
Department of Energy and Minerals
Oil Conservation Division
Post Office Box 2088
Santa Fe, NM 87501

RE: Compulsory Pooling Order No. 6925
T5S-R24E, Sec. 12: SE/4
Chaves County, New Mexico

Dear Mr. Nutter:

Deborah Hill has asked me to forward you a copy of the Authority for Expenditure for the above captioned well and copies of the accompanying cover letters to Mesa Petroleum Company and Corona Oil Company.

I hope these are satisfactory and meet the requirements of the Oil Conservation Division. Should you have any questions, please feel free to call me.

Very truly yours,

Stephen G. Smith
Petroleum Landman

SGS/
encls. 3

JACK GRYNBERG AND ASSOCIATES
PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS
1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455
TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

#5

April 7, 1982

Mr. Mark Hannifin
Mesa Petroleum Company
1000 Vaughn Building
Midland, TX 79701

RE: Authority for Expenditure
T5S-R24E, Sec. 12: SE/4
Chaves County, New Mexico

Dear Mr. Hannifin:

Enclosed are two copies of the Authority for Expenditure for the above captioned well. As you know, the New Mexico Oil Conservation Division, per Compulsory Pooling Order 6925, has named Jack Grynberg and Associates as Operator of this well. Under the terms of the Order, unless timely appearl is filed by Mesa or Corona, a copy of this AFE must be signed and returned within thirty days or you will be considered a non-consenting party, subject to the penalties appurtenant thereto.

Your cooperation in this matter will be greatly appreciated. Should you have any questions, please feel free to call me.

Very truly yours,

Stephen G, Smith
Petroleum Landman

SGS/
encls. 2

JACK GRYNBERG AND ASSOCIATES
PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS
1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455
TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

#6

April 7, 1982

Mr. Don Williams
Corona Oil Company
4835 LBJ Freeway, Suite 635
Dallas, TX 75234

RE: Authority for Expenditure
T5S-R24E, Sec. 12: SE/4
Chaves County, New Mexico

Dear Mr. Williams:

Enclosed are two copies of the Authority for Expenditure for the above captioned well. As you know, the New Mexico Oil Conservation Division, per Compulsory Pooling Order 6925, has named Jack Grynberg and Associates as Operator of this well. Under the terms of the Order, unless timely appeal is filed by Mesa or Corona, a copy of this AFE must be signed and returned within thirty days or you will be considered a non-consenting party, subject to the penalties appurtenant thereto.

Your cooperation in this matter will be greatly appreciated. Should you have any questions, please feel free to call me.

Very truly yours,

Stephen G. Smith
Petroleum Landman

SGS/
encls. 2

_____		7900
Separation Eq., Flowlines, Valves & Fittings	-	19800
Trucking & Construction Costs	-	4300
TOTAL LEASE & BATTERY EQUIP:		32000
TOTALS:	$ 186900	$ 339500

APPROVAL OF THIS AFE 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.

JACK J. GRYNBERG

SHARE
50.00%

BY: _____ DATE 4/7/82

AUTHORITY FOR EXPENDITURES

AFE#
REVISION #
DATE 4/7/82

LEASE NAME Grynberg 12 State COM #1 LOCATION T5S - R24E, Sec. 12 1980' fsl & 660' fel

COUNTY Chaves STATE New Mexico FIELD

HORIZON Abo EXT. T.D. 4000' EST. SPUD DATE

EST. COMPLETION DATE DRILLING CONTRACTOR

PRIMARY OBJECTIVE: ___ OIL x GAS ___ OIL and/or GAS

PURPOSE: x DRILLING - NEW ___ RECOMPLETION ___ OTHER (SUPPLEMENT, AFE, ETC.)

TYPE WELL: x DEVELOPMENT ___ EXPLORATORY

INTANGIBLE COSTS:	DRY HOLE	COMPLETION
Staking Permit & Legal Fees	$ 1000	$ 1000
Location, Right-of-Way	7100	7100
Drilling, Footage	-	-
Drilling, Daywork 10 Days @ $ 5500 /Day	55000	55000
Moving In, Rigging Up, Rigging Down	23000	23000
Bits, Tools & Supplies	10000	10000
Drilling Water	8000	8000
Drilling Mud & Additives	5000	5000
Mud Logging Unit	-	-
Cement, Tools & Services, Temp. Surveys	9000	15000
Drill Stem Testing	-	-
Electric Logs & Perforating	20000	30000
Tool & Equip. Rental, Trucking, Welding	5500	8000
Supervision & Overhead	2300	3000
Coring, Tools & Services	-	-
Completion Unit 5 Days @ $ 1150 /Day	-	5800
Stimulation	-	35000
Contingency	7400	10700
TOTAL INTANGIBLES:	153300	287700

WELL EQUIPMENT COSTS:		
Christmas Tree and Well Head	1200	12000
Casing:	12000	-
	-	-
	-	19000
Tubing:	-	16200
Packer & Special Equipment	-	4000
Contingency - Intermediate Casing String 8-5/8" @ 1500'	20400	21200
TOTAL WELL EQUIPMENT:	33600	50800

LEASE & BATTERY EQUIPMENT COSTS:		
Pumping Equipment	-	-
Storage	-	7900
Separation Eq., Flowlines, Valves & Fittings	-	19800
Trucking & Construction Costs	-	4300
TOTAL LEASE & BATTERY EQUIP:		32000
TOTALS:	$ 186900	$ 338500

APPROVAL OF THIS AFE 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.

JACK J. GRYNBERG

SHARE 50.00%

BY: DATE 4/7/82

NON-OPERATORS	SHARE
MESA PETROLEUM COMPANY	25.00%
BY: _____	
CORONA OIL COMPANY	25.00%
BY: _____	

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:

4-7-82

CASE NO. 7476
Order No. R-6925

APPLICATION OF JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 4
Submitted by Gryn
Hearing Date 5/17/82

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 16, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of April, 1982, 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 on December 31, 1981, the applicant, Jack J. Grynberg, filed applications seeking an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico.

(3) That the applicant's subsequent request for dismissal of his request to pool the mineral interests under the NE/4 of said Section 12 should be approved.

(4) That on February 22, 1982, Mesa Petroleum Company filed an application seeking an order pooling all mineral interests down through and including the Abo formation also underlying the SE/4 of said Section 12.

(5) That the Mesa Petroleum Company application was set as Case No. 7513 and was consolidated for purposes of testimony with the subject case.

(6) That the applicant has the right to drill and proposes to drill a well at standard locations on each unit.

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

(8) 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.

(9) That the applicant is the owner of the single greatest interest in the proposed proration unit.

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

(11) 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.

(12) 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 wells.

(13) 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.

(14) 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.

(15) That $2500.00 per month while drilling and $250.00 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.

(16) 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.

(17) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

(18) That the application of Mesa Petroleum Company in Case No. 7513 should be denied.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Abo formation underlying a 160-acre gas spacing unit, being the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, are hereby pooled and are 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 wells on or before the 1st day of July, 1982, 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 July, 1982, 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 wells 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 Jack J. Grynberg 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 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 $2500.00 per month while drilling and $250.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's 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 that portion of this application which seeks the pooling of mineral interests underlying the NE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, is hereby dismissed.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

S E A L

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
CORONA EXHIBIT NO. 5
CASE NO. 7477
Submitted by Grynberg
5/17/82

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

MODEL FORM OPERATING AGREEMENT

Mesa Petroleum Co., as Operator, Corona Oil Company
and Jack Grynberg as Non-Operators

#1 Pat State Com.

OPERATING AGREEMENT

DATED

December 5 , 1981 ,

OPERATOR MESA PETROLEUM CO.

CONTRACT AREA SE/4 Section 12, Township 5 South, Range 24 East,

N.M.P.M.

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, OK 74101

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

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

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

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

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

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

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

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

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

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

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

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

14. Signature Page - Enter effective date.

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ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

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

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

C. **Employees:**

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

D. **Drilling Contracts:**

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. **Initial Well:**

On or before the 31 day of December, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

660' FSL & 660' FEL Section 12, Township 5 South, Range 24 East

and shall thereafter continue the drilling of the well with due diligence to 4,100 feet or a depth sufficient to test the Abo Formation, whichever is lesser

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

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

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

B. Subsequent Operations:

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

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

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

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

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

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

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

Gas production attributable to any Non-Consenting Party's relinquished interest shall be sold, at the election of the Consenting Party, either to the Consenting Party's purchaser or to the Non-Consenting Party's purchaser. If any sale is made to the Non-Consenting Party's purchaser, 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.

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

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

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

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

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

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

C. Right to Take Production in Kind:

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

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

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 ~~80% of 8/8~~ 18.75 of 8/8 due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

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

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

G. Taxes:

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

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

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

H. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

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

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Seven Thousand Five Hundred Dollars ($ 7,500.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

[X] Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

Non-Operator(s) agree(s) to indemnify and hold Operator harmless from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of any statute, law, resolution or similar mandate, or any rules, rulings, regulations or orders of any regulatory agency having any jurisdiction over the Contract Area to the extent Operator's interpretation or application was made in good faith. Non-Operator(s) further agree to reimburse Operator for the Non-Operators' proportionate part of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation, or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders, together with the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

* Jack Grynberg and Associates hereby agrees to pay its share of approved expenditures for initial or subsequent operations hereunder prior to the commencement of each such operation.

~~In order to consent to the initial or subsequent operations contemplated hereunder, Jack Grynberg and Associates will, in advance, furnish payment bonds as security for the prompt and faithful payment of its additional obligations for each such operation. Such bonds shall be for an amount at least equal to Jack Grynberg and Associates' share of expenditures approved in advance of any particular initial or subsequent operation and shall be in such form and with such sureties as are acceptable to the Operator. Jack Grynberg and Associates shall also furnish such new payment bonds as Operator may from time to time require in order to further secure payment of Jack Grynberg and Associates' obligations hereunder.~~

* See letter by Randy Keough to Mesa dated 12-14-84

~~Upon default of any of Jack Grynberg and Associates' obligations hereunder, and without further notice from Operator, Jack Grynberg and Associates shall forthwith proportionately assign to the other parties hereto all of its right, title and interest, as of the date of this Operating Agreement, in and to the Contract Area hereunder, all wells and equipment thereon, and all subsequent production therefrom, free and clear of all liens and encumbrances and Jack Grynberg and Associates shall no longer be a party to this Operating Agreement. This remedy shall be in addition to and not exclusive of Jack Grynberg and Associates payment obligations hereunder, which obligations shall be continuing despite Jack Grynberg and Assoicates no longer being a party to this Operating Agreement.~~

The terms and conditions of the hereinabove special provisions shall be binding upon Jack Grynberg and Associates, its successors and assigns.

Without otherwise affecting the responsibilities and liabilities of Jack Grynberg and Associates, its successors or assigns, for its obligations hereunder, Jack Grynberg hereby agrees to be individually responsible and liable for each and every obligation hereunder of Jack Grynberg and Associates, its successors or assigns. Upon default by Jack Grynberg and Associates, its successors or assigns, of any of its obligations hereunder, Operator shall have the right, in accordance herewith and without prejudice to Operator's other rights or remedies, to enforce such obligations against Jack Grynberg, individually, or Jack Grynberg and Associates, its successors or assigns, or both.

ARTICLE XVI.
MISCELLANEOUS

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

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

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

OPERATOR

MESA PETROLEUM CO.

_____ BY: _____

NON-OPERATORS

JACK GRYNBERG AND ASSOCIATES

_____ BY: _____
Jack Grynberg Individually and as
as _____
of Jack Grynberg and Associates

CORONA OIL COMPANY

_____ BY: _____

Signature Page for Operating Agreement dated December 5, 1981 between Mesa Petroleum Co., as Operator and Jack Grynberg and Associates and Corona Oil Company as Non-Operators.

EXHIBIT " "

Attached to and made a part of Operating Agreement dated December 5, 1981, between Mesa Petroleum Co., as Operator, and Jack Grynberg and Associates, et al, as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at a rate equal to the higher of 120% of the prime rate of interest of the Continental Illinois Bank & Trust Company or 18% per annum; provided, however, in no event shall the Non-Operator Parties be required to pay interest in excess of the federal or state statutory ceiling applicable in the jurisdiction in which the joint property is located. Non-Operators shall also be liable for 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-six percent (26%) or percent most recently recommended by the Council of Petroleum Accountants Societies of North America.

4. Material

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

5. Transportation

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

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

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed 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

Costs and 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, and the costs and expenses incurred in connection with hearings and other matter before governmental bodies and agencies and costs and expenses incurred in examining and curing title, except that no charge for services of

10. **Taxes**

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

11. **Insurance**

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

12. **Other Expenditures**

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

III. OVERHEAD

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

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

(X) Fixed Rate Basis, Paragraph 1A, or (See Schedule I attached.)
( ) 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 ( ) 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 $ 3,700.00
Producing Well Rate $ 370.00

(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 the contractual rig charges begin and terminate on the date the drilling or completion equipment moves off location or rig is released, 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 :

A. 5 % of total costs if such costs are more than $ 25,000* but less than $ 100,000 ; plus

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

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

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

*When design and engineering is furnished by third party contractors and charged to the

(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" ONSHORE

Attached to and made a part of Operating Agreement
dated December 4, 1981, between Mesa Petroleum Co., as
Operator, and Jack Grynberg and Associates, et al, as Non-Operators.

INSURANCE

The Operator shall carry for the benefit of the joint account insurance to cover drilling operations and producing operations on the jointly owned acreage as follows:

I. Workmen's Compensation and Employer's Liability covering the employees of Operator engaged in operations hereunder in compliance with all applicable Federal Laws and the laws of the State of New Mexico, with Employers Liability limit of not less than $100,000 per person and $100,000 per occurrence.

II. Operator shall carry of its interest and for the interest of any non-operator so electing to participate in writing, within 60 days of the date of the Operating Agreement, the following types and limits of insurance:

(A) Comprehensive General Liability covering operations conducted hereunder by Operator for the Parties with limits of:

Combined Bodily Injury & Property Damage	$1,000,000 per occurrence $1,000,000 Aggregate

(B) Automobile Liability covering all vehicles owned, non-owned, or hired and used in connection with operations conducted hereunder by Operator for the joint account with limits of:

Combined Bodily Injury & Property Damage	$1,000,000 per occurrence $1,000,000 Aggregate

The premiums for all such insurance so carried in paragraph II shall be paid by Operator and may be charged directly to such non-operators as elect to participate to the extent that their interest is insured.

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of Operating Agreement dated December 5, 1981, between Mesa Petroleum Co., as "Operator", and Jack Grynberg and Associates, et al, as "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.

Each Party shall have the right to take in kind its share of the gas produced from the Unit Area. However, there may be periods when one or more of the Parties have no market for, or its purchaser is unable to take, or for any other reason, it may not dispose of its interest, or a portion thereof, in the gas production. Therefore, to permit each Party to produce and dispose of its interest in the gas production from the Unit Area with as much flexibility as possible, the Parties hereto agree to this Gas Balancing Agreement as hereinafter set forth:

1. DEFINITIONS:

For the purposes of this Agreement, the following terms shall be defined as hereafter set out:

(a) "Operating Agreement" shall mean the Operating Agreement to which this Gas Balancing Agreement is attached.

(b) "Gas" shall mean natural gas or oil well gas obtained from primary field separation.

(c) "Liquid Hydrocarbons" are those liquids obtained from primary field separation.

(d) "Percentage Ownership" is the percentage interest of each party as set forth in the Operating Agreement.

(e) "Over-produced Party" is a party who has utilized or sold a greater volume of gas at any given time (individually or through its gas purchaser) than a volume determined by multiplying the total cumulative volume of gas produced and utilized or sold from a proration unit within the Unit Area by such Party's Percentage Ownership.

(f) "Under-produced Party" is a party who has utilized or sold a lesser volume of gas at any given time (individually or through its gas purchaser) than a volume determined by multiplying the total cumulative volume of gas produced and utilized or sold from a proration unit within the Unit Area by such Party's Percentage Ownership.

(g) "MER" is the total daily maximum efficient rate of hydrocarbon withdrawal from each separately produced proration unit, which, if exceeded for a sustained period of time, would lead to underground waste in the form of reduced ultimate recovery from the proration unit, after deducting the gas used in operations on the Unit Area or vented or lost.

2. OWNERSHIP OF PRODUCTION:

(a) SALE BY LESS THAN ALL OWNERS: All gas produced from the Unit Area shall be produced and utilized or sold by those parties having a use or market for such gas. If fewer than all the parties are producing gas, the parties so producing shall have the right and option, but not the obligation, to produce and dispose of all or any part of such gas that may be produced up to the MER. The parties hereto shall share in and own the liquid hydrocarbons, as produced, in accordance with their respective interests, as set forth in and subject to the terms of the Operating Agreement. It is agreed that the gas attributable to the interest of each non-producing party shall remain in the reservoir for production at a later date.

(b) SALE BY UNDER-PRODUCED OWNERS: Each Under-produced Party shall, upon commencing the sale of gas, have the right to take a greater percentage of the current gas production than such Under-produced Party's Percentage Ownership, subject to the following limitations:

(1) For the purposes of balancing gas production accounts, as soon as practical, any Over-produced Party or Parties will make available to any Under-produced Party or

Parties a portion of the Over-produced Party's or Parties' share of gas production at the current MER, but Over-produced Parties shall not be liable to Under-produced Parties under this paragraph except as provided in Section 4 hereof. In no event will any Over-produced Party be required to reduce the volume of gas which it is entitled to take from a proration unit during any calendar month to less than 50% of such Over-produced Party's Percentage Ownership in the gas produced. If at any time more than one Under-produced Party is taking in excess of its gas production account, then each such Under-produced Party shall be entitled to a share of the gas production made available by the Over-produced Parties in the ratio that the under-production of each Under-produced Party bears to the total under-production of all Under-produced Parties currently taking gas.

(2) For the purpose of balancing in the event of price increases as provided in Section 3 hereof and for the purpose of balancing production accounts as provided in Section 4 hereof, the Under-produced Party, to the extent it is taking gas in excess of that attributable to its Percentage Ownership, shall be deemed to be recovering volumes of gas offsetting prior over-production by the Over-produced Party on a last in, first out basis.

(3) Each party's gas production account is in balance when such party has utilized or sold the same percentage of the total cumulative production from a proration unit as such party's Percentage Ownership.

(4) It is contemplated that some of the parties may arrange to have their gas processed in a gas processing plant for the recovery of liquefiable hydrocarbons. This

Balancing Agreement shall not provide a basis for balancing any liquefiable hydrocarbons recovered from a gas processing plant.

(5) Only produced gas actually utilized or sold by a party shall be owned by it and charged against its share of the total recoverable reserves.

3. BALANCING IN THE EVENT OF PRICE INCREASES:

In the event the price received by the Under-produced Party for gas otherwise attributable to the Over-produced Party's interest in gas production which is being delivered for the Under-produced Party's account is greater than the price received by the Over-produced Party for the equivalent volume of gas, then the Under-produced Party shall pay to the Over-produced Party in cash, on a monthly basis, the product of the volume of gas otherwise attributable to the Over-produced Party's interest in gas production which is being delivered for the Under-produced Party's account and the difference between the lawful price which the Under-produced Party currently is collecting for the gas described above (but in no event higher than the price received by the Over-produced Party at the time such production is sold by the Under-produced Party) and the lawful price which the Over-produced Party actually collected for the volume of gas described above.

4. BALANCING OF PRODUCTION ACCOUNTS:

When production from a proration unit permanently ceases, there shall be an accounting between the parties hereto so that any Under-produced Party shall receive a sum of money equal to the amount actually received, less applicable taxes, royalty, and the cost of dehydration and compression if not participated in by the Under-produced Party, by any Over-produced Party from the sale of that part of the total cumulative volume of gas produced from the proration unit to which any Under-produced Party was entitled, but which was utilized or sold by the Over-produced Parties. For the purposes of this paragraph, the "amount actually received" shall be the dollar amount

received for the quantity of gas remaining after subtracting the quantity of any periodic under-production by an Over-produced Party from the unbalanced over-production of such party. If a portion of a party's gas is taken for its own use and a portion thereof is sold, the gas value will be based on the price received simultaneously by such party for gas being sold from the proration unit. During periods in which a party is taking all of its gas for its own use, any gas so taken will be valued at the maximum price which such party could have received for such gas if actually delivered under such party's contract, or if none, the weighted average price received simultaneously by all parties for gas sold from the proration unit. If gas is processed for the recovery of liquefiable hydrocarbons, the gas value will be based on the amount which would have been received for the sale of such gas without processing.

5. STATEMENTS:

During the term hereof, each party selling gas from a proration unit in any month will furnish or cause to be furnished to each of the other parties a statement showing the volume and value of gas utilized and the volume and proceeds if sold. The Operator under the Operating Agreement shall furnish monthly to each party a statement showing the status of the over and short accounts of all parties.

6. PRODUCTION TAXES:

Each Party taking gas shall pay any and all production taxes due on such gas.

7. PAYMENT OF ROYALTY:

At all times while gas is produced from the Unit Area, each party hereto shall make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to its purchaser its share, and its share only, of the total gas production exclusive of gas used in lease operations, vented or lost. 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.

8. OPERATING EXPENSES:

The operating expenses are to be borne as provided in the Operating Agreement, regardless of whether all parties are selling or using gas or whether the sales and use of each are in proportion to Percentage Ownership.

9. SCOPE AND TERM:

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

10. INDEMNITY:

Each party hereby indemnifies the other parties hereto against all liability for and agrees to defend the parties hereto against all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under its provisions, and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection therewith.

11. OPERATOR'S LIABILITY:

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

Attached to and made a part of Operating Agreement
dated December 5, 1981, between Mesa Petroleum Co., as
Operator, and Jack Grynberg and Associates, et al, as Non-Operators.

EXHIBIT "F"

CONTRACTOR'S CERTIFICATION FOR

MESA PETROLEUM CO.

A. EQUAL EMPLOYMENT OPPORTUNITY

It is hereby agreed that the following provisions, which are also set forth in Section 202 of Executive Order 11246, are made a part of each agreement and purchase order presently existing or which may be entered into hereafter, between Contractor and Mesa Petroleum Co.

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

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

3. Contractor will send to each labor union or representative of workers with which he 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' representatives of the Operator's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

5. Contractor will furnish all information and reports required by Executive Order No. 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 his 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 Contractor's non-compliance with the nondiscrimination 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 Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

7. Contractor 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 No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event Contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interest of the United States.

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

Contractor agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this agreement or the award of any such purchase order, as the case may be. (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually, on or before March 31. (41 CFR 60-1.7(a))

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

Contractor agrees to develop and maintain a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order No. 11246, as amended. (41 CFR 60-1.40)

D. CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into this contract, certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. It certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained.

Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, restrooms and washrooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom, or otherwise. It further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods), it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS
OF REQUIREMENT FOR CERTIFICATIONS
OF NONSEGREGATED FACILITIES

A Certification of Nonsegregated Facilities, as required by the May 9, 1957 Order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontractor or for all subcontracts during a period (i.e. quarterly, semi-annually, or annually).

E. EMPLOYMENT OF VETERANS

1. The Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause set forth at Section 60-250.4 of Title 41 Code of Federal Regulations is hereby incorporated herein by reference. (This clause is applicable to all contracts or purchase orders for $10,000 or more.)

2. Contractor agrees further to place the above provisions in any subcontract nonexempt under the rules and regulations promulgated by the Secretary under the Vietnam Era Veterans Readjustment Assistance Act of 1974.

F. EMPLOYMENT OF HANDICAPPED PERSONS

1. The Affirmative Action for Handicapped Workers Clause set forth in Section 60-741.41 of Title 41 Code of Federal Regulations is hereby incorporated herein by reference. (This clause is applicable to all contracts or purchase orders for $2,500 or more.)

2. Contractor agrees further to place the above provision in any subcontract nonexempt under the rules and regulations promulgated by the Secretary under the Rehabilitation Act of 1973.

SCHEDULE I

Attached to and made a part of Operating Agreement
dated December 5, 1981, between Mesa Petroleum Co., as
Operator, and Jack Grynberg and Associates, et al as Non-Operators.

The Combined Fixed Rates, as heretofore provided under Section III, Paragraph A. of the COPAS-1974 Accounting Procedure to which this schedule is attached, shall be in lieu of all charges to the Joint Account for the indirect costs and expenses incurred by Operator in providing the joint operations with the producing and development functions and services hereinafter identified as Compensation for Administrative, Supervision, Office Services and Warehousing costs.

The following reflects a representative abridged listing of the functions and/or services which shall be considered as included in the Operator's District Expense and Warehousing, and should serve as a guide for similar functions intended to be covered by the Combined Fixed Rates even though some of the functions may be contract services performed by third parties.

Salaries, Benefits and Related Costs of Field, Area and/or District:
- Managers and/or Superintendents
- Foreman - Superintendent
  - Drilling - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
  - Production - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
  - Construction - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Production Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Production Geologists - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Other Technical Employees - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Office Stenographers
- Office Clerks
  - Time Keeping
  - Preparation of Boat, Automotive and Other Vehicle Reports
  - Local Purchasing (Field Orders)
  - Preparation and coding of invoices
  - Preparation of Material Requisitions
  - Preparation of Field Transfers
  - Preparation of Field Receiving Reports
  - Posting of Production Reports
  - Preparation of Over and Short Reports
  - Reading and Integration of Charts
  - Preparation of Field Gas Production and Consumption Report
  - Preparation of Field Office Reports to State and Federal Regulatory Bodies
  - Miscellaneous Routine Field Office Clerical Duties
  - Field Office Inventory Men
    - Conducting Physical Inventories
    - Preparation of Field Inventory Records
  - Warehousemen and/or Clerks

Office Equipment, Supplies, Stationery and Forms

Maps, Photostats and Blueprints, when required for general District Use.

Rentals
- Rentals paid for buildings, office and storage space used by District employees.

Rentals paid in connection with sites for District production offices, camps, warehouses and other facilities used specifically for District purposes.

Ad Valorem Taxes
Taxes paid on buildings and equipment charged to Operator's Field, Area, and/or District investment accounts.

Insurance
Net cost of all types of insurance, including workmen's compensation and public liability insurance; when such insurance is applicable to the District.

The following reflects a representative abridged listing of the functions and/or services which shall be considered as included in the Operator's Administrative Overhead, and should serve as a guide for similar functions intended to be covered by the combined Fixed Rates even though some of the functions may be contract services performed by third parties.

General Management

General Operating Administration
Drilling Managers and/or Superintendents and Office Staffs
Production Managers and/or Superintendents and Office Staffs
Civil Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
Reservoir Analysis and Engineering
Petroleum Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
Negotiation of Production and Residue Gas Sales
Negotiation of Major Gas Sales
Preparation and Negotiation of Joint Operation Agreements
Preparation of General Production Records
Traveling and Transportation Expense of Home, Division, Area, Region, or similar Administrative Office Employees

General Accounting and Services
Checking of invoices
Preparation of Paychecks
Responsibility of Account Distribution or Coding
Payment of Vendor's Invoices
Maintaining Property Investment Records
Maintaining Joint Interest Cost Records
Preparation of Joint Interest Billing
Preparation of Royalty Checks
Machine Accounting and Data Processing Functions
Photostat and Other Reproduction Service
Ad Valorem Tax Service and/or Counsel
Systems and Procedures
Internal Auditing

Communications Expense - Telephone, telegraph and teletype service rendered to the district; also operating expenses of radio communication systems which serve the district and which are not chargeable to any particular lease or facility operation. The costs applicable to communication service and/or equipment directly employed on and serving the joint property shall be a direct charge to the joint property.

Area and/or District Office Utility Services

Local Field, Area and/or District Recreational Facilities

Safety Meetings and/or Dinners

Area and/or District Office Safety Equipment

First Aid Supplies

Physical and Medical Examinations - Cost of pre-employment and medical examinations of personnel to be employed in the district, including costs of annual or periodic examinations and immunizations.

Transportation, including freight and express costs when such costs are incurred directly in the operation and/or maintenance of district offices, buildings, and facilities.

Traveling Expense of district employees when such expense is for the sole benefit of the district. Traveling and personal expenses of district employees attending oil shows, API meetings, and company training schools, etc., which are for the primary benefit of the Operator shall be borne solely by the Operator.

Moving Expenses - Costs of moving and transfer of district employees including relocation expenses such as real estate fees, closing costs, compensation for loss on sale of home, carpeting and draperies, etc., when transferred within or into the district. Costs incurred for the primary benefit of the Operator, such as transfer of trainees, shall be borne solely by the Operator.

Memberships, dues and Subscriptions for Field, Area and/or District Personnel.

Depreciation on Operator's wholly-owned Field, Area, and/or District production offices, equipment, buildings, camps, roads, fences, canals, docks, marine terminals, and slips, etc., used for District purposes.

Repair and Maintenance on Operator's wholly-owned Field, Area, and/or District production offices, equipment, buildings, camps, roads, fences, canals, docks, marine terminals, and slips, etc. including the cost of small tools and supplies used specifically for District purposes.

Warehouse - wholly-owned
- Depreciation
- Operating and Maintenance Expense
- Cost of Storing and Handling Material

Title Record and Division Order Administration
- Landmen and Titlemen
- Maintenance of Division of Interest Records
- Obtaining Royalty Signatures

Exploration Administration
- Geologists - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- General Research
- Geophysicists

General Purchasing Administration

Industrial and Public Relation Administration
- Employee Relation Counselor
- Safety Engineer
- Industrial Nurse and/or Doctor
- Dinners, Parties, etc.
- Safety Awards
- Incentive Awards
- Thanksgiving Turkeys or Christmas Baskets
- Contributions to Charity and/or Civic Organizations
- Special Investigators
- Administration of Benefit Plans

General Oil and Gas Well Proration and Pricing Administration
- Preparation of Reports to and Representation before Governmental Agencies

General Legal Counsel
- Preparation of Contracts
- Claims and Litigation
- Title and Other Opinions

Transportation and Traffic Administration

Insurance Administration

MESA
PETROLEUM CO.

Code General Account # _____

Exploratory _____ Development X

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
CASE NO. 6

LEASE, WELL NAME, AND LOCATION PAT STATE COM #1
660', FSL & 660' FEL, SEC 12, T5S, R24E, CHAVES COUNTY, NEW MEXICO

DESCRIPTION Cost estimate to drill and complete a 4,100' flowing Abo gas well including production equipment.

Acct. Codes	ITEM DESCRIPTION	Dry Hole Cost	Completion Cost	Producer Cost
		Submitted by [illegible]	[illegible]	
01	DRILLING—FOOTAGE Ft. At $ /Ft.	$	$	$
02	DRILLING or COMPLETION RIG MI-RU, RD-MO	20,000e	5/17	20,000
	(A) DAY WORK 9/6 DAYS At $ 6000/1250 /DAY	54,000	7,500	61,500
03	DRILLING or COMPLETION RIG			
	(A) BOILER DAYS At $ /DAY			
	(B) CAMP & CATERING DAYS At $ /DAY			
	(C) OTHER DAYS At $ /DAY			
04	CEMENTING SERVICES, CEMENT & ACCESSORIES	27,000	10,000	37,000
05	MUD, CHEMICALS, SERVICES & EQUIP. (A) MUD, CHEM., OIL	8,000		8,000
	(B) WATER	10,000	3,000	13,000
06	LOGS, TESTING & MUD LOGGING UNIT	8,000	3,000	11,000
07	DRILL STEM TEST & RELATED TESTING EQUIPMENT			
08	PERFORATING, WELL STIMULATION SERVICES		50,000	50,000
09	LOCATION, ROADS, SURVEYS, AIRSTRIPS	15,000	1,000	16,000
10	COMPANY LABOR, SUPERVISION, ENGINEERING & OVERHEAD	3,000	2,000	5,000
11	RENTAL EQUIPMENT & TOOLS	18,000	3,000	21,000
12	ROCK BITS, HOLE OPENERS, REAMERS, STABILIZERS	8,000		8,000
13	HAULING & FREIGHT	7,000	4,000	11,000
14	MOBILIZATION - INSTALLATION			
15	DEMOBILIZATION - DISMANTLING & SALVAGE			
16	SUPPLYBOATS, CREWBOATS, BARGES, TUGS			
17	FUEL, LUBES, POWER	5,000		5,000
18	SHOREBASE, OFFICE, DOCK FEE & CRANES			
19	AIRCRAFT RENTALS—HELICOPTERS, FIXED WING			
20	DIVERS AND RELATED EQUIPMENT			
21	MISCELLANEOUS	7,000	3,000	10,000
22	COST to ABANDON (NOT INCLUDED IN PRODUCER TOTAL)*	*8,000		
23	MUD ENGINEER DAYS At $ /DAY			
24	CONSULTING ENGINEER			
	(A) DRILLING DAYS At $ /DAY			
	(B) COMPLETION DAYS At $ /DAY			
25	GEOLOGICAL CONSULTANT 2 DAYS At $ 250 /DAY	500		500
	Total Intangible & Non-Controllable Costs	$ 198,500	$ 86,500	$ 277,000*
31	BUOYS AND MARKERS	$	$	$
32	CASING/TUBULARS			
	(A) 900 FT. OF 13 3/8 " OD $ 27.00 /FT.	24,300		24,300
	(B) 1750 FT. OF 8 5/8 " OD $ 13.50 /FT.	23,600		23,600
	(C) 4100 FT. OF 4 1/2 " OD $ 6.50 /FT.		26,700	26,700
	(D) 3550 FT. OF 2 3/8 " OD $ 4.00 /FT.		14,200	14,200
	(E) FT. OF " OD $ /FT.			
33	WELL HEAD & GUIDE STRUCTURE	3,600	4,100	7,700
34	SUB-SURFACE WELL EQUIPMENT			
35	SURFACE WELL EQUIPMENT			
36	OTHER MAJOR EQUIPMENT			
	(A) SEPARATOR		8,000	8,000
	(B) 210-BBL FIBERGLASS TANK		3,000	3,000
	(C)			
37	BUILDINGS			
38	ELECTRICAL & INSTRUMENTATION EQUIPMENT			
39	INSTALLATION, MATERIALS, & SERVICES		3,500	3,500
	Total Tangible Controllable & Non-Controllable Costs	$ 51,500	$ 59,500	$ 111,000
	Total Costs	$ 250,000	$ 146,000	$ 388,000

Prepared By William R. Mitchell Title DIV DRLG SPVR Date 11-10-81

Approved Michael P. Hunter Title OPS MGR Date 11-10-81

Approved _____ Title _____ Date _____

Approved _____ Title _____ Date _____

General Contractor Jack Grynberg & Assoc. By _____ Title _____ Date _____

Mesa WI
Others WI

Jack Grynberg & Assoc.

EXHIBIT "A"

FOR AFE/COST ESTIMATE DATED 11-10-81

WELL NAME PAT STATE COM #1

LOCATION 660' FSL & 660' FEL, SEC 12, T5S, R24E

COUNTY CHAVES COUNTY, NEW MEXICO

Under present market conditions, Mesa may be required to purchase tubulars directly from our supplier's warehouse at a price which exceed the published mill price (currently by 6-10%). Mesa may also elect to utilize company inventory in an effort to avoid premium prices. These tubulars are purchased and warehoused in advance to avoid paying out-of-stock premiums to the suppliers. This practice sometimes necessitates shipping material from storage points more distant than the "nearest railhead".

The values for tubulars on the attached AFE have been adjusted to show these increased costs. Although Mesa is of the opinion that in most instances the purchase of tubulars which are covered by the attached AFE from the supplier's warehouse will not be purchased at "Premium Prices," as that term is defined in Article IV, Paragraph 3, or require added transportation cost as outlined in Article IV, Paragraph 2A(1) of the Accounting Procedure, Mesa is hereby giving you the option to furnish your share of the tubulars in kind. Please advise within ten days if you elect to furnish your share of tubulars in kind.

Your approval of this AFE without notice to furnish tubulars in kind will constitute approval to pay the price invoices from the vendor in the event that Mesa is required to purchase tubulars directly from the supplier's warehouse at their out-of-stock price. If tubulars are used from Mesa inventory, it will necessitate charging freight calculated from Mesa's yard rather than equalized freight from the nearest railhead. However, the current market value, plus actual freight, should not exceed out-of-stock premium prices plus equalized freight.

Contact either Bob Rowe or Mike Houston at 1000 Vaughn Building, Midland, Texas 79701, or phone (915) 683-5391.

March 5, 1981

OPERATING COST CHART, ABO FIELD, CHAVES COUNTY, NEW MEXICO (THRU 4/16/82)

Well Name, Location & Status	ESTIMATED COSTS (Authority for Expenditure) Drilling Costs	Completion Costs	Total Estimated Costs	ACTUAL COSTS Drilling Costs	Completion Costs	Total Actual Costs	DIFFERENCE (Total Estimated Costs Minus Total Actual Costs)
T 5 S - R 24 E							
12 State #1 (5)	6	-	-	-	-	-	N/A
14 State Com #1 (1)	207,000	148,000	355,000	190,330.32	98,154.21	288,484.53	66,515.47
16 State #1 (2)	6	-	-	215,477.66	71,711.13	287,188.79	N/A
16 State #2 (2)	6	-	-	229,319.54	96,283.97	325,603.51	N/A
16 State #3 (2)	6	-	-	157,476.77	116,870.94	274,347.71	N/A
16 State #4 (1)	6	-	-	167,488.19	68,126.58	235,614.77	N/A
29 Fed #1 (1)	6	-	-	152,755.89	74,072.22	226,828.99	N/A
31 Fed #1 (2)	6	-	-	137,608.60	51,617.82	189,226.42	N/A
32 State #2 (1)	6	-	-	171,165.64	85,895.38	257,546.02	N/A
32 State #3 (1)	6	-	-	187,499.61	69,726.76	257,226.37	N/A
32 State #4 (1)	6	-	-	172,651.61	46,525.79	219,291.40	N/A
35 Fed Com #1 (1)	207,000	148,000	355,000	174,355.63	80,996.52	255,352.15	99,647.85
T 6 S - R 24 E							
#1 Youngman 11 Fed Com (5)	219,900	147,500	367,400	212.28	-	-	N/A
#2 Youngman 11 Fed Com (5)	196,900	151,100	348,500	212.28	-	-	N/A
#2 Hobbs Canyon Fed (5)	6	-	-	356.62	-	-	N/A
Section 12							
#1 Hobbs Canyon Fed (1)	6	-	-	138,209.22	67,719.78	205,929.07	N/A
#3 Hobbs Canyon Fed (2)	6	-	-	97,000.34	9,916.57	-	N/A
#4 Hobbs Canyon Fed (3)	6	-	-	11,911.68	-	-	N/A
#5 Hobbs Canyon Fed (4)	6	-	-	-	-	-	N/A
T 6 S - R 25 E							
17 Fed Com #1	207,000	148,000	355,000	192,540.25	45,865.95	238,406.20	116,593.80
#1 McDermett 30 Fed Com (2)	221,100	147,500	368,600	203,380.94	85,152.13	288,533.07	80,066.93

(1) Well Completed
(2) Completing
(3) Awaiting Completing Rig
(4) Drilling
(5) Location Staked
(6) No Est. Prepared; 100% W.I. w/JG&A

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 7
CASE NO. 7476
Submitted by JG&A
Hearing Date 5-17-82

OPERATING COST CHART, ABO FIELD, CHAVES COUNTY, NEW MEXICO (THRU 4/16/82)

Well Name, Location & Status	ESTIMATED COSTS (Authority for Expenditure) Drilling Costs	Completion Costs	Total Estimated Costs	ACTUAL COSTS Drilling Costs	Completion Costs	Total Actual Costs	DIFFERENCE (Total Estimated Costs Minus Total Actual Costs)
T 5 S - R 24 E							
14 State Com #1 (Completed)	207,000	148,000	355,000	190,330.32	98,154.21	288,484.53	66,515.47
35 Fed Com #1 (Completed)	207,000	148,000	355,000	174,355.63	80,996.52	255,352.15	99,647.88
T 6 S - R 25 E							
17 Fed Com #1 (Completed)	207,000	148,000	355,000	192,540.25	45,865.95	238,406.20	116,593.80
#1 McDermett 30 Fed Com (Well being completed)	221,100 129,500* 350,600	147,500 - 147,500	368,600 129,500 498,100	203,380.94	85,152.13	288,533.07	Well not complete. No comparison of Estimated and Actual Costs possible.

*Supplemental Authority for Expenditure submitted 3/5/82

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 8
CASE NO. 7476
Submitted by XOA
Hearing Date 5-17-82

BEFORE EXAMINER
OIL CONSERVATION
EXHIBIT 9
CASE NO. 7476
Submitted by OGA
Hearing Date 5-17-82

Jack Grynberg and Celeste Grynberg
Statement of Financial Position

	2-28-82	11-30-81
Assets		
Current Assets		
Cash and Certificates of Deposit	$ 4,050,341	$ 6,350,264
Accounts Receivable	964,446	884,953
Installment Note Receivable--Viking Petroleum, Inc.	820,850	820,850
Total Current Assets	$ 5,835,637	$ 8,056,067
Property and Equipment		
Equipment (Estimated Value)	$ 300,000	$ 300,000
Producing Properties:		
New Mexico Natural Gas Field	76,707,433	42,177,807
Other Producing Properties	54,098,276	54,098,276
Undeveloped Leases	19,569,285	19,569,285
Total Property and Equipment	$150,674,994	$116,145,368
Investments		
Marketable Securities held in Name of Oceanic Holding Co. (at cost)	$ 4,665,787	$ 5,210,439
Certificate of Deposit (Encumbered)	7,191,708	7,191,708
Other	3,784	3,784
Total Investments	$11,861,279	$12,405,931
Total Assets	$168,371,910	$136,607,366
Liabilities and Net Worth		
Current Liabilities		
Accounts Payable-Regular	$ 404,962	$ 96,140
Other Amounts Payable to Undisputed Creditors	3,103,931	3,103,931
Provision for Income Taxes	3,400,000	3,400,000
Total Current Liabilities	$ 6,908,893	$ 6,600,071
Contingent Liabilities		
(See Notes and Schedule)	$10,069,295	$10,069,295
Total Liabilities	$16,978,188	$16,669,366
Net Worth	$151,393,722	$119,938,000
Total Liabilities and Net Worth	$168,371,910	$136,607,366

FILED
UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO
APR 21 1982
BRADFORD L. BOLTON, Clerk
BY ..... DEPUTY CLERK

UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF COLORADO

In re	)	
	)	
JACK J. GRYNBERG, a/k/a	)	
JACK JAKOB GRYNBERG, a/k/a	)	
JACK GRYNBERG, d/b/a JACK	)	Case No. 81 B 00821 M
GRYNBERG AND ASSOCIATES, d/b/a	)	
JACK GRYNBERG & ASSOCIATES,	)	
	)	
Debtor.	)	

and

In re	)	
	)	
CELESTE C. GRYNBERG, a/k/a	)	
CELESTE CONSTANCE GRYNBERG,	)	Case No. 81 B 00825 M
a/k/a CELESTE GRYNBERG,	)	
	)	
Debtor.	)	

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 10
Submitted by Gryn
Hearing Date 5/17/82

NOTICE OF ORDER CONFIRMING PLAN AND DISCHARGE

To the Debtors, their creditors, and other parties in interest:

Notice is hereby given of the entry of an order of this Court on April 21, 1982, confirming the Second Modified Joint Plan of Reorganization filed by the Debtors, on December 23, 1981, as modified by Amendments thereto filed on February 5, 1982, and providing further that:

A. Except as otherwise provided or permitted by the Plan as amended or such order:

(1) The above-named Debtors are released from all dischargeable debts;

(2) The discharge

(a) voids any judgment at any time obtained, to the extent that such judgment is a determination of the personal liability of the Debtors with respect to any debt discharged under 11 U.S.C. § 1141, whether or not discharge of such debt is waived;

(b) Operates as an injunction against the commencement or continuation of any action, the employment of process, or any act, to collect, recover, or offset any such debt as a personal liability of the Debtors, or from property of the Debtors, whether or not discharge of such debt has been waived.

DATED: April 21, 1982

BY ORDER OF THE COURT:

BRADFORD L. BOLTON, Clerk
By Diane D. Carney, Deputy Clerk
United States Bankruptcy Court
400 Columbine Building
1845 Sherman Street
Denver, Colorado 80203

Page 2

JACK GRYNBERG AND ASSOCIATES
PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS
1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455
TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 11
Submitted by Gryn
Hearing Date 5/17/82

May 7, 1982

Dr. Guy T. McBride
President
Colorado School of Mines
Golden, CO 80401

Dear Guy:

Enclosed please find my check dated May 17, 1982, in the amount of $100,000 payable to the Colorado School of Mines Foundation, Inc. May 17 will be the effective date of my Plan of Reorganization, and the check is dated accordingly on advice of counsel. You will recall that, as a member of the Board of Trustees of Colorado School of Mines from 1975-1981, I made a commitment of $100,000 in 1977 to be paid to the Colorado School of Mines Foundation, Inc., over a ten-year period. I am happy to fulfill this commitment in full at this time upon my 30th anniversary of graduation from the Colorado School of Mines.

This money is to be used as an endowment, with income from the fund to be used and, if necessary, the principal may be utilized as well, to benefit, encourage and educate American Indian students in pursuing careers on both graduate and undergraduate levels in oil, gas and minerals so that they may become engineers and managers of tribal lands.

The money should be applied to establish an adequate training program for Indian high school graduates, so that they will meet the entrance requirements of the Colorado School of Mines, and for academic scholarships. The money may also be used for subsistence funds, for purchase of books and for any health services while in school, including those of a mental health nature. The program is to be designed for Indian students utilizing the definition of an American Indian as designated by the Bureau of Indian Affairs.

Pending use of the fund for purposes such as outlined above, I request that the fund be invested to generate as much income as practicable with reasonable safety, such as in money market funds, high-yield bank certificates of deposit or similar investments.

It is my hope that this gift will promote and enhance the educational development of American Indians in the oil and gas and mineral fields so that those educated by the Colorado School of Mines may contribute to the greater well-being of Indian tribes through the development of tribal natural resources. I would like the School to also be a beneficiary of this fund and to pay for its expenses in developing an oil and gas and mineral program for American Indian students with this fund. The fund is to be administered by the Financial Aid Office of the School with the final decision resting with the President of the School.

Cordially yours,

Jack J. Grynberg

JJG:aj

Enclosure

PECOS SLOPE ABO GAS DEVELOPMENT
Billing Chart for Drilling Operations
November 1, 1981 - April 15, 1982

Bills Paid Thru 4/15/82	$3,669,215.77
Outstanding Bills Due (undisputed)	187,424.95
Outstanding Bills (disputed)*	132,578.00
TOTAL ~~ACCOUNTS PAYABLE~~:	$3,989,218.72

*Disputed bills total 3.3% of total bills.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7474 Exhibit No. 12
Submitted by Coryn
Hearing Date 5/17/82

JACK J. GRYNBERG
#1 Grynberg 12 State "Com"
1980' FSL & 660' FEL
Sec. 12, T 5 S - R 24 E
Chaves County, NM

5/10/82 Day 1, depth 370', drlg. Made 370' 14 3/4 hole. Repair downtime 4 1/2Hrs., Aztec #50. Brief Description of Operations: Down time is repair on pillar block bearing and rotary chain. Well was SPUD 8PM 5/9/82. Bit #1 14 3/4, Hughes OSC3AJ,nozzles 13,13,13. Made 370' 7 1/2Hrs., 52' p/hr.,35,000# on bit, 90RPM. SPP 800, Pump #1 5 1/2 Liner, 68 SPM. Sample Time 12 Midnight: MW 9.4, Vis 30. Added 10 sxs gel, 1 sx lime. 9Hrs., 8-5PM move and rig up, 3Hrs. 5-8PM WO water, 1Hr., 8-9 spud and drilled, 1/2Hr. 9-9:30PM rig repair, 5 1/2Hrs., 9:30-3AM drlg., 1Hr., 3-4 rig reapir, 1/4Hr. 4-4:15 drlg., 3Hr., 4:15-7:15AM rig repair, 3/4Hrs., 7:15-8AM dlrg.

5/11/82 Day 2, Depth 906', drlg. Made 536' 14 3/4 Hole. LHr repair down time, Aztec #50. Bit #1 14 3/4, OSC3AJ,nozzles 13,13,13,depth out 536'. Made 536' 10 1/2Hrs., 53' p/Hr., 35,000# on bit, 90RPM,dull cond. 2,2,I. SPP 800, Liner 5 1/2",68 SPM. Bit #2, 14 3/4 Hughes J-22, nozzles 11,11,11,depth out 906', made 370' in 16 1/2 Hrs., 19' p/Hr., 35,000# on bit, 55RPM. SPP 1000, 5 1/2" liner, 68 SPM. Sample time 5AM: MW 10.1, Vis 45, Added 26 sxs gel, 1 sx thinner, 3 sxs LCM, 4 sxs lime. Dev. Survey @495' of 1/4 deg. 1/2Hr., 8-8:30AM service rig, 1/2Hr., 8:30-9 rig repair 2 1/2Hrs., 9-11:30AM drlg., 1/2Hr., 11:30-12 run survey, 1/2Hr., 12-12:30 drlg., 2 1/2Hrs., 12:30-3PM trip for bit #2, 1/2Hr., 3-3:30PM drlg, 1/2Hr., 3:30-4PM rig repair, 14 3/4Hrs., 4-6:45AM drlg., 1/4Hr. 6:45-7AM repair pump #2, 1Hr., 7-8AM Drlg. (Bit #2 Dull Cond. 2,2,I.)

5/12/82 Day 3, depth 906', Drlg. Made 60' 7 7/8, anhydrite,sand. DCP 897' 10 3/4. Aztec #50. Bit #2, 14 3/4 J-22, nozzles 11,11,11, Depth out 906'. Made 370' 16 1/2Hrs.,22.4'p/Hr 35,000# on bit 55RPM. Dull Cond. 2,2,I. SPP 1000, 5 1/2" liner Pump #1, 68 SPM. Bit #3, 7 7/8 Smith F-2, nozzles 12,12,12. Made 60' 1 1/2Hrs., 45' p/Hr., 35,000# on bit, 60 RPM, 800 SPP, 5 1/2 " liner, 68 SPM. Drlg. with Brine. Dev. Survey of 3/4 deg @906'.See end of line. 1/2Hr., 10-10:30AM ran survey and TOOH; 2 1/2Hrs., 10:30-1PM ran csg and circ (circ 1/2 Hr.), 1Hr., 1-2PM cmt with Halliburton, 2Hrs., 2-4PM WOC, 14Hrs., 4PM-6AM WOC and nipple up, 1/2Hr., 6-6:30AM tested BOP @1000 psi, 1 1/2 Hrs. 6:30-8AM drld out cmt and 60' of new hole. (2Hr., 8-10AM Wrk tight hole).

CSG. INFORMATION: Rec. 988.74' of 10 3/4" 40# Limited Service Csg., Ran 24 Jts., and set @897', Cmt with 300 sxs Halliburton Lite, 1/4# flo cel, 2% Cal Chl., 300 sxs Class "C", 1/4# flo cel, 2% Cal Chl., Circ 60 sxs back to surface. WOC 18 Hrs., Test Csg. & BOP to 1000 psi.

5/13/82 Day 4, depth 2115', Drlg., Made 1149' 7 7/8, Anhydrite, salt, sand. DCP 897' 10 3/4 Aztec #50. Bit #3 7 7/8, Smith F-2, nozzles 12,12,12. Made 1149' in 22.5 Hrs., 52.3' p/Hr., 35,000# on bit, 60 RPM. SPP 1000. Pump #1 5 1/2" liner, 68 SPM. MW 9.9, Vis 28 PH 8, Chl. 92,000. Total Mud Cost: $330.00. Added 3 sxs Lime. Dev. Survey @1395' of 1/2 deg and @1893' of 1/2 deg. 1/2Hr. 8-8:30AM service rig, 7 1/2Hrs., 8:30-4PM Drlg., 1/2Hr., 4-4:30 survey, 10Hrs., 4:30-2:30AM Drlg., 1/2Hr., 2:30-3AM survey, 5Hrs., 3-8AM Drlg.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 13
Submitted by Gryn
Hearing Date

JACK GRYNBERG AND ASSOCIATES

PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS

1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455

TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

May 10, 1982

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 14
Submitted by Coryn
Hearing Date 5/17/82

Mesa Petroleum Company
1000 Vaughn Building
Midland, TX 79701

ATTN: Exploration Department - Donna

Re: JACK J. GRYNBERG
#1 Grynberg 12 State "Com"
1980' FSL & 660' FEL
Sec. 12, T 5 S - R 24 E
Chaves County, NM
AZTEC #50 RIG

Dear Donna:

Enclosed please find the following information on the above well:

1 - Daily drilling report.

1 - Permit to Drill

1 - Sundry Notice - Change of Operator (Waiting on Approved copy)

1 - Letter Oil Conservation Commission

If you have any questions, please call us at the above number.

Sincerely,

JACK GRYNBERG AND ASSOCIATES

Ginger Howell

Ginger Howell
Geo. Secretary

:GH
Encl.5
CC: Corona Oil Company
4835 LBJ Freeway, Suite 635
Richardson, TX 75234
ATTN: Exploration Department - Helen

JACK GRYNBERG AND ASSOCIATES

PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS

1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455

TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

May 13, 1982

Mesa Petroleum Company
1000 Vaughn Building
Midland, TX 79701

ATTN: Exploration Department - Donna

Re: JACK J. GRYNBERG
#1 Grynberg 12 State "Com"
1980' FSL & 660' FEL
Sec. 12, T 5 S - R 24 E
Chaves County, NM

Dear Donna:

Enclosed please find one (1) copy of the approved Sundry Notice on Change of Operator , and one (1) copy of the Daily Drilling Report through May 13, 1982.

If you have any questions, please call us at the above number.

Sincerely,

JACK GRYNBERG AND ASSOCIATES

Ginger Howell

Ginger Howell
Geo. Secretary

:GH
Encl. 2
CC: Corona Petroleum ✓
4835 LBJ Freeway, Suite 635
Richardson, TX 75234
ATTN: Exploration Dept. - Helen

NAME OF COMPANY	PERSON TALKED TO	TIME	DATE	SENT COPY OF DRILLING REPORT OUT & DATE SENT
Corona	Helen	10:10AM	5/10/82	X- 5/10/82
Mesa	Donna	10:18AM	5/10/82	X- 5/10/82
Mesa	Donna	4:14PM	5/11/82	----------
Corona	Helen	4:23PM	5/11/82	----------
Mesa	Donna	9:00AM	5/13/82	X-5/13/82
Corona	Helen	9:10AM	5/13/82	X-5/13/82

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

IN THE MATTER OF THE APPLICATION OF JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO	))))	CASE 7476

MAY 26 1982
CONSERV.
SANTA

MEMORANDUM OF APPLICANT IN OPPOSITION TO
MOTION TO DISMISS BY MESA PETROLEUM COMPANY

J. E. GALLEGOS
JONES, GALLEGOS, SNEAD & WERTHEIM, P.A.
Attorneys for Jack J. Grynberg
Post Office Box 2228
Santa Fe, New Mexico 87501
(505) 982-2691

MAY 28, 1982

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

PRELIMINARY STATEMENT

This case came on jointly with the application of Mesa Petroleum Company in Case 7513. Each applicant seeks the pooling of all mineral interests down through and including the Abo formation underlying a 160 gas spacing unit being the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County. On April 5, 1982, the Oil Conservation Division, Director Joe D. Ramey, entered Order No. R-6925 and R-6930 by which pooling was directed, Grynberg was designated operator and the application of Mesa denied.

Mesa appealed those Orders to the Oil Conservation Commission for de nova consideration. The cases came before the Commission on May 17, 1982, on the issues as framed by the applications and appeal for de nova hearing.

During the course of the presentation of evidence before the Commission, cross-examination by Mesa elicited that the State Land Office lease (LG-0565, September 1, 1972) covering the E/2 SE/4 of Section 12 was assigned on March 30, 1982, to JJ-CC Limited, a Colorado limited partnership. This limited partnership had not registered as a foreign limited partner with the Secretary of State of New Mexico. (Mesa Exhibit 44).

Citing §54-3-6 NMSA 1978 (transaction of business by foreign limited partnerships without registration) and §70-2-17 NMSA 1978 (forced pooling), Mesa has moved to dismiss the application of Grynberg on the ground that JJ-CC is the owner of the mineral interest and is disqualified to maintain this proceeding.

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

POINT I

THE REGISTRATION REQUIREMENT FOR A FOREIGN LIMITED PARTNERSHIP HAS NO BEARING ON ITS LEGAL EXISTENCE OR CONDUCT OF BUSINESS

Partnerships generally result from a variety of associations, formal or informal. A characteristic of partnerships is that each of the partners share generally in the responsibility and liability of the entity's business. See §54-1-1 to 54-1-43 NMSA 1978, the Uniform Partnership Act.

There is no requirement that an ordinary partnership from one state register to do business in another state. Indeed, there is a view that such a requirement would run afoul of the "privilege and immunities" clause of the United States Constitution. Crane and Bromberg, Law of Partnerships, pgs. 108-109.

A "limited partnership" is a form of partnership in which liability to third persons of its limited members is held or "limited" to a fixed amount. §54-2-1 through 54-2-30 NMSA 1978. Commonly, states have a registration requirement, as does New Mexico (54-3-2, supra), for foreign limited partnerships as well as for domestic limited partnerships. 54-2-2A(2), supra. The registration requirement does not go to the legal existence of the limited partnership. The purpose of registration is (1) to communicate to third persons trading with it that the liability of some of its members is only limited and (2) ensure the limitation of liability of limited partners. Crane and Bromberg, Law of Partnerships, p. 145; Hoefer v. Hall, 75 N.M. 751, 411 P.2d 230; Heritage Hills v. Zion's First National Bank, (9th Cir., 1979) 601 Fed. 1023.

What is the effect of the failure to register? Simply that the partnership is not accorded the special limited obligation status for its limited partners. Heritage Hills v. Zion's First National Bank, supra, (Failure to register under the

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

Arizona law did not omit "a necessary condition to the birth of the business entity." It did exist as a business entity but the limited partners had general liability as far as third persons were concerned.) Ruth v Crane, E.D.Pa. 1975, 392 F.Supp. 724 (Not recording a proper certificate under the Limited Partnership Act means the parties are treated as general partners as to third persons); Accord, Peerless Mills, Inc. v. American Telephone and Telegraph Co., (2nd Cir., 1975), 527 F.2d 445. Even this loss of limitation of liability does not absolutely follow under the New Mexico law. 54-3-6C, supra.

Mesa's motion is, thus, a classic red herring. The failure of registration by JJ-CC is no impediment to the partnership's existence and conduct of business. The Mesa motion is even more misplaced when one has a reflective moment to read the statute which was flashed at the Commission by its counsel. In pertinent part, 54-3-6 provides:

> A. A foreign limited partnership transacting business in New Mexico may not maintain any action, suit or proceeding in any court of this state until it has registered in this state.
>
> B. The failure of a foreign limited partnership to register in this state does not impair the validity of any contract or act of the foreign limited partnership or prevent the foreign limited partnership from defending any action, suit or proceeding in any court of this state.
>
> (Emphasis added).

The only disability attendant to non-registration is maintaining a suit in a court. The "act" of the non-registered partnership is expressly valid.

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

POINT II

BY THE U. S. BANKRUPTCY COURT PROCEEDING TITLE TO THE INTEREST IN QUESTION WAS VESTED IN ESTATES BANKRUPT THROUGH MAY 17, 1982

On February 20, 1981, Mr. and Mrs. Grynberg filed voluntary Chapter 11 petitions in the United States Bankruptcy Court for the District of Colorado as Cases 81B 00821M and 81B 00825M. The effect of the filing was to create two new juristic entities: the estate of Jack J. Grynberg and the estate of Celeste C. Grynberg, and to transfer their property to such estates by opertion of law. 28 U.S.C.A. §1471(3), effective April 1, 1984, and made applicable during the transition by §405(6) of the Act of November 6, 1978.

Attached as Appendix "A" are copies of the Bankruptcy Court Orders entered January 28, 1982, which authorized the formation of a Colorado limited partnership by the Grynbergs. It recognized that historically Jack and Celeste Grynberg had conducted their oil and gas business as a partnership. It provided for a formal partnership arrangement along with the contribution of $5 million cash and the mineral properties held of record by either party.

The partnership was formed with Jack J. Grynberg as the general partner. He was given the exclusive right to manage and control the business of the partnership. Celeste C. Grynberg is a limited partner. Expressly and unequivocably, the partnership agreement recognized (a) the business and assets of the partnership remained completely subject to the Bankruptcy Court and (b) that status would continue until final confirmation of a plan of reorganization. A copy of the JJ-CC Limited Partnership Agreement is attached as Appendix "B".

On April 21, 1982, an Order Confirming Plan was entered by the Bankruptcy Court confirming The Joint Plan of Reorganization which had been proposed by Mr. and Mrs. Grynberg.

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

A copy of that Order and of the Court's Memorandum Opinion are attached as Appendixes "C1" and "C2" respectively. Under the Bankruptcy Code (11 U.S.C.A. §1141(c)) all property covered by the Plan is free and clear of all claims and interests of creditors, as provided in the Plan. The confirmed Plan revests the Grynbergs with title to their assets and authorizes them to take charge of their management without order of the court. The effective date of the Plan was the tenth business day after the Order Confirming Plan became final and non-applicable. That day was May 17, 1982, when this matter was before the Commission for hearing.

CONCLUSION

The true status of the ownership of the mineral estate in the E/2 SE/4 in question was in the bankruptcy estates of Jack and Celeste Grynberg under jurisdiction of the Bankruptcy Court of the Federal District of Colorado through May 17, 1982. Following that day, title was vested in JJ-CC Limited, a Colorado limited partnership, of which Jack J. Grynberg, the general partner, has the complete and exclusive power of management. To be technically precise, the application here is made by Jack J. Grynberg, as managing general partner of JJ-CC Limited.

The Colorado Limited Partnership would not have been subject to the registration requirements of New Mexico law until May 17, 1982. Such registration is being affected in the regular course of business. Even if the partnership had been in business as such before the time, the failure to register would not disqualify it to act validly by its managing partner to obtain from the Oil Conservation Division a forced pooling order.

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

The Motion to Dismiss by Mesa is totally groundless and should be denied.

Respectfully submitted,

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A.

By _____
J. E. GALLEGOS
Post Office Box 2228
Santa Fe, New Mexico 87501
(505) 982-2691

CERTIFICATE OF MAILING

It is hereby certified that on the 26th day of May, 1982, a true and correct copy of the foregoing Memorandum of Applicant in Opposition to Motion to Dismiss by Mesa Petroleum Company was mailed to opposing counsel of record, William F. Carr, Esq., Campbell, Byrd & Black, P.A., Post Office Box 2208, Santa Fe, New Mexico 87501, and to Steven James, Esq., Mesa Petroleum Co., 1000 Vaughn Building, 400 West Texas Avenue, Midland, Texas 79701, by first-class mail, postage prepaid.

_____
J. E. GALLEGOS

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

UNITED STATES BANKRUPTCY COURT

DISTRICT OF COLORADO

In re:	)	
	)	
CELESTE C. GRYNBERG,	)	Case No. 81 B 00825M
a/k/a Celeste Constance Grynberg,	)	
a/k/a Celeste Grynberg,	)	
	)	
Debtor.	)	

ORDER AUTHORIZING FORMATION OF LIMITED PARTNERSHIP

Having considered the Debtor's "Application for Authority to Form Limited Partnership" (the "Application") filed on January 6, 1982, it appearing that notice thereof was duly given on the same date to all parties in interest with no objection to or request for a hearing upon the Application being filed in accordance with the notice on or before January 21, 1982, and taking notice of all other matters of record herein, the Court finds that

(a) for many years prior to the filing of the Debtor's original petition and since, the Debtor and her husband, Jack J. Grynberg, the Debtor-in-Possession in Case No. 81 B 00821M, in fact if not in form, generally have conducted their business and oil and gas operations as a de facto partnership with mutual sharing of profits and losses;

(b) the Debtor and her husband have never executed a written partnership agreement or other formal organizational instrument;

(c) the absence of a definitive agreement between the Debtor and her husband tends to prevent clarity of legal relationships between them, their respective estates and third parties and otherwise tends to impede a speedy and efficient reorganization of their respective estates; and

(d) formalization of legal relationships between the Debtor and her husband in accordance with the terms and conditions stated in the form of Limited Partnership Agreement

attached as Exhibit 1 to the Debtor's Application and contribution to the partnership, when formed, of $5,000,000 in cash or its equivalent, technical data and all oil and gas or other mineral properties in which the Debtor has an interest, all to be on and subject to the terms and conditions set forth in said Exhibit 1, would be in the best interests of the Debtor and the Debtor's estate.

It is, therefore, ORDERED

That the Debtor is authorized, together with her husband, Jack J. Grynberg, to execute, with such immaterial changes (if any) as counsel may advise, a limited partnership agreement in the form attached as Exhibit 1 to the Application and to transfer oil, gas or other mineral properties and otherwise to make contributions to the partnership as set forth in said Exhibit 1, subject, however, to all conditions therein also set forth, including, without limitation, the conditions set forth in Paragraph 2 thereof which are to remain applicable in accordance with the provisions of Paragraph 3 thereof.

Dated this 28th day of January, 1982.

BY THE COURT:

John P. Moore
United States Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT

DISTRICT OF COLORADO

In re:	)	
	)	
JACK J. GRYNBERG,	)	Case Number 81 B 00821M
a/k/a Jack Jakob Grynberg,	)	
a/k/a Jack Grynberg,	)	
d/b/a Jack Grynberg and Associates,	)	
d/b/a Jack Grynberg & Associates,	)	
	)	
Debtor,	)	

ORDER AUTHORIZING FORMATION OF LIMITED PARTNERSHIP

Having considered the Debtor's "Application for Authority to Form Limited Partnership" (the "Application") filed on January 6, 1982, it appearing that notice thereof was duly given on the same date to all parties in interest with no objection to or request for a hearing upon the Application being filed in accordance with the notice on or before January 21, 1982, and taking notice of all other matters of record herein, the Court finds that

(a) for many years prior to the filing of the Debtor's original petition and since, the Debtor and his wife, Celeste C. Grynberg, the Debtor-in-Possession in Case No. 81 B 00825M, in fact if not in form, generally have conducted their business and oil and gas operations as a de facto partnership with mutual sharing of profits and losses;

(b) the Debtor and his wife have never executed a written partnership agreement or other formal organizational instrument;

(c) the absence of a definitive agreement between the Debtor and his wife tends to prevent clarity of legal relationships between them, their respective estates and third parties and otherwise tends to impede a speedy and efficient reorganization of their respective estates; and

(d) formalization of legal relationships between the Debtor and his wife in accordance with the terms and conditions stated in the form of Limited Partnership Agreement

attached as Exhibit 1 to the Debtor's Application and contribution to the partnership, when formed, of $5,000,000 in cash or its equivalent, technical data and all oil and gas or other mineral properties in which the Debtor has an interest, all to be on and subject to the terms and conditions set forth in said Exhibit 1, would be in the best interests of the Debtor and the Debtor's estate.

It is, therefore, ORDERED

That the Debtor is authorized, together with his wife, Celeste C. Grynberg, to execute, with such immaterial changes (if any) as counsel may advise, a limited partnership agreement in the form attached as Exhibit 1 to the Application and to transfer oil, gas or other mineral properties and otherwise to make contributions to the partnership as set forth in said Exhibit 1, subject, however, to all conditions therein also set forth, including, without limitation, the conditions set forth in Paragraph 2 thereof which are to remain applicable in accordance with the provisions of Paragraph 3 thereof.

Dated this 28th day of January, 1982.

BY THE COURT:

John P. Moore
United States Bankruptcy Judge

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MAR 10 12 21 PM
DEPARTMENT OF STATE
STATE OF COLORADO

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10 MAR '82
STATE OF COLORADO

JJ-CC LIMITED

LIMITED PARTNERSHIP AGREEMENT

THIS AGREEMENT of Limited Partnership is executed this ____ day of MAR 5, 1982, by and between Jack J. Grynberg, both individually and as debtor-in-possession in Case No. 81 B 00821 M currently pending in the United States Bankruptcy Court for the District of Colorado (the "General Partner") and his wife, Celeste C. Grynberg, both individually and as debtor-in-possession in Case No. 81 B 00825 M currently pending in the United States Bankruptcy Court for the District of Colorado (the "Limited Partner").

NAME

1. The name of the partnership shall be: JJ-CC Limited. The partnership, through the General Partner, shall execute and file all assumed or fictitious name certificates required by law to be filed or deemed necessary by the General Partner.

CONDITIONS OF FORMATION AND BUSINESS

2. Formation of the partnership is subject to and conditional upon prior approval, authorization or other appropriate order of the United States Bankruptcy Court for the District of Colorado (the "Court") in the reorganization proceedings, Case Nos. 81 B 00821 M and 81 B 00825 M, under Chapter 11 of the Bankruptcy Code, 11 U.S.C. §§101 et seq., which were pending as of execution of this limited partnership agreement and involve the General Partner and the Limited Partner, respectively. The formation, business, assets and operations of the partnership are further subject to the following conditions until termination of their applicability as hereinafter provided:

(a) neither the formation of the partnership nor the transfer of any assets of the General Partner or the Limited

Partner or of their reorganization estates to the partnership shall in any way diminish or otherwise modify the jurisdiction of the Court over the General Partner or the Limited Partner as debtors in the reorganization proceedings or over assets included in their respective estates in the reorganization proceedings, and by executing this limited partnership agreement the General Partner and the Limited Partner expressly consent to such continuing jurisdiction of the Court;

(b) the assets, business and operations of the partnership shall at all times be subject to any proper Order of the Court entered in the reorganization proceedings in respect to activities of the General Partner or the Limited Partner;

(c) neither formation of the partnership nor any transfer of assets thereto shall enlarge, diminish or otherwise modify any claim, right or interest of any party in interest in the reorganization proceedings, whether under the Bankruptcy Code or otherwise;

(d) the partnership upon its formation shall assume and be jointly and severally liable with the General Partner and the Limited Partner upon all claims finally allowed and ordered paid by the Court in the reorganization proceedings; and

(e) any amendment of this Limited Partnership Agreement shall be made only pursuant to authorization of the Court given upon application and after such notice and hearing as the Court may direct.

3. The conditions specified in paragraph 2 shall remain applicable until the first to occur of the following:

(a) final confirmation and effectiveness of a plan or plans of reorganization in respect to the General Partner and the Limited Partner pursuant to Section 1129 of the Bankruptcy Code except to the extent, if any, specified in such plan or plans or the Order(s) of the Court confirming such plan or plans;

Partner or of their reorganization estates to the partnership shall in any way diminish or otherwise modify the jurisdiction of the Court over the General Partner or the Limited Partner as debtors in the reorganization proceedings or over assets included in their respective estates in the reorganization proceedings, and by executing this limited partnership agreement the General Partner and the Limited Partner expressly consent to such continuing jurisdiction of the Court;

(b) the assets, business and operations of the partnership shall at all times be subject to any proper Order of the Court entered in the reorganizatio proceedings in respect to activities of the General Partner or the Limited Partner;

(c) neither formation of the partnership nor any transfer of assets thereto shall enlarge, diminish or otherwise modify any claim, right or interest of any party in interest in the reorganization proceedings, whether under the Bankruptcy Code or otherwise;

(d) the partnership upon its formation shall assume and be jointly and severally liable with the General Partner and the Limited Partner upon all claims finally allowed and ordered paid by the Court in the reorganization proceedings; and

(e) any amendment of this Limited Partnership Agreement shall be made only pursuant to authorization of the Court given upon application and after such notice and hearing as the Court may direct.

3. The conditions specified in paragraph 2 shall remain applicable until the first to occur of the following:

(a) final confirmation and effectiveness of a plan or plans of reorganization in respect to the General Partner and the Limited Partner pursuant to Section 1129 of the Bankruptcy Code except to the extent, if any, specified in such plan or plans or the Order(s) of the Court confirming such plan or plans;

(b) closing of the reorganization proceedings and any other successor proceedings, if any, under the Bankruptcy Code into which the reorganization proceedings may be converted; or

(c) entry of an Order of the Court terminating such conditions or requiring dissolution of the partnership after due application therefor and such notice and hearing as the Court may direct.

SCOPE OF PARTNERSHIP BUSINESS

4. The partnership is formed to hold, own, buy, sell, lease, farmout, farmin and otherwise deal generally in; to explore, develop and operate; and otherwise to conduct any lawful business involving, relating or incidental to oil and gas and any other mineral properties including, without limitation, those to be contributed to the partnership by the General Partner and the Limited Partner as set forth herein. The partnership may engage in such other operations and businesses as the General Partner reasonably may deem necessary, appropriate or incidental to any of the foregoing. The business of the partnership may be conducted for its own account or for the account of or in conjunction with others in any lawful manner.

OFFICE AND PLACE OF BUSINESS

5. The principal executive office of the partnership shall be located at 1050 Seventeenth Street, Suite 1950, Denver, Colorado. The partnership may maintain such other offices and places of business as determined by the General Partner.

NAME AND ADDRESS OF AGENT FOR PROCESS

6. The name and address of the partnership's agent for service of process is Ernest W. Lohf, a resident of the State of Colorado, whose business address is 2410 Prudential Plaza, Denver, Colorado 80265.

NAMES AND ADDRESSES OF PARTNERS

7. The name and address of the General Partner is Jack J. Grynberg, Suite 1950, 1050 Seventeenth Street, Denver, Colorado 80265.

8. The name and address of the Limited Partner is Celeste C. Grynberg, 4661 South Dasa Drive, Englewood, Colorado 80110.

DURATION OF BUSINESS

9. The partnership shall commence business with the filing for record of its Certificate of Limited Partnership in such public office in the State of Colorado as shall be required under The Colorado Uniform Limited Partnership Act of 1981 and shall continue thereafter until dissolved as hereinafter provided.

CAPITAL CONTRIBUTIONS

10. The General Partner shall contribute to the partnership the following:

(a) all oil, gas or other mineral properties or interests of any nature in which the General Partner has any interest, exclusive of all such interests held, operated or managed for the benefit of any person other than the General Partner;

(b) all geological, seismic, petrophysical and other technical data owned or controlled by the General Partner in respect to the properties to be transferred to the partnership; and

(c) cash or its equivalent in the amount of $5,000,000.

11. The Limited Partner shall contribute to the partnership all oil, gas or other mineral properties or interests in which the Limited Partner has any interest, exclusive of all such interests held, operated or managed for the benefit of any person other than the Limited Partner.

12. After making the contribution specified in paragraph 11, the Limited Partner shall not be required to make any additional contribution to the capital of the partnership.

13. A capital account for the General Partner and a capital account for the Limited Partner shall be established and maintained. Neither such accounts nor contributions to the capital of the partnership by the General Partner and the Limited Partner shall bear interest. Solely for purposes of this Agreement and the partnership, the minimum agreed value of the property and services to be contributed to the partnership's capital, as described in paragraphs 10 and 11 above, is as follows: General Partner $10,000,000; Limited Partner $10,000,000. The General Partner's capital account shall equal 50 percent of the total capital accounts of the partnership and the Limited Partner's capital account shall equal 50 percent of the total capital accounts of the partnership. The capital of the partnership shall not be withdrawn except as provided herein.

PROFITS AND LOSSES

14. The profits and losses of the partnership during each fiscal year of the partnership shall be determined in accordance with the accounting methods followed by the partnership for federal income tax purposes and otherwise in accordance with generally accepted accounting procedures and principles applied in a consistent manner. The partnership's fiscal year shall be the calendar year.

15. For all purposes, including federal and state income tax purposes, the profits, income, gains, losses, deductions, expenses, depreciation and credits of the partnership shall be allocated 50 percent to the General Partner and 50 percent to the Limited Partner.

16. The partnership is to be a partnership for federal and state income tax purposes and the General Partner shall take such

action as is necessary and appropriate (consistent with the provisions of this agreement) so that the partnership will be deemed a partnership for federal and state income tax purposes including, without limitation, the preparation and filing, in a timely manner, of annual federal and state partnership income tax returns.

17. The Limited Partner may make any tax election authorized or permitted under applicable law. The General Partner shall make all tax elections for the partnership which, under applicable law, are required to be made solely by the partnership.

18. The respective interests of partners in income or expense, or in gains or losses, shall be determined as of the end of each fiscal year of the partnership and recorded, as to each partner, in the partnership's books in appppropriate income accounts. Until dissolution of the partnership, such income accounts shall be maintained separately from the respective partners' capital accounts which, prior to such dissolution, shall not be augmented or diminished by the closing of such income accounts into the capital accounts or otherwise.

BOOKS AND RECORDS

19. The partnership shall keep accurate, full and complete books of account and records showing its assets and liabilities, the results of its operations and its financial condition. The partnership shall prepare financial statements annually showing the financial condition of the partnership as of the end of each year and results of its operations for such year and shall furnish a copy of such financial statements to the Limited Partner within 100 days after the end of each such year. The General Partner shall cause the partnership to keep and maintain at the principal office of the partnership located in the State of Colorado all of the partnership books and records required, pursuant to The Colorado Uniform Limited Partnership Act of 1981, to be so kept by the partnership.

DISSOLUTION AND LIQUIDATION

20. Subject to the provisions of paragraphs 2 and 3, the partnership shall be dissolved upon the first to occur of any of the following:

(a) the withdrawal of the General Partner;

(b) mutual written consent to dissolution by the General Partner and the Limited Partner.

(c) the sale by the partnership of all or substantially all, or a principal part of the partnership's property; and

(d) when required by law or applicable order of Court.

21. Subject to the provisions of paragraphs 2 and 3, the General Partner shall, upon dissolution of the partnership but subject to the effect of any applicable law or order of court, promptly wind up and terminate the business and affairs of the partnership, discharge its liabilities as hereinafter provided and, in connection therewith and in accordance with paragraph 23, liquidate all assets of the partnership with all reasonable speed and in such manner as the General Partner may determine in reasonable exercise of discretion, with the proceeds of such liquidation (the "Liquidation Proceeds") to be applied as provided in paragraph 22.

22. Subject to the provisions of paragraphs 2 and 3, the Liquidation Proceeds shall be applied to the following purposes in the following order of priority, subject to the provisions of paragraph 23 and to the proper effect of any applicable law or order of Court:

(a) the payment of all liabilities of the partnership to creditors other than to partners who are creditors;

(b) the payment of liabilities, if any, of the partnership to partners as creditors of the partnership;

(c) the payment of liabilities, if any, of the partnership to partners or ex-partners for interim distributions

previously declared but unpaid or due as the result of a previous withdrawal; and

(d) the payment to partners for return of their contributions and respecting their partnership interests in the proportions in which the partners share in distributions.

23. All payments pursuant to paragraph 22 shall be made in cash except for payments to partners which, in the sole discretion of the General Partner shall be distributed to one or both of the partners in kind or in a form other than cash, including, without limitation, the assignment of undivided interests in mineral properties owned by the partnership. The General Partner shall have the right to purchase from the partnership, in connection with the winding up and liquidation of the partnership, assets of the partnership, for a price and upon such terms as the General Partner could sell such assets to an unaffiliated third party.

24. All amounts owing to partners in respect to capital contributions and profits pursuant to subparagraph 22(d) shall be determined as of the date of dissolution of the partnership from its books of account maintained and kept in accordance with this agreement. In the event of any dispute as to such amounts, a certificate of a firm of independent certified public accountants, setting forth such amounts and certifying that such amounts have been determined in accordance with this paragraph and other applicable provisions of this agreement, shall be conclusive and binding upon all partners. No amounts payable to partners pursuant to subparagraph 22(d) shall bear interest from and after the date of dissolution.

DISTRIBUTIONS

25. Subject to the provisions of paragraphs 2 and 3, the General Partner shall cause the previously undistributed net income, profits and gains of the partnership, or such portion

thereof as may be feasible under the circumstances, to be distributed at least annually and, upon 30 days' written notice to the General Partner from the Limited Partner, at monthly intervals, in cash to all partners pro rata in accordance with their respective interest therein, subject, however, to the following:

(a) at the time of such distribution, the partnership shall have available to it unencumbered cash funds sufficient for such distribution and, after giving effect thereto, sufficient, in the judgment of the General Partner, for the continuing conduct of the business of the partnership and for normal working capital;

(b) immediately after any such distribution, partnership assets shall exceed all liabilities of the partnership exclusive of the liabilties due to the General Partner of any kind;

(c) at the time of any such distribution, neither the partnership nor the General Partner shall be in default in respect to any indebtedness or liability of the partnership or have suffered the occurrence or nonoccurrence of any event or condition which, but for the giving of notice or the passage of time, has matured or thereafter will mature into any such default;

(d) no such distribution shall have the effect, directly or indirectly, of constituting or resulting in a withdrawal of any part of the capital contributions of the partners.

26. Except as provided in the preceding paragraph 25, or as is required to reimburse the General Partner or the Limited Partner for funds or services temporarily advanced to the partnership to meet expenses or other immediate needs, no assets of the partnership shall be distributed to partners except upon dissolution of the partnership.

GENERAL PARTNER'S PARTNERSHIP INTEREST

27. The General Partner shall not transfer (other than by operation of law) his interest in the partnership to any person, unless:

(a) the person who acquires the General Partner's interest in the partnership shall, directly or indirectly, be controlled by the General Partner and such person shall expressly assume in writing the due performance of every covenant of this agreement on the part of the General Partner to be performed or observed; and

(b) immediately after giving effect to such transaction, no event has occurred which would cause a dissolution of the partnership.

28. Upon any conveyance or transfer of the General Partner's interest in the partnership in accordance with paragraph 27, the person to whom such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the General Partner under this agreement with the same effect as if such successor had been named as the General Partner herein.

29. The General Partner's interest under this agreement shall be non-assignable except as provided in paragraphs 27 and 28, but the General Partner may assign to any person any right to receive payments or distributions due from the partnership to the General Partner subject, however, to the following:

(a) the provisions of paragraphs 2 and 3;

(b) the General Partner shall have no right to possess partnership property, or assign rights in specific partnership property, for other than a partnership purpose;

(c) no assignment by the General Partner shall, directly or indirectly, operate to relieve the General Partner of any liability to the partnership, to third persons, to the Limited Partner or otherwise under this agreement; and

(d) no assignment of any right to receive payments or distributions from the partnership shall in any manner accelerate or otherwise modify the time or manner in which such payment or distribution would be made if no such assignment had been effected.

WITHDRAWAL OF THE GENERAL PARTNER

30. The withdrawal of the General Partner upon the occurrence of any of the events of withdrawal enumerated in The Colorado Uniform Limited Partnership Act of 1981, shall cause a dissolution of the partnership. For purposes of this Agreement, the occurrence of the events described in 7-62-402(d) and (e) Colorado Revised Statutes, 1973, as amended, shall not be deemed events of withdrawal.

ASSIGNMENT AND TRANSFER OF LIMITED PARTNERSHIP INTERESTS

31. Subject to the provisions of paragraphs 2 and 3 hereof and any restrictions on transferability required by law or contained in this agreement, the Limited Partner may transfer the whole or any part of her partnership interest only after complying with the conditions of this paragraph 31. The term "transfer," when used in this agreement with respect to a partnership interest, includes any sale, assignment, or other disposition of a partnership interest. The conditions precedent to any transfer of a partnership interest are:

(a) A duly executed and written instrument of transfer approved by the General Partner has been filed with the partnership;

(b) The transferee and transferor execute and acknowledge such additional instruments as the General Partner deems necessary or convenient to effect such transfer; and

(c) The General Partner consents to such transfer. The General Partner may refuse to give his consent to the transfer for any reason.

32. Any transfer of the whole or a portion of the Limited Partner's partnership interest shall be subject to the provisions of paragraphs 2 and 3 hereof; and no transferee shall have the right to become a substituted Limited Partner in place of his assignor unless and until all of the following additional conditions are satisfied:

(a) The written instrument of transfer approved by the General Partner and filed with the partnership sets forth the intention of the transferor that the transferee become a substituted Limited Partner in her place;

(b) The transferor and transferee execute and acknowledge such other instruments as the General Partner may reasonably deem necessary or desirable to effect such substitution, including the written acceptance and adoption by the transferee of the provisions of this agreement;

(c) An appropriate amendment of the Certificate has been duly filed and recorded. The General Partner agrees to file such amendment and cause it to be recorded promptly after the conditions specified above in subparagraphs (a) and (b) have been satisfied.

Such substitution shall become effective upon the filing of the Certificate of Amendment as provided in subparagraph (c) hereof and upon satisfaction of any other applicable requirement for substitution. Upon such substitution becoming effective, the substituted limited partner shall be deemed a limited partner for purposes of this agreement.

33. The Limited partner may pledge or otherwise hypothecate her interest in the partnership, subject, however, to the provisions of paragraphs 2 and 3 hereof and to the following:

(a) No pledgee or holder of a similar security interest, merely as such, shall be entitled to recognition as a transferee of any limited partnership interest or as a substituted limited partner;

(b) Any foreclosure of any pledge or similar lien against a limited partnership interest shall be effected only in compliance with the provisions of paragraphs 31 and 32; and

(c) Nothing contained herein shall be deemed to detract from or limit any proper rights of creditors of a limited partner under The Colorado Uniform Limited Partnership Act of 1981.

MANAGEMENT

34. Subject to the provisions of paragraphs 2 and 3 hereof, the General Partner shall have the exclusive right and power to manage and control the business and affairs of the partnership. The General Partner shall have the right and power to obligate and bind the partnership to take any action which the General Partner reasonably may deem appropriate in conducting and furthering the business of the partnership, including, without limitation, the following:

(a) maintain the books and records of the partnership at his principal executive offices, which books and records shall be open for inspection by the Limited Partner or her designated agents during normal business hours;

(b) obtain and pay for out of partnership funds the preparation of required partnership tax returns, copies of which shall be furnished to the Limited Partner;

(c) maintain accounts in banking institutions or savings and loan associations;

(d) pay the obligations of the partnership and collect obligations owed to the partnership;

(e) maintain insurance on partnership property reasonably to protect the partnership against loss or liability;

(f) perform normal administrative and ministerial acts;

(g) furnish financial statements to the Limited Partner at such time and in such form as is herein required;

(h) maintain reserves for the purpose of paying mortgages, real and personal property taxes, insurance costs, lease payments and any other similar types of costs or expenses;

(i) employ accountants and legal counsel, or other experts to perform services for the partnership and compensate them from partnership funds;

(j) borrow money and incur secured and unsecured indebtedness on behalf of the partnership and execute on behalf of the partnership (without obligation on the part of third parties for inquiry as to actual authority or as to disposition of funds) all contracts, leases, notes, mortgages, deeds, evidences of indebtedness or security agreements;

(k) purchase, lease, or otherwise acquire any personal or real property for use in connection with the business of the partnership;

(l) contract for the drilling, exploration or development of the partnership's mineral properties;

(m) enter into any and all other agreements on behalf of the partnership, with any other person or entity for any partnership purpose, in such forms as the General Partner may reasonably approve;

(n) contract with persons or entities, whether or not affiliated with the General Partner; and

(o) do all other acts which the General Partner may reasonably deem to be in the best interrests of the partnership.

35. The Limited Partner shall have no right or authority to participate in or control the business or affairs of the partnership, to transact any business on behalf of or in the name of the partnership, or to have any power or authority to bind or obligate the partnership in any manner whatsoever except as follows:

(a) this partnership agreement may not be amended in any manner without the approval of the Limited Partner;

(b) to the extent permitted elsewhere in this agreement, the Limited Partner shall have the right to vote on or consent to various matters which materially effect the partnership and its business including, without limitation, the dissolution of the partnership.

36. The General Partner may cause title to any property or property interest of the partnership to be held in the name of any nominee, including the name of the General Partner or the Limited Partner, for the sole and exclusive benefit of the partnership.

37. The General Partner shall not be liable to the Limited Partner because any taxing authorities disallow or adjust any deductions or credits in the partnership income tax returns. In addition, the doing of any act or the omission to do any act by the General Partner, the effect of which may cause or result in loss or damage to the partnership, if done in good faith and otherwise in accordance with the terms of this agreement, shall not subject the General Partner or his successors and assigns to any liability.

MISCELLANEOUS

38. Any notice which shall or may be necessary to be given in connection with this agreement or the business of the partnership shall be deemed to have been duly given if delivered personally to the person to be so notified or if given or sent by certified mail, return receipt requested, postager prepaid, to such person at the last address furnished by him for such purpose and duly recorded on the books or records of the partnership. Any such notices given by mail shall be deemed effective upon due mailing thereof.

39. This agreement has been executed and made in accordance with The Colorado Uniform Limited Partnership Act of 1981 and is to be construed and enforced in accordance therewith and governed thereby. Nothing contained herein shall be interpreted or construed to create rights or obligations hereunder inconsistent with The Colorado Uniform Limited Partnership Act of 1981.

40. This agreement shall be binding upon and inure to the benefit of the parties thereto, their heirs, legal representatives and assigns.

IN WITNESS WHEREOF, the undersigned have hereunto set their respective signatures on the dates opposite thereto.

GENERAL PARTNER:

Date: MAR 5 1982

Jack J. Grynberg

LIMITED PARTNER:

Date: MAR 5 1982

Celeste C. Grynberg

STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

On this 5th day of March, 1982, before me, a Notary Public in and for said County and State, personally appeared Jack J. Grynberg and Celeste C. Grynberg to me known to be the identical persons described in and who executed the foregoing instrument and acknowledged to me that they executed the same as their free and voluntary act and deed for the uses and purposed therein setforth.

WITNESS my hand and official seal the day and year above written.

My Commission Expires: 5/20/85

Notary Public
Address: 1038 Garfield, Denver, CO

4/22/82

FILED
UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO
APR 21 1982
BRADFORD L. DOLTON, Clerk
BY ..... DEPUTY CLERK

UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF COLORADO

In re JACK J. GRYNBERG, a/k/a JACK JAKOB GRYNBERG, a/k/a JACK GRYNBERG, d/b/a JACK GRYNBERG AND ASSOCIATES, d/b/a JACK GRYNBERG & ASSOCIATES, Debtor.	)	Case No. 81 B 00821 M

and

In re CELESTE C. GRYNBERG, a/k/a CELESTE CONSTANCE GRYNBERG, a/k/a CELESTE GRYNBERG, Debtor.	)	Case No. 81 B 00825 M

ORDER CONFIRMING PLAN

The joint plan under Chapter 11 of the Bankruptcy Code filed by the Debtors, on August 31, 1981, as modified by modifications filed on October 14, 1982, December 23, 1981, and February 5, 1982, and the plan or a summary thereof having been transmitted to creditors and equity security holders; and

It having been determined after hearing on notice:

1. That the plan has been accepted in writing by the creditors and equity security holders whose acceptance is required by law; and

2. That the provisions of Chapter 11 of the Code have been complied with; that the plan has been proposed in good faith and not by any means forbidden by law; and

3. Each holder of a claim or interest has accepted the plan or will receive or retain under the plan property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the Debtors were liquidated under Chapter 7 of the Code on such date; and

4. All payments made or promised by the Debtors or by a person issuing securities or acquiring property under the plan or by any other person for services or for costs and expenses, or in connection with, the plan and incident to the case, have been fully disclosed to the Court and are reasonable or, if to be fixed after confirmation of the plan, will be subject to the approval of the Court; and

5. The identity, qualifications, and affiliations of the persons who are to be directors or officers, or voting trustees, if any, of the Debtors and an affiliate of the Debtors participating in a joint plan with the Debtors or a successor to the Debtors under the plan, after confirmation of the plan, have been fully disclosed, and the appointment of such persons to such offices, or their continuance therein, is equitable, and consistent with the interests of the creditors and equity security holders and with public policy; and

6. The identity of any insiders that will be employed or retained by the Debtors and his compensation have been fully disclosed; and

7. Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors under the plan:

It is ordered that:

The Second Modified Plan and Amendments thereto filed by the Debtors on December 23, 1981 and February 5, 1982 respectively, copies of which are attached hereto, is confirmed.

DATED: April 21, 1982

BY THE COURT:

JOHN P. MOORE, Judge
United States Bankruptcy Court

4/22/82
Lorna

FILED
UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO

APR 21 1982

BRADFORD L. BOLTON, Clerk
BY ..... DEPUTY CLERK

UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF COLORADO

In re JACK J. GRYNBERG, a/k/a JACK JAKOB GRYNBERG, a/k/a JACK GRYNBERG, d/b/a JACK GRYNBERG AND ASSOCIATES, d/b/a JACK GRYNBERG & ASSOCIATES, Debtor.	)	Case No. 81 B 00821 M
and		
In re CELESTE C. GRYNBERG, a/k/a CELESTE CONSTANCE GRYNBERG, a/k/a CELESTE GRYNBERG, Debtor.	)	Case No. 81 B 00825 M

MEMORANDUM OPINION

THIS MATTER arises after notice and the solicitation of acceptances upon the confirmation of the Debtors' second amended joint plan of reorganization. Two objections to confirmation have been filed; one by Camay Drilling Company, and the second by the creditors Hood and Weinberger. After hearing the arguments and the evidence, I conclude an order of confirmation should enter.

The Debtors' proposed plan is unique. Not only does it propose to pay each valid claim in full, it also gives creditors the opportunity to allow their claims to remain unimpaired or to be provided for out of distribution of proceeds from certain natural gas producing property dedicated to the benefit of the electing creditors and placed in the hands of a custodian. Because of the nature of the objections to be considered, further description of the plan is unnecessary.

At the hearing, I considered and dealt with the objections; therefore, as lengthy conclusions are already

on the record, only a summary disposition thereof is warranted here. Hood and Weinberger object on the grounds the plan impairs or purports to impair the legal rights of those persons whom Hood and Weinberger purport to represent as a class. Since no class has been certified, and since I have disallowed a class claim by Hood and Weinberger, there is no "class" of creditors whose rights, as a class, are affected by the plan. Moreover, as it is clear the plan specifically leaves unaltered the legal rights and remedies of all creditors who do not elect to be governed by Article IV of the plan; therefore, even if such a "class" exists or is later certified to exist, the rights of the class members are not impaired. 11 U.S.C. § 1124(1).

Camay objects on the ground the plan fails to comply with 11 U.S.C. § 1129(a)(7)(A). This provision, applicable to each creditor who does not accept the plan, requires distribution to the non-accepting creditor of property not less in "value" than the amount that creditor would receive were the Debtors' estates liquidated in Chapter 7 on the effective date of the plan. This so-called "best interest" test, it is argued, requires the payment of something more than the principle amount of the creditor's claim when Debtors' estate is solvent and all creditors are to be paid the full amount of their claims. The contention is that "something extra" is an amount representing the capitalized value of the principle of the claim.

Without agreeing to what that amount should be in the case of Camay,[1] the Debtors submit that within the plan's definition of the word "debt" and the provisions of paragraph 4.17 of the plan, there is a basis for the treatment of the Camay claim in accordance with its assertion.

---

[1]The Debtors' liability upon the Camay claim is in litigation in the United States District Court for this District, and until resolution of that suit, not even the principle amount of the claim can be determined.

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[1]The Debtors' liability upon the Camay claim is in litigation in the United States District Court for this District, and until resolution of that suit, not even the principle amount of the claim can be determined.

With that admission, Camay concedes its objection has been met.

With the resolution of the objections, there remains only to determine whether the Debtors have established their burden under § 1129 of the Code. I conclude that they have, and accordingly confirmation should be ordered.

There is now no contention that the Debtors and their plan fail to comply with any of the particulars of § 1129. Accordingly, the only real concern of the Court is whether the Debtors have sufficient income to make the plan feasible, and have sufficient assets to avoid the necessity of further reorganization or liquidation.

To the extent it is humanly possible to forecast income which in part is determined by the acts of others as well as by the current trend of energy prices, it now appears to me that the Debtors have the prospect of more than ample income to maintain their business and still pay all possible claims that can be asserted against them in this proceeding.

The Debtors' immediate cash needs are for the payment of priority claims and those unsecured claims which are not disputed. As to the latter class, it appears on the effective date of the plan the Debtors must distribute $630,065.81. In addition, the Debtors must provide $1,000,000.00 to the custodian for the benefit of creditors holding disputed claims. This money is currently on hand and ready for payment. Payment of the pending Internal Revenue Service claim will be predicated on a pending offer of settlement in an amount substantially lower than the claim itself. Funds are available for this payment (or for payment in full if the settlement is rejected and the IRS prevails at suit) and for payment of post-petition federal income taxes as well. Additionally, it would appear the Debtors can reasonably expect cash flow from their interests in the Abo and Dragon Trail fields alone which will be more

than ample to meet any other needs generated by the plan and to sustain themselves in the foreseeable future. When this fact is coupled with the size of their liquid and non-liquid assets, it now appears further reorganization or liquidation of their debts is not in prospect. Accordingly, a formal order of confirmation shall enter.

DATED: April 21, 1982

BY THE COURT:

JOHN P. MOORE, Judge
United States Bankruptcy Court

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DATED: April 21, 1982

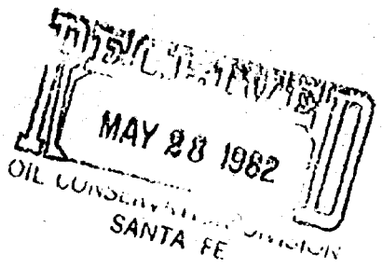
BY THE COURT:

JOHN P. MOORE, Judge
United States Bankruptcy Court

Steven C. James
attorney at law
permian basin division

MESA
PETROLEUM CO.

May 24, 1982



Oil Conservation Division
P. O. Box 2088
Santa Fe NM 87501

Gentlemen:

Subject: Cases 7476 and 7513

Attached please find three copies of the Memorandum of Law requested by Commissioner Ramey at the May 17, 1982 De Novo hearing in the above referenced cases. The Memorandum pertains to the fact that Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates at no time during the pendency of the proceedings in the above referenced cases was the owner of an interest with the right to drill on the SE/4 of Section 12, Township 5 South, Range 24 East, Chaves County, New Mexico. Now that Mr. Grynberg has plugged and abandoned the dry hole he drilled on the said lands, the Commission may impartially give full effect to the laws of the State of New Mexico.

Very truly yours,

Steven C. James

Steven C. James

ld

Attachment

cc: J. E. Gallegos
Box 2228
Santa Fe NM 87501

MAY 28 1982

MEMORANDUM OF LAW

Cases 7476 and 7513

Submitted by Mesa Petroleum Co.

The application filed by Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates ("Jack Grynberg") in Case 7476 should be dismissed because at no time throughout that case was Jack Grynberg the owner of an interest with the right to drill on the SE/4 of Section 12, Township 5 South, Range 24 East, Chaves County, New Mexico.

Section 70-2-17(C) of the New Mexico Statutes states, "Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit." I underlined the key phrase. I have attached a copy of the statute for your reference.

In January, 1982 when Jack Grynberg filed his application in Case 7476, Celeste C. Grynberg owned the entire interest in the oil and gas lease covering the E/2 of the said SE/4. A copy of the assignment to Celeste C. Grynberg of the entire interest and title in and to that oil and gas lease is attached to this Memorandum. The said assignment was pages 16 and 17 of Mesa Petroleum Co.'s ("Mesa") Exhibit No. 4A which was received as evidence in these cases at the May 17, 1982 hearing. This lease was Celeste C. Grynberg's separate property. Section 40-3-3 of the New Mexico Statutes states that neither husband nor wife has any interest in the property of the other. A copy of that statute is attached to this Memorandum. Jack Grynberg never made any reference in his application, in the instruments he sent to Mesa and Corona Oil Company ("Corona") or in either of the hearings in these cases to the sole and separate ownership interest of Celeste C. Grynberg.

The Grynbergs have no interest whatsoever in the W/2 of the said SE/4. As an owner of an interest with the right drill in the W/2 of the said SE/4, Mesa's application in Case 7513 is the only application properly filed.

Jack Grynberg represents that he was appointed to manage Celeste C. Grynberg's properties by the Bankruptcy Court. Even if this were true, it still does not change the ownership of the interest in the E/2 of the said SE/4. Section 70-2-17(C) is clearly limited to owners of interests. The Bankruptcy Court when entering an order with respect to management of the bankrupt's properties does not say that the bankrupt may ignore the statutes of a state. Jack Grynberg can no more ignore the statutes applicable to transacting business in New Mexico than he could ignore the statutes relating to murder in New Mexico.

On or about March 5, 1982 papers were filed with the County Clerk in Denver County, Colorado creating JJ-CC Limited, a Colorado Limited Partnership ("JJ-CC"). On March 30, 1982 Celeste C. Grynberg transferred the entire interest and title in and to the oil and gas lease covering the E/2 of the said SE/4 to JJ-CC. A copy of that assignment is attached hereto and was admitted in evidence as pages 17 and 18 of Mesa's Exhibit No. 4B at the May 17, 1982 hearing in these cases. Again, in his correspondence to Mesa and Corona and in his representations to the Oil Conservation Division, Jack Grynberg made no mention of the fact that JJ-CC was now the owner of the entire interest in the oil and gas lease covering the E/2 of the said SE/4. To the contrary, Jack Grynberg stated under oath to the Oil Conservation Division at the May 17, 1982 hearing that Jack Grynberg d/b/a Jack Grynberg & Associates owned an interest in the said SE/4.

As a Colorado limited partnership JJ-CC is covered by Sections 54-3-1 through 54-3-7 of the New Mexico Statutes. I have also attached a copy of those statutes for your information. Section 54-3-2 makes it clear that before transacting business in New Mexico a foreign limited partnership such as JJ-CC must register with New Mexico's Secretary of State. As of May 17, 1982 JJ-CC had not been registered in the State of New Mexico as foreign limited partnership. A copy of the Certificate to that effect issued by New Mexico's Secretary of State on May 17, 1982 is attached. The Certificate was accepted in evidence in these cases on May 17, 1982 as Mesa's Exhibit No. 44.

For your reference I would direct your attention to Section 53-17-1 of the New Mexico Statutes which governs the admission of foreign corporations to do business in New Mexico. A copy of that statute is attached hereto for your reference. In paragraph K of that section "investing in or acquiring, in transactions outside New Mexico, royalties and other nonoperating mineral interests and the execution of division orders, contracts of sale and other instruments incidental to the ownership of the nonoperating mineral interests" is not to be considered transacting business in New Mexico. The implication is that a foreign corporation is not allowed to operate with respect to its mineral interests in New Mexico without properly registering as a foreign corporation in New Mexico. This is also true for foreign limited partnerships that want to operate with respect to their mineral interests in New Mexico. Before transacting such business in New Mexico, the foreign limited partnership must register with New Mexico's Secretary of State.

Since JJ-CC could not transact business in New Mexico and could not, therefore, drill on the said SE/4, JJ-CC had no standing to apply for compulsory pooling under the said Section 70-2-17(C). That section is only available to parties who own an interest and have the right to drill thereon.

Jack Grynberg may attempt to file the proper registration papers for JJ-CC with New Mexico's Secretary of State and then assert that the issue is now moot. However, section 70-2-7 of the New Mexico Statutes requires notice be given of compulsory pooling applications including the name of the petitioner or applicant. That statute is also attached hereto. No such notice has ever been given in the name of JJ-CC Limited. Basically, with such an assertion, Jack Grynberg would be asking the division to say it is okay to ignore New Mexico's Statutes but, if the Oil Conservation Division catches him at it, he can no longer ignore them. In my opinion, this weak position should not be the one the division takes. Rather, strict compliance with the statutes of the State of New Mexico should be insisted upon.

At no time during the pendency of these proceedings has Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates been the owner of an interest in the said SE/4 with the right to drill thereon. It follows that neither Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates had standing to apply for compulsory pooling in Case 7476 under the said Section 70-2-17(C). The application filed by Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates in Case 7476 should be dismissed. The only application properly filed by an owner of an interest in the said SE/4 with a right to drill thereon is the application filed by Mesa Petroleum Co. in Case 7513. Mesa Petroleum Co.'s application in Case 7513 should be granted.

Respectfully submitted,

Steven C. James

Steven C. James
Attorney for Mesa Petroleum Co.

70-2-17. Equitable allocation of allowable production; pooling; spacing.

A. The rules, regulations or orders of the division shall, so far as it is practicable to do so, afford to the owner of each property in a pool the opportunity to produce his just and equitable share of the oil or gas, or both, in the pool, being an amount, so far as can be practically determined, and so far as such can be practicably obtained without waste, substantially in the proportion that the quantity of the recoverable oil or gas, or both, under such property bears to the total recoverable oil or gas, or both, in the pool, and for this purpose to use his just and equitable share of the reservoir energy.

B. The division may establish a proration unit for each pool, such being the area that can be efficiently and economically drained and developed by one well, and in so doing the division shall consider the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells, and the prevention of reduced recovery which might result from the drilling of too few wells.

C. When two or more separately owned tracts of land are embraced within a spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit.

All orders effecting such pooling shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will afford to the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas, or both. Each order shall describe the lands included in the unit designated thereby, identify the pool or pools to which it applies and designate an operator for the unit. All operations for the pooled oil or gas, or both, which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract within the unit by the owner or owners of such tract. For the purpose of determining the portions of production owned by the persons owning interests in the pooled oil or gas, or both, such production shall be allocated to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. The portion of the production allocated to the owner or owners of each tract or interest included in a well spacing or proration unit formed by a pooling order shall, when produced, be considered as if produced from the separately owned tract or interest by a well drilled thereon. Such pooling order of the division shall make definite provision as to any owner, or owners, who elects not to pay his proportionate share in advance for the prorata reimbursement solely out of production to the parties advancing the costs of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, but which shall include a reasonable charge for supervision and may include a charge for the risk involved in the drilling of such well, which charge for risk shall not exceed two hundred percent of the nonconsenting working interest owner's or owners' prorata share of the cost of drilling and completing the well.

In the event of any dispute relative to such costs, the division shall determine the proper costs after due notice to interested parties and a hearing thereon. The division is specifically authorized to provide that the owner or owners drilling, or paying for the drilling, or for the operation of a well for the benefit of all shall be entitled to all production from such well which would be received by the owner, or owners, for whose benefit the well was drilled or operated, after payment of royalty as provided in the lease, if any, applicable to each tract or interest, and obligations payable out of production, until the owner or owners drilling or operating the well or both have been paid the amount due under the terms of the pooling order or order settling such dispute. No part of the production or proceeds accruing to any owner or owners of a separate interest in such unit shall be applied toward the payment of any cost properly chargeable to any other interest in said unit.

If the interest of any owner or owners of any unleased mineral interest is pooled by virtue of this act, seven-eighths of such interest shall be considered as a working interest and one-eighth shall be considered a royalty interest, and he shall in all events be paid one-eighth of all production from the unit and creditable to his interest.

D. Minimum allowable for some wells may be advisable from time to time, especially with respect to wells already drilled when this act takes effect, to the end that the production will repay reasonable lifting cost and thus prevent premature abandonment and resulting waste.

E. Whenever it appears that the owners in any pool have agreed upon a plan for the spacing of wells, or upon a plan or method of distribution of any allowable fixed by the division for the pool, or upon any other plan for the development or operation of such pool, which plan, in the judgment of the division, has the effect of preventing waste as prohibited by this act and is fair to the royalty owners in such pool, then such plan shall be adopted by the division with respect to such pool; however, the division, upon hearing and after notice, may subsequently modify any such plan to the extent necessary to prevent waste as prohibited by this act.

F. After the effective date of any rule, regulation or order fixing the allowable production, no person shall produce more than the allowable production applicable to him, his wells, leases or properties determined as in this act provided, and the allowable production shall be produced in accordance with the applicable rules, regulations or orders.

NM-60,391

From lease number
LG-0565 -C
To lease number
LG-565-1

NEW MEXICO STATE LAND OFFICE

ASSIGNMENT OF OIL AND GAS LEASE

APR 14 10 02 AM '80

00170

KNOW ALL MEN BY THESE PRESENTS:

That Jack J. Grynberg and Celeste C. Grynberg, husband and wife
(wife, if any or state of incorporation)

1050 17th Street, Suite 1950, Denver, Colorado 80265

hereinafter called "Assignor" (whether one or more), for and in consideration of Ten or more Dollars, paid by Celeste C. Grynberg

whose Post Office address is 1050 17th Street, Suite 1950, Denver, Colorado 80265,

hereinafter called "Assignee" (whether one or more), does hereby sell, assign and convey to the Assignee the entire interest and title in and to that certain Oil and Gas Lease No. LG-0565 made by the State of New Mexico to Jack J. Grynberg under date of September 1st 1972, only insofar as said lease covers the following land, in Chaves County, New Mexico, towit:

T. 5 S., R. 24 E.
Sec. 12: NE¼NE¼, E½SE¼
Sec. 14: NE¼NW¼, E½SW¼

Containing 240.00 acres, more or less

RECEIVED
APR 7 10 19 AM '80
STATE LAND OFFICE
SANTA FE, N. M.

together with the rights incident thereto, and the personal property thereon, if any, appurtenant thereto, or used or obtained in connection therewith.

Assignee assumes and agrees to perform all obligations to the State of New Mexico insofar as said described land is affected, and to pay such rentals and royalties, and to do such other acts as are by said lease required as to said land, to the same extent and in the same manner as if the provisions of said lease were fully set out herein. It is agreed that Assignee shall succeed to all the rights, benefits and privileges granted the Lessee by the terms of said lease, as to said land.

With warranty covenants as to the leasehold estate herein assigned, except as to any valid overriding royalty, production payment, operating agreement or sub-lease, if any, now of legal record, and Assignor covenants that said leasehold estate so assigned is valid and subsisting and that all rentals and royalties due thereunder have been paid.

EXECUTED this 1st day of March, 1980.

Jack J. Grynberg

Celeste C. Grynberg
Spouse

(PERSONAL ACKNOWLEDGMENT)

STATE OF COLORADO
COUNTY OF DENVER } ss.

The foregoing instrument was acknowledged before me this 1st day of March 1980 by Jack J. Grynberg and Celeste C. Grynberg, husband and wife

My commission expires: 11-29-83

Julie L. Weber
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF
COUNTY OF } ss.

The foregoing instrument was acknowledged before me this day of 19 by

(Name) (Title) of (Corporation)

a corporation, on behalf of said corporation.

My commission expires:

Notary Public

43 (Replaces OG-43 and OG-44 — Rev. 8/72)

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF.....
COUNTY OF..... } ss.

The foregoing instrument was acknowledged before me this.....day of.....19....., by

.....as attorney-in-fact in behalf of

.....

My commission expires:..... Notary Public

APPROVAL OF THE COMMISSIONER

Office of Commissioner of Public Lands
Santa Fe, New Mexico

I hereby certify that the within Assignment was filed in my office on APR 14 1959, approved by me and to be effective as to the State of New Mexico on .....

Commissioner of Public Lands

INSTRUCTIONS AND INFORMATION

1. An annual rental, at the rate of 50¢ per acre shall become due and payable to the lessor by the lessee, or by any transferee or assignee of the same, or any part hereof, where such transferee or assignee has been recognized, and such transfer or assignment approved by the lessor, upon each acre of land above described and then claimed by such lessee, transferee or assignee, and the same shall be due and payable in advance to the Lessor on the successive anniversary dates of the lease, (not the date this assignment was executed) but the annual rental on any assignment shall in no event be less than Six Dollars ($6.00).

2. The lease is for a primary term of Five Years from the date of the lease, and as long thereafter as oil and gas in paying quantities, or either of them is produced from said land by the lessee, subject to all of the terms and conditions set forth in the lease.
   If the lessee shall have failed to make discovery of oil and/or gas in paying quantities during the primary term of the lease, the lessee may continue the lease in full force and effect for an additional term of five years and as long thereafter as oil and gas in paying quantities, or either of them is produced from the leased premises, by paying each year in advance, as herein provided, double the rental provided herein for the primary term, or the highest rental prevailing at the commencement of the secondary term in any rental district, or districts in which the lands or any part thereof, may be situated, if it be greater than double the rental provided for the primary term. But the annual rental on any assignment shall in no event be less than Twelve Dollars ($12.00) during the secondary term.

3. All Assignments must be filed in triplicate in the State Land Office within 100 days from date of signing and accompanied by Cashier's Check, Bank Draft, P.O. or Express Money Order.

4. Effective September 1, 1957, recording fee for each assignment is $10.00 (if filed over 100 days from date of signing, additional fee of $25.00 is charged).

5. When assignments are accompanied by personal check, the Commissioner of Public Lands reserves the right to withhold approval of assignment until checks are paid.

6. Assignments will not be approved when assigned to more than two persons, or for less than a regular subdivision or for undivided interests. By a regular subdivision is meant forty acres or a tract described by Lot number which may be more or less than 40 acres.

7. Assignments must show complete post office address of assignee.

8. Assignments must be executed before an officer authorized to take acknowledgments of deeds. Corporations must use corporate form of acknowledgment.

9. Assignments must show whether assignors are married or single; if married, both husband and wife must sign the assignment, and certificate of acknowledgment must show marital status of assignors.

10. All official business, letters and communications must be addressed to and sent direct to the Commissioner of Public Lands.

11. Make all payments for annual rental and recording and approval fees to

COMMISSIONER OF PUBLIC LANDS
Santa Fe, New Mexico

40-3-3. [Separation of property; admission to dwelling of spouse.]

Neither husband nor wife has any interest in the property of the other, but neither can be excluded from the other's dwelling.

History: Laws 1907, ch. 37, § 3; Code 1915, § 2749; C.S. 1929, § 68-106; 1941 Comp., § 65-303; 1953 Comp., § 57-3-3.

Law review. — For comment, "Community Property — Power of Testamentary Disposition — Inequality Between Spouses," see 7 Nat. Resources J. 645 (1967).

Am. Jur. 2d, A.L.R. and C.J.S. references. — 41 Am. Jur. 2d Husband and Wife §§ 34 to 36, 59 to 60.

Right of wife to exclude husband from possession, use, or enjoyment of family residence or homestead owned by her, 21 A.L.R. 745.

Replevin, right of husband or wife to maintain against other, 41 A.L.R. 1054.

Joining in subsequent instrument as ratification of or estoppel as to prior instrument affecting real property, ineffective for nonjoinder of spouse, 7 A.L.R.2d 299.

Division of community property between spouses into separate property as constituting gift within gift statutes, 19 A.L.R.2d 860.

41 C.J.S. Husband and Wife §§ 469 to 501, 503 to 508.

NEW MEXICO STATE LAND OFFICE

ASSIGNMENT OF OIL AND GAS LEASE

From lease number
LG-0565-1
To lease number
LG-0565-2

KNOW ALL MEN BY THESE PRESENTS: 00037

That Celeste C. Grynberg and Jack J. Grynberg, wife and husband
(wife, if any or state of incorporation)

of 1050 17th Street, Suite 1950, Denver, Colorado 80265

hereinafter called "Assignor" (whether one or more), for and in consideration of Ten or more Dollars, paid by JJ-CC Limited, a Colorado Limited Partnership

whose Post Office address is 1050 17th Street, Suite 1950, Denver, Colorado 80265,

hereinafter called "Assignee" (whether one or more), does hereby sell, assign and convey to the Assignee the entire interest and title in and to that certain Oil and Gas Lease No. LG-0565 made by the State of New Mexico to Jack J. Grynberg under date of September 1, 1972, only insofar as said lease covers the following land, in Chaves County, New Mexico, to-wit:

T 5 S - R 24 E, NMPM
Sec. 12: NE¼NE¼, E½SE¼
Sec. 14: NE¼NW¼, E½SW¼ MIL. INST.

Containing 240.00 acres, more or less

	A. C.
DATE	4-14-82
	4-15-82
	K.M.

together with the rights incident thereto, and the personal property thereon, if any, appurtenant thereto, or used or obtained in connection therewith.

Assignee assumes and agrees to perform all obligations to the State of New Mexico insofar as said described land is affected, and to pay such rentals and royalties, and to do such other acts as are by said lease required as to said land, to the same extent and in the same manner as if the provisions of said lease were fully set out herein. It is agreed that Assignee shall succeed to all the rights, benefits and privileges granted the Lessee by the terms of said lease, as to said land.

With warranty covenants as to the leasehold estate herein assigned, except as to any valid overriding royalty, production payment, operating agreement or sub-lease, if any, now of legal record, and Assignor covenants that said leasehold estate so assigned is valid and subsisting and that all rentals and royalties due thereunder have been paid.

EXECUTED this MAR 3 0 1982 day of _____, 19____.

Celeste C. Grynberg, Assignor

Jack J. Grynberg, Spouse

(PERSONAL ACKNOWLEDGMENT)

STATE OF COLORADO
COUNTY OF DENVER } ss.

The foregoing instrument was acknowledged before me this MAR 3 0 1982 day of _____, 19____, by Celeste C. Grynberg and Jack J. Grynberg

My commission expires: 5/20/85

Janet N. Kerby
Notary Public
1088 Garfield, Denver, CO

JANET N. KERBY NOTARY PUBLIC STATE OF COLORADO

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF
COUNTY OF } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,

_____ (Name) _____ (Title) of _____ (Corporation)

a _____ corporation, on behalf of said corporation.

My commission expires: _____

_____
Notary Public

OG-43 (Replaces OG-43 and OG-44 ---Rev. 8/72) SEE OTHER SIDE

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF.....
COUNTY OF..... } ss.

The foregoing instrument was acknowledged before me this.....day of....., 19....., by

.....as attorney-in-fact in behalf of

.....

My commission expires:..... Notary Public

APPROVAL OF THE COMMISSIONER

Office of Commissioner of Public Lands
Santa Fe, New Mexico

I hereby certify that the within Assignment was filed in my office on APR 6 1982, approved by me and to be effective as to the State of New Mexico on APR 12 1982.

Alex J. Armijo
Commissioner of Public Lands

INSTRUCTIONS AND INFORMATION

1. An annual rental, at the rate of 50¢ per acre shall become due and payable to the lessor by the lessee, or by any transferee or assignee of the same, or any part hereof, where such transferee or assignee has been recognized, and such transfer or assignment approved by the lessor, upon each acre of land above described and then claimed by such lessee, transferee or assignee, and the same shall be due and payable in advance to the Lessor on the successive anniversary dates of the lease, (not the date this assignment was executed) but the annual rental on any assignment shall in no event be less than Six Dollars ($6.00).

2. The lease is for a primary term of Five Years from the date of the lease, and as long thereafter as oil and gas in paying quantities, or either of them is produced from said land by the lessee, subject to all of the terms and conditions set forth in the lease.
   If the lessee shall have failed to make discovery of oil and/or gas in paying quantities during the primary term of the lease, the lessee may continue the lease in full force and effect for an additional term of five years and as long thereafter as oil and gas in paying quantities, or either of them is produced from the leased premises, by paying each year in advance, as herein provided, double the rental provided herein for the primary term, or the highest rental prevailing at the commencement of the secondary term in any rental district, or districts in which the lands or any part thereof, may be situated, if it be greater than double the rental provided for the primary term. But the annual rental on any assignment shall in no event be less than Twelve Dollars ($12.00) during the secondary term.

3. All Assignments must be filed in triplicate in the State Land Office within 100 days from date of signing and accompanied by Cashier's Check, Bank Draft, P.O. or Express Money Order.

4. Effective September 1, 1957, recording fee for each assignment is $10.00 (if filed over 100 days from date of signing, additional fee of $25.00 is charged).

5. When assignments are accompanied by personal check, the Commissioner of Public Lands reserves the right to withhold approval of assignment until checks are paid.

6. Assignments will not be approved when assigned to more than two persons, or for less than a regular subdivision or for undivided interests. By a regular subdivision is meant forty acres or a tract described by Lot number which may be more or less than 40 acres.

7. Assignments must show complete post office address of assignee.

8. Assignments must be executed before an officer authorized to take acknowledgments of deeds. Corporations must use corporate form of acknowledgment.

9. Assignments must show whether assignors are married or single; if married, both husband and wife must sign the assignment, and certificate of acknowledgment must show marital status of assignors.

10. All official business, letters and communications must be addressed to and sent direct to the Commissioner of Public Lands.

11. Make all payments for annual rental and recording and approval fees to

COMMISSIONER OF PUBLIC LANDS
Santa Fe, New Mexico 87501

ARTICLE 3

Foreign Limited Partnerships

Sec.
54-3-1. Law governing.
54-3-1.1. Definition.
54-3-2. Registration.
54-3-3. Name.
54-3-4. Changes and amendments.
54-3-5. Cancellation of registration.
54-3-6. Transaction of business without registration.
54-3-7. Action by attorney general.

54-3-1. Law governing.

Subject to the New Mexico constitution, the laws of the state under which a foreign limited partnership is organized govern its organization and internal affairs and the liability of its limited partners, and a foreign limited partnership may not be denied registration under Sections 54-3-1 through 54-3-7 NMSA 1978 for the purpose of doing business in this state by reason of any difference between those laws and the laws of New Mexico.

History: 1978 Comp., § 54-3-1, enacted by Laws 1979, ch. 85, § 1.

54-3-1.1. Definition.

As used in this act [54-3-1 to 54-3-7 NMSA 1978], "foreign limited partnership" means a partnership formed under the limited partnership laws of any territory, possession, commonwealth or state of the United States other than New Mexico, having as members one or more general partners and one or more limited partners.

History: 1978 Comp., § 54-3-1.1, enacted by Laws 1979, ch. 85, § 2.

54-3-2. Registration.

A. Before transacting business in New Mexico, a foreign limited partnership shall register with the secretary of state. In order to register, a foreign limited partnership shall file with the secretary of state a statement of registration as a foreign limited partnership, signed and sworn to by a general partner and setting forth:

(1) the name of the foreign limited partnership and, if different, the name under which it proposes to register and transact business in New Mexico;

(2) the state and date of its formation;

(3) the general character of the business it proposes to transact in New Mexico;

(4) the name and address of any agent for service of process on the foreign limited partnership whom the foreign limited partnership elects to appoint; the agent must be an individual resident of New Mexico, a domestic corporation, or a foreign corporation having a place of business in, and authorized to do business in New Mexico;

(5) a statement that the secretary of state is appointed the agent of the foreign limited partnership for service of process if no agent has been appointed under Paragraph (4) of this subsection or, if appointed, the agent's authority has been revoked or if the agent cannot be found or served with the exercise of reasonable diligence;

(6) the address of the office required to be maintained in the state of its organization by the laws of that state or, if not so required, of the principal office of the foreign limited partnership; and

(7) if the certificate of limited partnership filed in the foreign limited partnership's state of organization is not required to include the names and business addresses of the partners, a list of the names and addresses.

B. The fee for filing the statement of registration and preparing a certified copy thereof shall be one hundred dollars ($100).

C. Upon receiving a statement of registration and the filing fee, the secretary of state shall:

(1) endorse on the statement of registration the word "filed" and the month, day and year of the filing thereof;

(2) file the statement of registration in his office; and

(3) at the request of the person who filed the statement of registration or his representative, prepare and deliver a certified copy of the statement of registration to such person or his representative.

History: 1978 Comp., § 54-3-2, enacted by Laws 1979, ch. 85, § 3.

54-3-3. Name.

A foreign limited partnership may register with the secretary of state under any name, whether or not it is the name under which it is registered in its state of organization, that could be registered by a domestic limited partnership.

History: 1978 Comp., § 54-3-3, enacted by Laws 1979, ch. 85, § 4.

54-3-4. Changes and amendments.

If any statement in the statement of registration of a foreign limited partnership was false when made or any arrangements or other facts described have changed, making the statement inaccurate in any respect, the foreign limited partnership shall promptly file in the office of the secretary of state a certificate, signed and sworn to by a general partner, correcting such statement. The fee for filing such a certificate shall be ten dollars ($10.00).

History: 1978 Comp., § 54-3-4, enacted by Laws 1979, ch. 85, § 5.

54-3-5. Cancellation of registration.

A foreign limited partnership may cancel its registration by filing with the secretary of state a certificate of cancellation signed and sworn to by a general partner. A cancellation does not terminate the authority of the secretary of state to accept service of process on the foreign limited partnership with respect to causes of action arising out of the transaction of business in New Mexico. The fee for filing such a certificate of cancellation shall be ten dollars ($10.00).

History: 1978 Comp., § 54-3-5, enacted by Laws 1979, ch. 85, § 6.

54-3-6. Transaction of business without registration.

A. A foreign limited partnership transacting business in New Mexico may not maintain any action, suit or proceeding in any court of this state until it has registered in this state.

B. The failure of a foreign limited partnership to register in this state does not impair the validity of any contract or act of the foreign limited partnership or prevent the foreign limited partnership from defending any action, suit or proceeding in any court of this state.

C. A limited partner of a foreign limited partnership is not liable as a general partner of the foreign limited partnership solely by reason of the limited partnership having transacted business in New Mexico without registration.

D. A foreign limited partnership, by transacting business in New Mexico without registration, appoints the secretary of state as its agent for service of process with respect to causes of action arising out of the transaction of business in New Mexico.

History: 1978 Comp., § 54-3-6, enacted by Laws 1979, ch. 85, § 7.

54-3-7. Action by attorney general.

The attorney general may bring an action to restrain a foreign limited partnership from transacting business in New Mexico in violation of Sections 54-3-1 through 54-3-7 NMSA 1978.

History: 1978 Comp., § 54-3-7, enacted by Laws 1979, ch. 85, § 8.

STATE OF NEW MEXICO

OFFICE OF

THE SECRETARY OF STATE

Certificate

I, Shirley Hooper, Secretary of State of the State of New Mexico, do hereby certify

that

our records have been reviewed and JJ-CC Limited, a Colorado Limited Partnership has not been registered in the State of New Mexico as a Foreign Limited Partnership.

Given under my hand and the Great Seal of the State of New Mexico, in the City of Santa Fe the Capital on this 17th *day of* May *A.D.* 1982

Secretary of State

ARTICLE 17

Business Corporations; Foreign Corporations

Sec.
53-17-1. Admission of foreign corporation.
53-17-2. Powers of foreign corporation.
53-17-3. Corporate name of foreign corporation.
53-17-4. Change of name by foreign corporation.
53-17-5. Application for certificate of authority.
53-17-6. Filing of application for certificate of authority.
53-17-7. Application for readmission.
53-17-8. Effect of certificate of authority.
53-17-9. Registered office and registered agent of foreign corporation.
53-17-10. Change of registered office or registered agent of foreign corporation.
53-17-11. Service of process on foreign corporation.
53-17-12. Amendment to articles of incorporation of foreign corporation.
53-17-13. Merger of foreign corporation authorized to transact business in this state.
53-17-14. Amended certificate of authority.
53-17-15. Withdrawal of foreign corporation.
53-17-16. Filing of application for withdrawal.
53-17-17. Revocation of certificate of authority.
53-17-18. Issuance of certificate of revocation.
53-17-19. Application to corporations heretofore authorized to transact business in this state.
53-17-20. Transacting business without certificate of authority.

53-17-1. Admission of foreign corporation.

No foreign corporation shall transact business in this state until it has procured a certificate of authority to do so from the commission. No foreign corporation shall procure a certificate of authority under the Business Corporation Act [53-11-1 to 53-18-12 NMSA 1978] to transact in this state any business which a corporation organized under the Business Corporation Act is not permitted to transact. A foreign corporation shall not be denied a certificate of authority because the laws of the state or country under which the corporation is organized governing its organization and internal affairs differ from the laws of this state, and nothing in the Business Corporation Act authorizes this state to regulate the organization or the internal affairs of such corporation. Without excluding other activities which may not constitute transacting business in this state, a foreign corporation shall not be considered to be transacting business in this state, for the purposes of the Business Corporation Act, by reason of carrying on in this state any one or more of the following activities:

A. maintaining or defending any action or suit or any administrative or arbitration proceeding, or effecting the settlement thereof or the settlement of claims or disputes;

B. holding meetings of its directors or shareholders or carrying on other activities concerning its internal affairs;

C. maintaining bank accounts;

D. maintaining offices or agencies for the transfer, exchange and registration of its securities, or appointing and maintaining trustees or depositaries with relation to its securities;

E. effecting sales through independent contractors;

F. soliciting or procuring orders, whether by mail or through employees or agents or otherwise, where the orders require acceptance without this state before becoming binding contracts;

G. creating as borrower or lender, or acquiring, indebtedness or mortgages or other security interest in real or personal property;

H. securing or collecting debts or enforcing any rights in property securing them;

I. transacting any business in interstate commerce;

J. conducting an isolated transaction completed within a period of thirty days and not in the course of a number of repeated transactions of like nature; or

K. investing in or acquiring, in transactions outside New Mexico, royalties and other nonoperating mineral interests and the execution of division orders, contracts of sale and other instruments incidental to the ownership of the nonoperating mineral interests.

History: 1953 Comp., § 51-30-1, enacted by Laws 1967, ch. 81, § 103; 1969, ch. 48, § 1; 1975, ch. 64, § 40.

Emergency clause. — Laws 1969, ch. 48, § 2, makes the act effective immediately. Approved March 19, 1969.

70-2-7. Rules of procedure in hearings; manner of giving notice; record of rules, regulations and orders.

The division shall prescribe its rules of order or procedure in hearing [hearings] or other proceedings before it under this act. Any notice required to be given under this act or under any rule, regulation or order prescribed by the commission or division shall be by personal service on the person affected, or by publication once in a newspaper of general circulation published at Santa Fe, New Mexico, and once in a newspaper of general circulation published in the county, or each of the counties if there be more than one, in which any land, oil or gas or other property which may be affected shall be situated. Such notice shall issue in the name of "the state of New Mexico" and shall be signed by the director of the division, and the seal of the commission shall be impressed thereon, and it shall specify the number and style of the case, and the time and place of hearing, shall briefly state the general nature of the order or orders, rule or rules, or regulation or regulations contemplated by the division on its own motion or sought in a proceeding brought before the commission or division, the name of the petitioner, or applicant, and, unless the order, rule or regulation is intended to apply to and affect the entire state, it shall specify or generally describe the common source or sources of supply that may be affected by such order, rule or regulation. Personal service thereof may be made by any agent of the division or by any person over the age of eighteen years, in the same manner as is provided by law for the service of summons in civil actions in the district courts of this state. Such service shall be complete at the time of such personal service or on the date of such publication, as the case may be. Proof of service shall be the affidavit of the person making personal service, or of the publisher of the newspaper in which publication is had, as the case may be. All rules, regulations and orders made by the commission or division shall be entered in full by the director thereof in a book to be kept for such purpose by the division, which shall be a public record and open to inspection at all times during reasonable office hours. A copy of any such rule, regulation or order, certified by the director of the division under the seal of the commission, shall be received in evidence in all courts of the state with the same effect as the original.

History: Laws 1935, ch. 72, § 5; 1941 Comp., § 69-206; Laws 1949, ch. 168, § 5; 1953 Comp., § 65-3-6; Laws 1977, ch. 255, § 42.

Cross-references. — As to filing rules and regulations, see 14-4-1 NMSA 1978 et seq. As to publication of notice, see 14-11-1 NMSA 1978 et seq. As to service of summons in civil actions, see Rule 4, N.M.R. Civ. P.

The 1977 amendment substituted "division" for "commission" throughout the section, inserted "or division" following "commission" in the second sentence, near the middle of the third sentence and in the seventh sentence, substituted "the director of the division" for "at least a majority of the members of the commission or by the secretary of the commission" near the beginning of the third sentence, substituted "director" for "secretary" in the seventh sentence and substituted "director of the division" for "secretary of the commission" in the last sentence.

Meaning of "this act". — See same catchline in notes to 70-2-3 NMSA 1978.

Am. Jur. 2d and C.J.S. references. — 2 Am. Jur. 2d Administrative Law §§ 340 to 366.

73 C.J.S. Public Administrative Bodies and Procedures §§ 130, 131.

Docket No. 13-82

Dockets Nos. 14-82 and 15-82 are tentatively set for May 26 and June 9, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 12, 1982

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:

ALLOWABLE: (1) Consideration of the allowable production of gas for June, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for June, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7540: (Continued and Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Pauly-Anderson-Pritchard, William H. Pauly, and all other interested parties to appear and show cause why the Maloy Well No. 1, located in Unit P, Section 16, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7538: (Continued and Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Francis L. Harvey and all other interested parties to appear and show cause why the Pinkstaff Estate Well No. 2, located in Unit A, Section 29, Township 29 North, Range 10 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7566: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Flag-Redfern Oil Co., Principal, National Surety Corporation, and all other interested parties to appear and show cause why four wells, being the Julander No. 1 located in Unit L, Section 34; Julander No. 2 located in Unit I, Section 33; Hargis No. 1 located in Unit G, Section 33; and Hargis No. 2 located in Unit J, Section 33, all in Township 30 North, Range 12 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7560: (Continued from April 28, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Charles H. Heisen, Fidelity and Deposit Company of Maryland, Surety, and all other interested parties to appear and show cause why the Crownpoint Well No. 1, located in Unit F, Section 18, Township 18 North, Range 13 West, McKinley County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7542: (Continued from April 14, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Benson-Montin-Greer Drilling Corporation, Hartford Accident and Indemnity Company, and all other interested parties to appear and show cause why the following wells: Dustin No. 1, located in Unit K, Section 6, and the Gallegos Canyon Unit No. 2, located in Unit K, Section 35, both in Township 29 North, Range 12 West, and the Segal No. 1, located in Unit K, Section 10, and the Price No. 1, located in Unit N, Section 15, both in Township 31 North, Range 13 West, San Juan County, should not be plugged and abandoned in accordance with Division-approved plugging programs.

CASE 7567: Application of Harvey E. Yates Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Richardson Unit Area, comprising 1,283.35 acres, more or less, of State and Fee lands in Townships 13 and 14 South, Range 36 East.

CASE 7565: (Continued from April 28, 1982, Examiner Hearing)

Application of Delta Drilling Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Mescalero Unit Area, comprising 719.77 acres, more or less, of State, Fee and Federal lands in Townships 9 and 10 South, Range 32 East.

CASE 7568: Application of Petroleum Corp. of Delaware for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Superior Federal Well No. 6 located in Unit N of Section 6, Township 20 South, Range 29 East, East Burton Flat Field, to produce oil from the Strawn formation through tubing and gas from the Morrow formation through the casing-tubing annulus by means of a cross-over assembly.

CASE 7569: Application of Petroleum Corp. of Delaware for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Atoka and Morrow production in the wellbores of its Parkway West Unit Well No. 3, located in Unit K of Section 29, and Well No. 10, located in Unit G of Section 27, both in Township 19 South, Range 29 East.

CASE 7570: Application of J. Cleo Thompson for three unorthodox oil well locations, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for three unorthodox well locations, being 660 feet from the North line and 1330 feet from the West line, 660 feet from the North line and 2630 feet from the East line, and 660 feet from the North line and 1310 feet from the East line, all in Section 2, Township 17 South, Range 30 East, Square Lake Pool.

CASE 7516: (Continued from March 31, 1982, Examiner Hearing)

Application of Benson-Montin-Greer for a unit agreement, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Canada Ojitos Unit Area, comprising 12,361 acres, more or less, of Jicarilla Apache Indian lands in Township 27 North, Range 1 West.

CASE 7571: 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 from the surface through the Abo formation underlying the SE/4 of Section 9, the SW/4 of Section 10, the NW/4 of Section 15, all in Township 6 South, Range 26 East, each to form a standard 160-acre spacing and proration unit 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 wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

CASE 7551: (Continued from April 14, 1982, Examiner Hearing)

Application of Harvey E. Yates Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 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 7572: Application of Anadarko Production Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its Ballard GSA Waterflood Project by drilling and converting ten wells located in Unit N of Section 5, Units N and P of Section 6, Units F, H, J, and P of Section 7, Units P and N of Section 8, and Unit F of Section 17, all in Township 18 South, Range 29 East, Loco Hills Pool.

CASE 7573: Application of Anadarko Production Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its West Square Lake Waterflood Project by the conversion to water injection of five wells located in Units J and N of Section 9, D and H of Section 10, and J of Section 3, all in Township 17 South, Range 30 East.

CASE 7574: Application of Sun Exploration and Production Company for two non-standard gas proration units and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 160-acre non-standard Jalmat gas proration units comprising the NW/4 of Section 21, for its Boren & Greer Com Well No. 2 in Unit C and the NE/4 of Section 20, for its Boren & Greer Com Well No. 3, to be drilled at an unorthodox location 660 feet from the North line and 940 feet from the East line of said Section 20, all in Township 22 South, Range 36 East. Applicant further seeks rescission of Order No. R-5688.

CASE 7575: Application of Eagle Oil & Gas Co. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location for a Wolfcamp-Penn test well to be drilled 1500 feet from the South line and 660 feet from the East line of Section 2, Township 17 South, Range 27 East, the S/2 of said Section 2 to be dedicated to the well.

CASES 7576 and 7577: Application of Apollo Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in each of the following cases, seeks an order pooling all mineral interests from the surface through the base of the San Andres formation underlying the lands specified in each case, each to form a standard 40-acre oil spacing and proration unit 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 wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7576: NE/4 SW/4 Section 6, Township 19 South, Range 38 East

CASE 7577: SE/4 SW/4 Section 6, Township 19 South, Range 38 East

CASE 7578: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the SE/4 of Section 31, Township 19 South, Range 39 East, to form a standard 160-acre gas proration unit 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 7579: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the N/2 NW/4 of Section 5, Township 20 South, Range 39 East, to form a non-standard 80-acre gas proration unit 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 7580: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Seven Rivers formation underlying the SW/4 of Section 31, Township 19 South, Range 39 East, to form a standard 160-acre gas proration unit 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 7581: Application of Estoril Producing Corp. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the South line and 990 feet from the East line of Section 10, Township 23 South, Range 34 East, Antelope Ridge-Morrow Gas Pool, the S/2 of said Section 10 to be dedicated to the well.

CASES 7582 thru 7585: Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each 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. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7582: NW/4 Section 13, Township 6 South, Range 24 East

CASE 7583: NE/4 Section 13, Township 6 South, Range 24 East

CASE 7584: SW/4 Section 13, Township 6 South, Range 24 East

CASE 7585: NW/4 Section 24, Township 6 South, Range 24 East

CASES 7525 thru 7534: (Continued from April 28, 1982, Examiner Hearing)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following 10 cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each 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. Also to be considered in each case will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7525: SW/4 Section 3, Township 5 South, Range 24 East

CASE 7526: NW/4 Section 3, Township 5 South, Range 24 East

CASE 7527: SE/4 Section 3, Township 5 South, Range 24 East

CASE 7528: NW/4 Section 4, Township 5 South, Range 24 East

CASE 7529: NE/4 Section 4, Township 5 South, Range 24 East

CASE 7530: NW/4 Section 11, Township 6 South, Range 24 East

CASE 7531: SW/4 Section 11, Township 6 South, Range 24 East

CASE 7532: SE/4 Section 27, Township 6 South, Range 24 East

CASE 7533: SW/4 Section 27, Township 6 South, Range 24 East

CASE 7534: NW/4 Section 34, Township 6 South, Range 24 East

Docket No. 13-82

CASE 7515: (Continued from April 14, 1982, Examiner Hearing)

Application of Four Corners Gas Producers Association for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying all or portions of Townships 26 and 27 North, Ranges 12 and 13 West, Township 28 North, Range 13 West, Township 29 North, Ranges 13 through 15 West, and Township 30 North, Ranges 14 and 15 West, containing 164,120 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 7586: Application of Standard Resources Corp. for designation of a tight formation, Chaves and Eddy Counties, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Abo formation underlying all or portions of Township 15 South, Ranges 23 through 25 East, Township 19 South, Range 20 East, and Township 20 South, Range 20 East, all in Chaves County; in Eddy County: Township 16 South, Ranges 23 through 26 East, Township 17 South, Ranges 21, 23, 24, and 25 East, and Township 18 South, Ranges 21, 23, 24 and 25 East, Township 19 South, Ranges 21, 23, and 24 East, and Township 20 South, Ranges 21, 23, and 24 East, containing 460,800 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 7587: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending vertical and horizontal limits of certain pools in Chaves, Eddy, and Lea Counties, New Mexico:

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the Draper Mill-Wolfcamp Gas Pool. The discovery well is the HNG Oil Company Vaca Draw 16 State Well No. 1 located in Unit E of Section 16, Township 25 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM
Section 16: W/2

(b) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Jabalina-Morrow Gas Pool. The discovery well is the Amoco Production Company Perro Grande Unit Well No. 1 located in Unit J of Section 6, Township 26 South, Range 35 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 35 EAST, NMPM
Section 6: E/2

(c) ABOLISH the Diamond Mound-Morrow Gas Pool in Chaves and Eddy Counties, New Mexico, as heretofore classified, defined, and described as:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 35: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM
Section 31: E/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 3: Lots 1 through 16
Section 4: Lots 1 through 16
Section 5: Lots 1 through 16
Section 6: Lots, 1, 2, 7, 8, 9, 10, 15, 16, and S/2

(d) EXTEND the vertical limits of the Diamond Mound-Atoka Gas Pool in Chaves and Eddy Counties, New Mexico, to include the Morrow formation, and redesignate said pool to Diamond Mound-Atoka-Morrow Gas Pool, and extend the horizontal limits of said pool to include acreage from abolished Diamond Mound-Morrow Gas Pool and one additional well as follows:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 35: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM
Section 31: E/2

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM
Section 9: S/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 3: Lots 1 through 16
Section 4: Lots 1 through 16
Section 5: Lots 1 through 16
Section 6: Lots 1, 2, 7, 8, 9, 10, 15, 16, and S/2

(e) EXTEND the Burton Flat-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM
Section 35: E/2
Section 36: N/2

(f) EXTEND the Crow Flats-Morrow Gas Pool in Eddy County, New Mexico to include therein:

TOWNSHIP 17 SOUTH, RANGE 27 EAST, NMPM
Section 1: All
Section 12: N/2

(g) EXTEND the South Culebra Bluff-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 10: All
Section 11: W/2
Section 14: W/2
Section 15: W/2
Section 34: W/2

(h) EXTEND the South Empire-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM
Section 17: N/2

(i) EXTEND the Golden Lane-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 30 EAST, NMPM
Section 28: All

(j) EXTEND the Kennedy Farms-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM
Section 10: N/2

(k) EXTEND the East LaRica-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 36: S/2

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 31: S/2

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

TOWNSHIP 21 SOUTH, RANGE 22 EAST, NMPM
Section 18: E/2

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

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM
Section 11: E/2

(n) EXTEND the South Millman-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 16: N/2

(o) EXTEND the East Millman-Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 7: NE/4

(p) EXTEND the Millman Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 8: S/2

(q) EXTEND the West Nadine-Blinebry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 5: SW/4

(r) EXTEND the West Osudo-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 35 EAST, NMPM
Section 11: S/2
Section 12: S/2

(s) EXTEND the Pecos Slope-Abo Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 24 EAST, NMPM

Section 24: S/2
Section 25: All
Section 26: E/2
Section 35: W/2 and NE/4
Section 36: N/2

TOWNSHIP 4 SOUTH, RANGE 25 EAST, NMPM
Section 19: SW/4
Section 30: W/2
Section 31: NW/4

TOWNSHIP 5 SOUTH, RANGE 24 EAST, NMPM
Section 2: NW/4
Section 7: All
Section 8: All
Section 9: N/2 and SW/4
Section 16: W/2
Section 17 thru 20: All
Section 21: W/2
Section 28: W/2
Section 29: All
Section 30: All
Section 31: N/2
Section 32: N/2
Section 33: NW/4

TOWNSHIP 5 SOUTH, RANGE 25 EAST, NMPM
Section 1 thru 5: All
Section 6: E/2
Section 7: SW/4 and E/2
Section 8 thru 12: All
Section 14 thru 22: All
Section 23: N/2
Section 27: N/2
Section 28 thru 30: All
Section 31: NE/4
Section 32: N/2
Section 33: All
Section 34: All

TOWNSHIP 6 SOUTH, RANGE 24 EAST, NMPM
Section 2: All
Section 11 thru 14: All
Section 22 thru 28: All
Section 34: E/2
Section 35: All
Section 36: All

TOWNSHIP 6 SOUTH, RANGE 26 EAST, NMPM
Section 4 thru 6: All
Section 7 thru 8: All
Section 9: N/2
Section 17 thru 20: All
Section 29 thru 32: All

TOWNSHIP 7 SOUTH, RANGE 24 EAST, NMPM
Section 1: All
Section 2: All
Section 3: E/2
Section 9 thru 15: All
Section 22 thru 27: All
Section 34 thru 36: All

TOWNSHIP 7 SOUTH, RANGE 25 EAST, NMPM
Section 6: W/2
Section 7: S/2
Section 13: SW/4
Section 14: S/2
Section 15: S/2
Section 18 and 19: All
Section 20: S/2
Section 22 thru 27: All
Section 29 thru 32: All
Section 34 thru 36: All

TOWNSHIP 7 SOUTH, RANGE 26 EAST, NMPM
Section 5: All
Section 6: All
Section 7 thru 10: All
Section 11: W/2
Section 15 thru 17: All
Section 18: N/2
Section 19 thru 22: All
Section 28 thru 32: All

TOWNSHIP 8 SOUTH, RANGE 24 EAST, NMPM
Section 1 through 3: All
Section 10: E/2
Section 11: All
Section 12: All

TOWNSHIP 8 SOUTH, RANGE 25 EAST, NMPM
Section 1 through 12: All
Section 13 through 16: N/2

TOWNSHIP 8 SOUTH, RANGE 26 EAST, NMPM
Section 6: W/2

(t) EXTEND the West Pecos Slope-Abo Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 22 EAST, NMPM
Section 23: SE/4
Section 24: S/2 and NE/4
Section 25 through 27: All
Section 28: E/2

TOWNSHIP 8 SOUTH, RANGE 23 EAST, NMPM
Section 3 through 5: All
Section 6: N/2
Section 8 through 10: N/2
Section 17: W/2
Section 18: SE/4
Section 19: All
Section 20: W/2
Section 29: W/2
Section 30: All
Section 31: All
Section 32: W/2

Docket No. 13-82

TOWNSHIP 9 SOUTH, RANGE 23 EAST, NMPM
Section 3: W/2
Section 4: All
Section 5: All
Section 6: E/2
Section 8: All

(u) 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: E/2 NE/4 and NE/4 SE/4

(v) EXTEND the Sand Ranch-Morrow Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 29 EAST, NMPM
Section 26: All

(w) EXTEND the Sawyer-San Andres Associated Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 38 EAST, NMPM
Section 4: SW/4

(x) EXTEND the Tom-Tom-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 31 EAST, NMPM
Section 7: All

(y) EXTEND the Turkey Track-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 2: W/2
Section 7: N/2

(z) EXTEND the Twin Lakes-San Andres Associated Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM
Section 18: N/2 SE/4 and SE/4 SE/4

(aa) EXTEND the South Vacuum-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 16: SE/4

****

Docket No. 14-82

DOCKET: COMMISSION HEARING - MONDAY - MAY 17, 1982

OIL CONSERVATION COMMISSION - 9 A.M.
ROOM 205 - STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO.

CASE 7522: (DE NOVO)

Application of Santa Fe Exploration Co. for an unorthodox gas well location, Eddy County, New Mexico Applicant, in the above-styled cause, seeks approval of an unorthodox location 660 feet from the North and West lines of Section 14, Township 20 South, Range 25 East, Permo-Penn, Strawn, Atoka and Morrow formations, the N/2 of said Section 14 to be dedicated to the well.

Upon application of Chama Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7476: (DE NOVO)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 East, each 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.

Upon application of Mesa Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7513: (DE NOVO)

Application of Mesa Petroleum Company 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 SE/4 of Section 12, 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.

Upon application of Mesa Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

May 7, 1982

Mr. William F. Carr
CAMPBELL, BYRD & BLACK, P.A.
P. O. Box 2208
Santa Fe, NM 87501

RE: REQUEST FOR STAY OF NEW MEXICO OIL CONSERVATION DIVISION ORDER No. 6925

Dear Mr. Carr:

At your request, a conference was held with counsel for Mesa Petroleum Company and counsel for Jack J. Grynberg at which conference you requested an emergency stay of the above referenced order under the provisions of Section 70-2-23 N.M.S.A., 1978, and Rule 1202 of the Rules and Regulations of the Oil Conservation Division.

After considering your request and the arguments presented by counsel for the parties in these two cases, your request for an emergency stay is denied.

Sincerely,

JOE D. RAMEY
Director

JDR/jc

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

IN THE MATTER OF THE APPLICATION
OF JACK J. GRYNBERG FOR COMPULSORY
POOLING, CHAVES COUNTY, NEW MEXICO

CASE 7476
ORDER R-6925

APPLICATION FOR EMERGENCY ORDER

Comes now Mesa Petroleum Company, by and through its undersigned attorneys, and hereby makes application for an emergency order pursuant to the provisions of Section 70-2-23 NMSA 1978 Comp. (Rule 1202 of the Rules and Regulations of the Oil Conservation Division) or, in the alternative, for an order staying the effect of Division Order R-6925 and in support thereof states:

1. That the above referenced case came on for hearing before a duly appointed examiner of the Division on March 16, 1982 and that on April 5, 1982 the Division entered its order pooling the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico and designating Jack J. Grynberg operator of the well.

2. That Mesa Petroleum Company timely filed its application for hearing de novo and the case is set for hearing before the full commission on May 17, 1982.

3. That Mesa Petroleum Company has learned that Jack J. Grynberg intends to commence drilling of a well in the SE/4 of Section 12 on or about May 9, 1982.

4. That the drilling of such well will irreparably harm Mesa Petroleum Company in that Mesa will be foreclosed from pursuing its legal remedies before the Division on May 17 in which proceedings Mesa seeks to be designated operator of the well to be drilled in the SE/4 of said Section 12.

WHEREFORE, Mesa Petroleum Company hereby requests that the Oil Conservation Division enter an emergency order staying the

Division Order R-6925 thereby enabling Mesa to present testimony on May 17, 1982 in support of its application to be designated operator of a well drilled in the SE/4 of Section 12, Township 5, Range 24 East, NMPM, Chaves County, New Mexico or, in the alternative, to enter an order staying the effect of Division Order R-6925 pending the entry of an order following the May 17, 1982 hearing in case 7476.

Respectfully submitted

CAMPBELL, BYRD & BLACK, P.A.

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

Certificate of Notice

I hereby certify that notice of this application was given to Francis J. Matthew, Attorney for Jack Grynberg by telephone on this 7th day of May, 1982.

_____
William F. Carr

JACK J GRYNBER AND ASSOC NF
1050 17 ST SUITE 1950
DENVER CO 80265

western union Mailgram

4-051081S125 05/05/82 ICS IPMBNGZ CSP ABQC
3035721455 MGM TDBN DENVER CO 173 05-05 0532P EST

RICHARD STAMETS
STATE OF NEW MEXICO OIL CONVERSATION DIVISION
STATE LAND OFFICE BLDG
310 OLD SANTA FE TRAIL
SANTA FE NM 87501

Case 7476

COPY OF NIGHT LETTER SENT TO MR DON WILLIAMS CORONA OIL CO 4835 LBJ FREEWAY SUITE 635 DALLAS TEXAS 75234 AND MR MARK HANNIFAN MESA PETROLEUM CO. 1OCO VAUGHN BLDG MIDLAND TEXAS 79701

PURSUANT TO THE AFE FOR THE NUMBER 1 GRYNBERG 12 STATE COM LOCATED 1980 FEET FROM THE SOUTH LINE AND 660 FEET FROM THE EAST LINE OF SECTION 12 TOWNSHIP 5 SOUTH RANGE 24 EAST NEW MEXICO PRINCIPAL MERIDIAN CHAVES COUNTY NM SENT TO YOU APRIL 7 1982. THIS LETTER IS TO NOTIFY YOU THAT JACK J GRYNBERG AS OPERATOR PLANS TO MOVE A DRILLING RIG MAY 9 1982 TO THE ABOVEMENTIONED LOCATION AND COMMENCE DRILLING OPERATIONS. UNLESS WE RECEIVE PAYMENT OF YOUR SHARE OF THE DRILLING COST PRIOR TO MAY 9 1982 WE WILL TREAT YOUR PARTICIPATION IN SAID WELL AS A NON-CONSENTING PARTY IN ACCORDANCE WITH THE OIL CONSERVATION DIVISION ORDER NUMBER 4-6925.
JACK J GRYNBERG

1738 EST

MGMCOMP MGM

RECEIVED
MAY 06 1982
OIL CONSERVATION DIVISION
SANTA FE

6241 (R1/78)

TO REPLY BY MAILGRAM, SEE REVERSE SIDE FOR WESTERN UNION'S TOLL - FREE PHONE NUMBERS

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE
KEMP W. GORTHEY

RECEIVED
APR 06 1982
OIL CONSERVATION DIVISION
SANTA FE

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

April 6, 1982

HAND DELIVERED

Mr. Joe D. Ramey
Director
Oil Conservation Division
New Mexico Department of Energy
& Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Applications for Hearing De Novo in Oil Conservation Division Cases 7476 and 7513

Dear Mr. Ramey:

Enclosed are applications of Mesa Petroleum Company for hearings de novo in each of the above referenced cases.

We would appreciate your setting these applications for hearing before the full commission at the earliest possible date.

Very truly yours,

William F. Carr

WFC:jh
w/enc.
cc: Steven C. James, Esq.
Francis J. Mathew, Esq.

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

APR 06 1982

IN THE MATTER OF THE APPLICATION
OF JACK J. GRYNBERG FOR COMPULSORY
POOLING, CHAVES COUNTY, NEW MEXICO CASE 7476

APPLICATION FOR HEARING DE NOVO

Comes now MESA PETROLEUM COMPANY, by through its undersigned attorneys, and states that it is a party adversely affected by Order No. R-6925 entered in the above-referenced case on April 5, 1982 and, pursuant to Oil Conservation Division Rule 1220, hereby makes written application for this case to be heard de novo before the Commission.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By William F. Carr

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

Certificate of Service

I hereby certify that a true copy of the foregoing Application for Hearing De Novo was hand delivered to Francis J. Matthew, attorney for Jack J. Grynberg on this 6th day of April, 1982.

William F. Carr

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 7476 DE NOVO
Order No. R-6925-A

APPLICATION OF JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO.

M.S.
JJG

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 17, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this ____ day of June, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, JACK J. GRYNBERG, seeks an order pooling oil mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico.

4(3) That the matter came on for hearing at 9 a.m. on March 16, 1982, at Santa Fe, New Mexico, before Examiner ~~Daniel S. Nutter~~ RLS and, pursuant to this hearing, Order No. R-6925 was issued on April 5, 1982, which ~~granted Grynberg's~~ application.

(3) That the applicant's ~~subsequent request for dismissal~~ of his request to pool the mineral interests under the ~~W/2~~ of said Section 12 ~~should be approved, and this case should be dismissed~~ only the SE/4 of said Section 12.

5 (#) That on April 6, 1982, application for Hearing De Novo was made by Mesa Petroleum Company and the matter was set for hearing before the Commission.

6 (#) That the matter came on for hearing de novo on May 17, 1982.

(7) That on May 9, 1982, Grynberg did spud a well located 1980 feet from the south line & 660 feet from the east line of said Section 12.

(8) That said well was drilled to the Abo formation at a total depth of 4100 feet and was plugged and abandoned as a dry hole on May 19, 1982. The records of the oil Conservation Division reflect

(9) That as a result of said dry hole, Order No. R-6925 should no longer be in force and effect.

(10) That the application of Jack J. Grynberg should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Jack J. Grynberg for an order pooling all mineral interests, whatever they may be, from the surface down to the Abo formation underlying the SE/4 of Section 12, Township 24 South, Range 24 East, NMPM, Chaves County, New Mexico, to form a standard 160-acre gas proration unit

(2) Jurisdiction

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

(9) That $2500.00 per month while drilling and $250.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's 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 that portion of this application which seeks the pooling of mineral interests underlying the NE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, is hereby dismissed.

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

CASE 7476: JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO

DE NOVO MAY 17, 1982

CASE 7476: JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO
(DE NOVO MAY 17, 1982

Smead
No. 153C
HASTINGS, MN
LOS ANGELES-CHICAGO-LOGAN, OH
McGREGOR, TX-LOCUST GROVE, GA
U.S.A.

CASE NO.

7476 De Novo

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

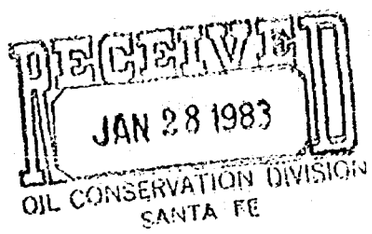
GRYNBERG PETROLEUM COMPANY

5000 SOUTH QUEBEC • SUITE 500 • DENVER, COLORADO 80237 USA • PHONE 303 · 850·7490

TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303 · 753·9997

January 24, 1983

State of New Mexico
Oil Conservation Division
ATTN: Mr. Joe D. Ramey, Director
Post Office Box 2088
Santa Fe, NM 87501



Mesa Petroleum Company
ATTN: Mr. Mark Hannifin
Vaughn Building, Suite 1000
Midland, TX 79701

Corona Oil Company
ATTN: Mr. Don Williams
4835 LBJ Freeway, Suite 635
Dallas, TX 75234

RE: Actual Well Costs
Jack J. Grynberg
#1 Grynberg 12 State "Com"
NE¼SE¼ Sec. 12, T5S-R24E
Chaves County, New Mexico

Gentlemen:

In accordance with Provision 5 of the NMOCD Order No. R-6925, the Division and each known working interest owner are to be furnished an itemized schedule of actual well costs for the captioned well within 90 days following completion of the well.

Checking our records, it appears that we have not yet provided the Division and each known working interest owner with such a schedule.

We apologize for the delay and are enclosing same for your review.

Very truly yours,

JACK J. GRYNBERG

Nancy Stolzle

By: Nancy Stolzle
Assistant Land Manager

NS/ggd
encl. 1

ACTUAL WELL COSTS
#1 GRYNBERG 12 STATE "COM"
NE/4SE/4 SECTION 12, T5S-R24E
CHAVES COUNTY, NEW MEXICO

Site & Location			
Mann Engineering	05/19/82	$ 549.14	
Sweatt Construction	06/17/82	3,840.04	
Oilfield Construction	07/06/82	430.04	
Oilfield Construction	08/19/82	675.34	
Oilfield Construction	09/23/82	761.25	
			$ 6,255.81
Drilling			
Aztec	06/02/82	49,238.46	
			49,238.46
Supplies			
Hughes Tool	06/17/82	13,145.89	
Double L Anchor	06/30/82	425.38	
Standard Service	07/06/82	497.22	
			14,068.49
Well Equipment			
Hondo 10-3/4	05/28/82	14,098.35	
Hondo Larkin (head & fit.)	06/02/82	1,399.13	
Hondo (jl. & bearing)	06/08/82	3,896.09	
Big Red Supply (flapper & pattern guide)	08/19/82	937.72	
Big Red Supply	11/29/82	(461.61)	
Big Red Supply	09/11/82	461.61	
			20,331.29
Water & Mud			
Double Mud	06/02/82	3,531.56	
Jim's Water	06/08/82	451.78	
Jim's Water	06/30/82	9,148.36	
Jim's Water	08/19/82	1,316.52	
			14,448.22
Services			
C. Pennels, Field Personnel	04/82	189.95	
C. Pennels, Field Personnel	05/82	1,054.70	
Kenny's Inspection	06/18/82	391.56	
J. Ahlen, Geologist	06/18/82	2,196.81	
Lankford	06/30/82	3,996.34	
Crawford Well	06/30/82	637.56	
Big Red	07/06/82	117.32	
			8,584.24
Logs			
Schlumberger	05/28/82	7,572.20	
Gearhart	06/02/82	10,109.82	
			17,682.02

Actual Well Costs
#1 Grynberg 12 State "Com"
NE/4SE/4 Sec. 12, T5S-R24E
Chaves County, New Mexico
Page 2

Completion			
Halliburton - Plugging	05/25/82	$ 4,705.59	
Byrd Casing	07/06/82	2,984.50	
R&R Lease	08/08/82	271.17	
Byrd Casing	08/09/82	2,906.00	
			$ 10,867.26
Cement			
Halliburton	05/24/82	6,732.72	
			6,732.72
Truck			
Dawn Truck	06/17/82	706.65	
Dawn Truck	06/18/82	962.55	
Dawn Truck	07/06/82	5,042.52	
			6,711.72
Overhead			
(Well Spudded 05/10/82 - P & A 05/19/82)			
9 Days @ $80.65/Day		725.85	725.85
	TOTAL ACTUAL WELL COSTS:		$ 155,646.08

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

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

MEMORANDUM

TO: JOE D. RAMEY AND EMERY ARNOLD, COMMISSIONERS
OIL CONSERVATION COMMISSION

FROM: W. PERRY PEARCE, GENERAL COUNSEL

RE: MOTION TO DISMISS IN CASE NO. 7476, APPLICATION OF JACK J. GRYNBERG

As you recall, Case No. 7476, the application of Jack J. Grynberg for compulsory pooling and Case No. 7513, application of Mesa Petroleum Petroleum Company for compulsory pooling, were heard jointly on May 17, 1982. During the course of that Commission Hearing, Counsel for Mesa Petroleum Company moved that the application of Grynberg filed in Case No. 7476 be dismissed on the basis that Grynberg did not meet the qualifications set forth in the pooling section of the New Mexico Oil & Gas Act and, therefore, had no right to make application.

Specifically, Mesa argued that the Oil & Gas Act requires that application for forced pooling be made by "one such separate owner, or owners, who has the right to drill...". Exhibits offered by Mesa at the hearing show that the State lease originally issued to Celeste C. Grynberg has been assigned to a Colorado Limited Partnership, JJ-CC Limited. Relying upon Section 54-3-6 NMSA, 1978, (transaction of business by foreign limited partnerships without registration) and Section 70-2-17 NMSA, 1978, (forced pooling), Mesa moved to dismiss the application of Grynberg on the grounds that JJ-CC is the owner of the mineral interest and is disqualified to maintain this proceeding.

Attached to this Memorandum are the briefs submitted by Mesa and Grynberg on these questions. Essentially, Mesa argues that JJ-CC is the owner, JJ-CC is not registered to transact business in the State of New Mexico, and therefore JJ-CC does not have a right to drill on the land nor does Grynberg.

Grynberg argues that the Act requiring registration of foreign limited partnerships affects only the question of liability and not the right of the entity to transact business, that the limited partnership, JJ-CC, is formed under the auspices of the bankruptcy court and that on the date of the hearing the property was held by Grynberg, or the Estate of Grynberg established by the Federal bankruptcy court, and that on May 17, 1982, (the date of the hearing) title vested in the limited partnership, JJ-CC Limited, and Jack J. Grynberg was the General Partner of that partnership authorized to act on its behalf. In fact, the brief submitted by Grynberg suggests that the technically precise applicant in this matter is Jack J. Grynberg as managing General Partner of JJ-CC Limited.

It is my opinion that since the Foreign Limited Partnership Act specifically refuses to affect the validity of any contract or act done by any Foreign Limited Partnership which has not registered, and since Foreign Limited Partnerships which do not register are only forbidden to proceed in the "courts" of this State, that the application was proper and the motion to dismiss submitted by Mesa at the hearing should be denied.

If you would like some additional discussion of the questions behind this opinion, I will provide it.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

June 28, 1982

Mr. J. E. Gallegos
Jones, Gallegos, Snead & Wertheim
Attorneys at Law
P. O. Box 2228
Santa Fe, New Mexico 87501

Re: CASE NO. 7476
ORDER NO. R-6925-A

Applicant:

Jack J. Grynberg

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other William F. Carr, Steven James

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 7476 DE NOVO
Order No. R-6925-A

APPLICATION OF JACK J. GRYNBERG
FOR COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 17, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 25th day of June, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Jack J. Grynberg, seeks an order pooling all mineral interests down through and including the Abo formation underlying two 160-acre gas spacing units, being the NE/4 and the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico.

(3) That the applicant's request for dismissal of his request to pool the mineral interests under the NE/4 of said Section 12 was approved, and this case now involves only the SE/4 of said Section 12.

(4) That the matter came on for hearing at 9 a.m. on March 16, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets and, pursuant to this hearing, Order No. R-6925 was issued on April 5, 1982, which granted Grynberg's application.

(5) That on April 6, 1982, application for Hearing De Novo was made by Mesa Petroleum Co. and the matter was set for hearing before the Commission.

(6) That the matter came on for hearing de novo on May 17, 1982.

(7) That on May 9, 1982, Grynberg did spud a well located 1980 feet from the South line and 660 feet from the East line of said Section 12.

(8) The records of the Oil Conservation Division reflect that said well was drilled to the Abo formation at a total depth of 4100 feet and was plugged and abandoned as a dry hole on May 19, 1982.

(9) That as a result of said dry hole, Order No. R-6925 should no longer be in force and effect.

(10) That the application of Jack J. Grynberg should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Jack J. Grynberg for an order pooling all mineral interests, whatever they may be, from the surface down through the Abo formation underlying the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, to form a standard 160-acre gas proration unit is hereby denied.

(2) That that portion of this application which seeks the pooling of mineral interests underlying the NE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, is hereby dismissed.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

EMERY C. ARNOLD, Chairman

ALEX J. ARMIJO, Member

JOE D. RAMEY, Member & Secretary

SEAL
fd/

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

MODEL FORM OPERATING AGREEMENT

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Grynberg EXHIBIT NO. 2
CASE NO. 7476
Submitted by: Grynberg
Hearing Date 5/17/82

OPERATING AGREEMENT

DATED

January 12th, 19 82 ,

OPERATOR JACK J. GRYNBERG

CONTRACT AREA TOWNSHIP 5 SOUTH - RANGE 24 EAST, Section 12:

SE/4 N.M.P.M.

COUNTY OR PARISH OF Chaves STATE OF New Mexico

COPYRIGHT 1977 — ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

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

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

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

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

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

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

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

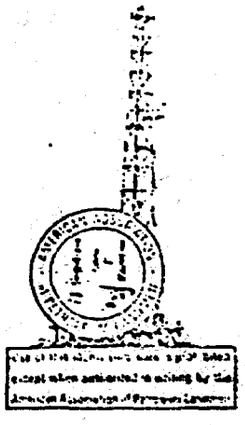
10. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

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

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

14. Signature Page - Enter effective date.



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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to 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 in like manner~~, 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 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.~~

[X] 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:

JACK J. GRYNBERG, 1050 17th St., Ste. 1950, Denver, CO. 80265 shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1982*, Operator shall commence the drilling of a well for oil and gas at the following location:

TOWNSHIP 5 SOUTH - RANGE 24 EAST
Section 12: SE/4

and shall thereafter continue the drilling of the well with due diligence to

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.

*or within 30 days from the date, the New Mexico Oil and Gas Division declares JACK GRYNBERG Operator of the spacing unit encompassing this location, whichever date is later.

B. Subsequent Operations:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Right to Take Production in Kind:

Each party electing to take in kind or separately dispose of its proportionate share of production from the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-operators shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments of 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. It is not the intention of the parties that this contract is made of intended for the benefit of any third person.

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.

including reasonable attorneys' fees in the event of a suit to collect any delinquency.

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.~~

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of TWENTY FIVE THOUSAND Dollars ($ 25000) 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).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 12.5% of 8/8 due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.
No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any 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.

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

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

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

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

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

G. Taxes:

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

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

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

H. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases. 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 the contribution of acreage by the Contributing Parties toward the Initial or any Substitute Test Well.

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

~~G. Preferential Right to Purchase:~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

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

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifteen Thousand and NO/100 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 notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

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

[illegible]

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

Non-Operator(s) agree(s) to indemnify and hold Operator harmless from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of any statute, law, resolution or similar mandate, or any rules, rulings, regulations or orders of any regulatory agency having any jurisdiction over the Contract Area to the extent Operator's interpretation or application was made in good faith. Non-Operator(s) further agree to reimburse Operator for theNon-Operators' proportionate part of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation, or rulings, regulations or orders, together with the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

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

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

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Non-Operator(s) agree(s) to indemnify and hold Operator harmless from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of any statute, law, resolution or similar mandate, or any rules, rulings, regulations or orders of any regulatory agency having any jurisdiction over the Contract Area to the extent Operator's interpretation or application was made in good faith. Non-Operator(s) further agree to reimburse Operator for theNon-Operators' proportionate part of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation, or rulings, regulations or orders, together with the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

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 12 day of January, 19 82.

OPERATOR

JACK J. GRYNBERG

NON-OPERATORS

MTS, LIMITED PARTNERSHIP

BY: _____

ATTEST: _____

STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

BEFORE ME, the undersigned authority, on this day personally appeared JACK J. GRYNBERG, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purpose and consideration therein expressed and in the capacity therein stated.

GIVEN under my hand and seal of office, this ____ day of JAN 7 1982, 1982.

My Commission Expires:
5/20/85

Janet N. Kerby
NOTARY PUBLIC in and for the County of Denver, State of Colorado
JANET N. KERBY NOTARY PUBLIC
1038 GARFIELD STREET
DENVER, COLORADO 80206

* * * * * * * * * * * * * *

STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

BEFORE ME, the undersigned authority, on this day personally appeared _____ as Attorney-in-Fact, of MTS, LIMITED PARTNERSHIP, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that (s)he executed the same for the purpose and consideration therein expressed and in the capacity therein stated.

GIVEN under my hand and seal of office, this ____ day of _____, 1982.

My Commission Expires:

_____

NOTARY PUBLIC in and for the County of Midland, State of Texas

Attached to and made part of Operating Agreement dated January 12, 1982, between JACK J. GRYNBERG, OPERATOR, and MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators.

Attached to and made part of Operating Agreement dated January 12, 1982, between JACK J. GRYNBERG, OPERATOR, and MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators.

NON-OPERATORS

ATTEST:

CORONA OIL COMPANY

_____

_____
ATTORNEY-IN-FACT

* * * * * * * * * * * * * * * *

STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

BEFORE ME, the undersigned authority, on this day personally appeared _____ as Attorney-in-Fact, of CORONA OIL COMPANY, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that (s)he executed the same for the purpose and the consideration therein expressed and in the capacity therein stated.

GIVEN under my hand and seal of office, this _____ day of _____,

My Commission Expires:

_____

_____
NOTARY PUBLIC in and for the County of Dallas, State of Texas

EXHIBIT "A"

Attached to and made part of Operating Agreement dated January 12, 1982, between JACK J. GRYNBERG as Operator, and MTS, LIMITED and CORONA OIL COMPANY, Non-Operators, and covering Section 12 - 5S - 24E; SE/4, Chaves County, New Mexico.

I. 1. Land Subject to Agreement:

TOWNSHIP 5 SOUTH - RANGE 24 EAST, N.M.P.M.
Section 12: SE/4
Containing 160 Acres, more or less
Chaves County, New Mexico

2. Depth Restriction:
Abo formation

3. Drilling Unit for the First Well:

Proration Unit established by the New Mexico OCC.

II. Percentage Interest of Parties Under Agreement:

NAME	ACRES	WORKING INTEREST
JACK J. GRYNBERG	80 acres	~~50%~~
MTS, LIMITED PARTNERSHIP	40 acres	~~25%~~
CORONA OIL COMPANY	40 acres	25%

III. Leasehold Interest of Parties of Operating Agreement:

1. Lessor: State of New Mexico
Lessee: JACK J. GRYNBERG
Serial Number: STA-NM-LG-0565
Description: E/2SE/4 of Section 12 - 5S - 24E
(Limited to portion included in Contract Areas)

2. Lessor: United States
Lessee: a. MTS, LIMITED PARTNERSHIP
b. CORONA OIL COMPANY
Serial Number: USA-NM-22615
Description: W/2SE/4
(Limited to portion included in Contract Areas)

IV. Addresses of Parties:

JACK J. GRYNBERG
1050 17th Street, Suite 1950
Denver, Colorado 80265

CORONA OIL COMPANY
ATTN: Mr. Don Williams
4835 LBJ Freeway, Suite 635
Richardson, Texas 75234

MTS, LIMITED PARTNERSHIP
c/o MESA PETROLEUM COMPANY
ATTN: Mr. Mark Hannifin
1000 Vaugh Bldg.
Midland, Texas 79701

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated January 12th, 1982, between JACK J. GRYNBERG as Operator, and MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators, and covering Section 12 - 5S - 24E; SE/4, Chaves County, New Mexico.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of * (below) 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.

* 2% above the prime rate (posted by the Bank of America, San Francisco) on the date any such default occurs

COPY

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

   Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%) or the percentage most recently recommended by 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 (XX) 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 $ 2500.00
Producing Well Rate $ 250.00

(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.

COPAS Inc

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

** 2. Overhead - Major Construction

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

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

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

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

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

3. Amendment of Rates

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

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

** To be negotiated at a later date.

(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 JANUARY 12TH, 1982, BETWEEN
JACK J. GRYNBERG AS OPERATOR, AND
MTS, LIMITED PARTNERSHIP AND CORONA
OIL COMPANY, NON-OPERATORS, AND
COVERING SECTION 12 - 5S - 24E; SE/4,
CHAVES COUNTY, NEW MEXICO.

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) Workmens Compensation Insurance as contemplated by the state in which operations will be conducted, and Employers' Liability Insurance with limits of not less than $100,000.00 per employee

(B) Public Liability Insurance:
Bodily injury - $500,000.00 each occurrence

(C) Automobile Public Liability Insurance:
Bodily injury - $250,000.00 each person
$500,000.00 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 January 12th, 1982, between JACK J. GRYNBERG as Operator, and MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators, and covering Section 12 - 5S - 24E; SE/4, Chaves County, New Mexico.

GAS BALANCING AGREEMENT

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 per cent (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 accountabl 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 claim 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 resonable 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, the price of which is not regulated by Federal, State or other Governmental Agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by Federal, State or other Governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other Governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority. Such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

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 overporduced 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 THAT CERTAIN OPERATING AGREEMENT DATED January 12th, 1982, BETWEEN JACK J. GRYNBERG "OPERATOR" AND MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators, and Covering Section 12 - 5S - 24E; SE/4.

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 relevent 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.

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED January 12th, 1982, BETWEEN JACK J. GRUBERG "OPERATOR" AND MTS, LIMITED PARTNERSHIP and CORONA OIL COMPANY, Non-Operators, and Covering Section 12 - 5S - 24E; SE/4.

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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 relevent 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 or 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 fraundulent representation may be liable to criminal prosecution under 18 U.S.C. S 1001.

JACK GRYNBERG AND ASSOCIATES
PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS
1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455
TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

#4

April 7, 1982

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 3
Submitted by Gryn
Hearing Date 5/17/82

Mr. Dan Nutter
Department of Energy and Minerals
Oil Conservation Division
Post Office Box 2088
Santa Fe, NM 87501

RE: Compulsory Pooling Order No. 6925
T5S-R24E, Sec. 12: SE/4
Chaves County, New Mexico

Dear Mr. Nutter:

Deborah Hill has asked me to forward you a copy of the Authority for Expenditure for the above captioned well and copies of the accompanying cover letters to Mesa Petroleum Company and Corona Oil Company.

I hope these are satisfactory and meet the requirements of the Oil Conservation Division. Should you have any questions, please feel free to call me.

Very truly yours,

Stephen G. Smith
Petroleum Landman

SGS/
encls. 3

JACK GRYNBERG AND ASSOCIATES
PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS
1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455
TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

#15

April 7, 1982

Mr. Mark Hannifin
Mesa Petroleum Company
1000 Vaughn Building
Midland, TX 79701

RE: Authority for Expenditure
T5S-R24E, Sec. 12: SE/4
Chaves County, New Mexico

Dear Mr. Hannifin:

Enclosed are two copies of the Authority for Expenditure for the above captioned well. As you know, the New Mexico Oil Conservation Division, per Compulsory Pooling Order 6925, has named Jack Grynberg and Associates as Operator of this well. Under the terms of the Order, unless timely appearl is filed by Mesa or Corona, a copy of this AFE must be signed and returned within thirty days or you will be considered a non-consenting party, subject to the penalties appurtenant thereto.

Your cooperation in this matter will be greatly appreciated. Should you have any questions, please feel free to call me.

Very truly yours,

Stephen G, Smith
Petroleum Landman

SGS/
encls. 2

JACK GRYNBERG AND ASSOCIATES
PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS
1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455
TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

#6

April 7, 1982

Mr. Don Williams
Corona Oil Company
4835 LBJ Freeway, Suite 635
Dallas, TX 75234

RE: Authority for Expenditure
T5S-R24E, Sec. 12: SE/4
Chaves County, New Mexico

Dear Mr. Williams:

Enclosed are two copies of the Authority for Expenditure for the above captioned well. As you know, the New Mexico Oil Conservation Division, per Compulsory Pooling Order 6925, has named Jack Grynberg and Associates as Operator of this well. Under the terms of the Order, unless timely appeal is filed by Mesa or Corona, a copy of this AFE must be signed and returned within thirty days or you will be considered a non-consenting party, subject to the penalties appurtenant thereto.

Your cooperation in this matter will be greatly appreciated. Should you have any questions, please feel free to call me.

Very truly yours,

Stephen G. Smith
Petroleum Landman

SGS/
encls. 2

AUTHORITY FOR EXPENDITURES

AFE:
REVISION:
DATE 4/7/82

LEASE NAME Grynberg 12 State COM #1 LOCATION T5S - R24E, Sec. 12 1980' fsl & 660' fel

COUNTY Chaves STATE New Mexico FIELD

HORIZON Abo EXT. T.D. 4000' EST. SPUD DATE

EST. COMPLETION DATE DRILLING CONTRACTOR

PRIMARY OBJECTIVE: ___ OIL ___x___ GAS ___ OIL and/or GAS

PURPOSE: ___x___ DRILLING - NEW ___ RECOMPLETION ___ OTHER (SUPPLEMENT, AFE, ETC.)

TYPE WELL: ___x___ DEVELOPMENT ___ EXPLORATORY

INTANGIBLE COSTS:	DRY HOLE	COMPLETION
Staking Permit & Legal Fees	$ 1000	$ 1000
Location, Right-of-Way	7100	7100
Drilling, Footage	-	-
Drilling, Daywork 10 Days @ $ 5500 /Day	55000	55000
Moving In, Rigging Up, Rigging Down	23000	23000
Bits, Tools & Supplies	10000	10000
Drilling Water	8000	8000
Drilling Mud & Additives	5000	5000
Mud Logging Unit	-	-
Cement, Tools & Services, Temp. Surveys	9000	15000
Drill Stem Testing	-	-
Electric Logs & Perforating	20000	30000
Tool & Equip. Rental, Trucking, Welding	5500	8000
Supervision & Overhead	2300	3000
Coring, Tools & Services	-	-
Completion Unit 5 Days @ $ 1150 /Day	-	5800
Stimulation	-	35000
Contingency	7400	10700
TOTAL INTANGIBLES:	153300	287700

WELL EQUIPMENT COSTS:		
Christmas Tree and Well Head	1200	12000
Casing:	12000	-
	-	-
	-	19000
Tubing:	-	16200
Packer & Special Equipment	-	4000
Contingency - Intermediate Casing String 8-5/8" @ 1500'	20400	21200
TOTAL WELL EQUIPMENT:	33600	50800

LEASE & BATTERY EQUIPMENT COSTS:		
Pumping Equipment	-	-
Storage	-	7900
	-	-
Separation Eq., Flowlines, Valves & Fittings	-	19800
Trucking & Construction Costs	-	4300
TOTAL LEASE & BATTERY EQUIP:	-	32000
TOTALS:	$ 186900	$ 338500

APPROVAL OF THIS AFE 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.

JACK J. GRYNBERG

SHARE 50.00%

BY: _____ DATE 4/7/82

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:

4-7-82

CASE NO. 7476
Order No. R-6925

APPLICATION OF JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 4
Submitted by Gryn
Hearing Date 5/17/82

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 16, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 5th day of April, 1982, 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 on December 31, 1981, the applicant, Jack J. Grynberg, filed applications seeking an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico.

(3) That the applicant's subsequent request for dismissal of his request to pool the mineral interests under the NE/4 of said Section 12 should be approved.

(4) That on February 22, 1982, Mesa Petroleum Company filed an application seeking an order pooling all mineral interests down through and including the Abo formation also underlying the SE/4 of said Section 12.

(5) That the Mesa Petroleum Company application was set as Case No. 7513 and was consolidated for purposes of testimony with the subject case.

(6) That the applicant has the right to drill and proposes to drill a well at standard locations on each unit.

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

(8) 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.

(9) That the applicant is the owner of the single greatest interest in the proposed proration unit.

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

(11) 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.

(12) 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 wells.

(13) 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.

(14) 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.

(15) That $2500.00 per month while drilling and $250.00 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

NON-OPERATORS	SHARE
MESA PETROLEUM COMPANY	25.00%

BY: _____

CORONA OIL COMPANY	25.00%

BY: _____

share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(16) 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.

(17) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

(18) That the application of Mesa Petroleum Company in Case No. 7513 should be denied.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Abo formation underlying a 160-acre gas spacing unit, being the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, are hereby pooled and are 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 wells on or before the 1st day of July, 1982, 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 July, 1982, 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 wells 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 Jack J. Grynberg 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 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 $2500.00 per month while drilling and $250.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's 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 that portion of this application which seeks the pooling of mineral interests underlying the NE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, is hereby dismissed.

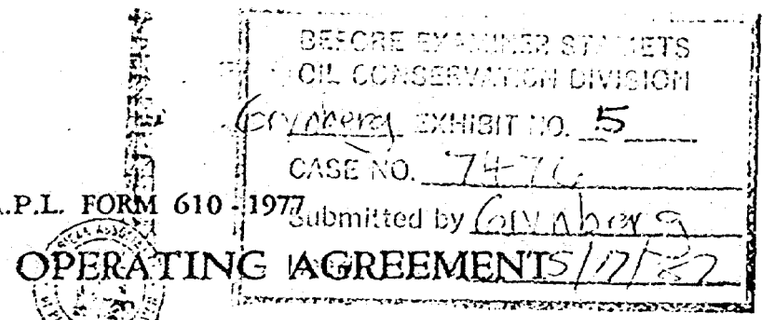
(14) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

S E A L



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

MODEL FORM OPERATING AGREEMENT

Mesa Petroleum Co., as Operator, Corona Oil Company
and Jack Grynberg as Non-Operators

#1 Pat State Com.

OPERATING AGREEMENT

DATED

December 5, 1981,

OPERATOR MESA PETROLEUM CO.

CONTRACT AREA SE/4 Section 12, Township 5 South, Range 24 East,

N.M.P.M.

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, OK 74101

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

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

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

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

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

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

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

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

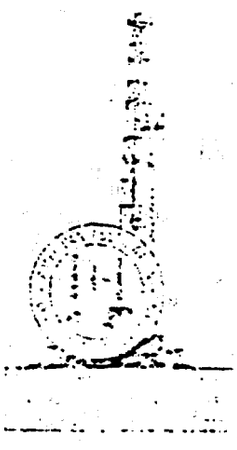
10. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

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

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

14. Signature Page - Enter effective date.



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ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 31 day of December, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

660' FSL & 660' FEL Section 12, Township 5 South, Range 24 East

and shall thereafter continue the drilling of the well with due diligence to 4,100 feet or a depth sufficient to test the Abo Formation, whichever is lesser

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

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

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

B. **Subsequent Operations:**

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

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

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

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

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

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

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

...

Gas production attributable to any Non-Consenting Party's relinquished interest shall be sold, at the election of the Consenting Party, either to the Consenting Party's purchaser or to the Non-Consenting Party's purchaser. If any sale is made to the Non-Consenting Party's purchaser, 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.

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

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

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

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

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

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

C. Right to Take Production in Kind:

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

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

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.

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of 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 ~~80% of 8/8~~ 18.75 of 8/8 due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

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

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

G. Taxes:

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

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

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

H. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

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

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Seven Thousand Five Hundred Dollars ($ 7,500.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

Non-Operator(s) agree(s) to indemnify and hold Operator harmless from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of any statute, law, resolution or similar mandate, or any rules, rulings, regulations or orders of any regulatory agency having any jurisdiction over the Contract Area to the extent Operator's interpretation or application was made in good faith. Non-Operator(s) further agree to reimburse Operator for the Non-Operators' proportionate part of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation, or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders, together with the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

* Jack Grynberg and Associates hereby agrees to pay its share of approved expenditures for initial or subsequent operations hereunder prior to the commencement of each such operation.

~~In order to consent to the initial or subsequent operations contemplated hereunder, Jack Grynberg and Associates will, in advance, furnish payment bonds as security for the prompt and faithful payment of its additional obligations for each such operation. Such bonds shall be for an amount at least equal to Jack Grynberg and Associates' share of expenditures approved in advance of any particular initial or subsequent operation and shall be in such form and with such sureties as are acceptable to the Operator. Jack Grynberg and Associates shall also furnish such new payment bonds as Operator may from time to time require in order to further secure payment of Jack Grynberg and Associates' obligations hereunder.~~

* See letter by Randy Keough to Mesa dated 12-14-84

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

Non-Operator(s) agree(s) to indemnify and hold Operator harmless from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of any statute, law, resolution or similar mandate, or any rules, rulings, regulations or orders of any regulatory agency having any jurisdiction over the Contract Area to the extent Operator's interpretation or application was made in good faith. Non-Operator(s) further agree to reimburse Operator for the Non-Operators' proportionate part of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation, or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders, together with the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such statutes, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

* Jack Grynberg and Associates hereby agrees to pay its share of approved expenditures for initial or subsequent operations hereunder prior to the commencement of each such operation.

~~In order to consent to the initial or subsequent operations contemplated hereunder, Jack Grynberg and Associates will, in advance, furnish payment bonds as security for the prompt and faithful payment of its additional obligations for each such operation. Such bonds shall be for an amount at least equal to Jack Grynberg and Associates' share of expenditures approved in advance of any particular initial or subsequent operation and shall be in such form and with such sureties as are acceptable to the Operator. Jack Grynberg and Associates shall also furnish such new payment bonds as Operator may from time to time require in order to further secure payment of Jack Grynberg and Associates' obligations hereunder.~~

* See letter by Randy Keough to Mesa dated 12-14-84

~~Upon default of any of Jack Grynberg and Associates' obligations hereunder, and without further notice from Operator, Jack Grynberg and Associates shall forthwith proportionately assign to the other parties hereto all of its right, title and interest, as of the date of this Operating Agreement, in and to the Contract Area hereunder, all wells and equipment thereon, and all subsequent production therefrom, free and clear of all liens and encumbrances and Jack Grynberg and Associates shall no longer be a party to this Operating Agreement. This remedy shall be in addition to and not exclusive of Jack Grynberg and Associates payment obligations hereunder, which obligations shall be continuing despite Jack Grynberg and Associates no longer being a party to this Operating Agreement.~~

The terms and conditions of the hereinabove special provisions shall be binding upon Jack Grynberg and Associates, its successors and assigns.

Without otherwise affecting the responsibilities and liabilities of Jack Grynberg and Associates, its successors or assigns, for its obligations hereunder, Jack Grynberg hereby agrees to be individually responsible and liable for each and every obligation hereunder of Jack Grynberg and Associates, its successors or assigns. Upon default by Jack Grynberg and Associates, its successors or assigns, of any of its obligations hereunder, Operator shall have the right, in accordance herewith and without prejudice to Operator's other rights or remedies, to enforce such obligations against Jack Grynberg, individually, or Jack Grynberg and Associates, its successors or assigns, or both.

ARTICLE XVI.
MISCELLANEOUS

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

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

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

OPERATOR

MESA PETROLEUM CO.

_____ BY: _____

NON-OPERATORS

JACK GRYNBERG AND ASSOCIATES

_____ BY: _____

Jack Grynberg Individually and as

as _____

of Jack Grynberg and Associates

CORONA OIL COMPANY

_____ BY: _____

Signature Page for Operating Agreement dated December 5, 1981 between Mesa Petroleum Co., as Operator and Jack Grynberg and Associates and Corona Oil Company as Non-Operators.

EXHIBIT " "

Attached to and made a part of Operating Agreement dated December 5, 1981, between Mesa Petroleum Co., as Operator, and Jack Grynberg and Associates, et al, as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at a rate equal to the higher of 120% of the prime rate of interest of the Continental Illinois Bank & Trust Company or 18% per annum; provided, however, in no event shall the Non-Operator Parties be required to pay interest in excess of the federal or state statutory ceiling applicable in the jurisdiction in which the joint property is located. Non-Operators shall also be liable for 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-six percent (26%) or percent most recently recommended by the Council of Petroleum Accountants Societies of North America.

4. Material

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

5. Transportation

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

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

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed 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

Costs and 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, and the costs and expenses incurred in connection with hearings and other matter before governmental bodies and agencies and costs and ex-

10. **Taxes**

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

11. **Insurance**

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

12. **Other Expenditures**

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

III. OVERHEAD

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

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

(X) Fixed Rate Basis, Paragraph 1A, or (See Schedule I attached.)
( ) 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 ( ) 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 $ 3,700.00
Producing Well Rate $ 370.00

(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 the contractual rig charges begin ~~xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx~~ and terminate on the date the drilling or completion equipment moves off location or rig is released, ~~xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx~~, 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 :

A. 5 % of total costs if such costs are more than $ 25,000* but less than $ 100,000 ; plus

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

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

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

*When design and engineering is furnished by third party contractors and charged to the

(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" ONSHORE

Attached to and made a part of Operating Agreement
dated December 4, 1981, between Mesa Petroleum Co., as
Operator, and Jack Grynberg and Associates, et al, as Non-Operators.

INSURANCE

The Operator shall carry for the benefit of the joint account insurance to cover drilling operations and producing operations on the jointly owned acreage as follows:

I. Workmen's Compensation and Employer's Liability covering the employees of Operator engaged in operations hereunder in compliance with all applicable Federal Laws and the laws of the State of New Mexico, with Employers Liability limit of not less than $100,000 per person and $100,000 per occurrence.

II. Operator shall carry of its interest and for the interest of any non-operator so electing to participate in writing, within 60 days of the date of the Operating Agreement, the following types and limits of insurance:

(A) Comprehensive General Liability covering operations conducted hereunder by Operator for the Parties with limits of:

Combined Bodily Injury & Property Damage	$1,000,000 per occurrence $1,000,000 Aggregate

(B) Automobile Liability covering all vehicles owned, non-owned, or hired and used in connection with operations conducted hereunder by Operator for the joint account with limits of:

Combined Bodily Injury & Property Damage	$1,000,000 per occurrence $1,000,000 Aggregate

The premiums for all such insurance so carried in paragraph II shall be paid by Operator and may be charged directly to such non-operators as elect to participate to the extent that their interest is insured.

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of Operating Agreement dated December 5, 1981, between Mesa Petroleum Co., as "Operator", and Jack Grynberg and Associates, et al, as "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.

Each Party shall have the right to take in kind its share of the gas produced from the Unit Area. However, there may be periods when one or more of the Parties have no market for, or its purchaser is unable to take, or for any other reason, it may not dispose of its interest, or a portion thereof, in the gas production. Therefore, to permit each Party to produce and dispose of its interest in the gas production from the Unit Area with as much flexibility as possible, the Parties hereto agree to this Gas Balancing Agreement as hereinafter set forth:

1. DEFINITIONS:

For the purposes of this Agreement, the following terms shall be defined as hereafter set out:

(a) "Operating Agreement" shall mean the Operating Agreement to which this Gas Balancing Agreement is attached.

(b) "Gas" shall mean natural gas or oil well gas obtained from primary field separation.

(c) "Liquid Hydrocarbons" are those liquids obtained from primary field separation.

(d) "Percentage Ownership" is the percentage interest of each party as set forth in the Operating Agreement.

(e) "Over-produced Party" is a party who has utilized or sold a greater volume of gas at any given time (individually or through its gas purchaser) than a volume determined by multiplying the total cumulative volume of gas produced and utilized or sold from a proration unit within the Unit Area by such Party's Percentage Ownership.

(f) "Under-produced Party" is a party who has utilized or sold a lesser volume of gas at any given time (individually or through its gas purchaser) than a volume determined by multiplying the total cumulative volume of gas produced and utilized or sold from a proration unit within the Unit Area by such Party's Percentage Ownership.

(g) "MER" is the total daily maximum efficient rate of hydrocarbon withdrawal from each separately produced proration unit, which, if exceeded for a sustained period of time, would lead to underground waste in the form of reduced ultimate recovery from the proration unit, after deducting the gas used in operations on the Unit Area or vented or lost.

2. OWNERSHIP OF PRODUCTION:

(a) SALE BY LESS THAN ALL OWNERS: All gas produced from the Unit Area shall be produced and utilized or sold by those parties having a use or market for such gas. If fewer than all the parties are producing gas, the parties so producing shall have the right and option, but not the obligation, to produce and dispose of all or any part of such gas that may be produced up to the MER. The parties hereto shall share in and own the liquid hydrocarbons, as produced, in accordance with their respective interests, as set forth in and subject to the terms of the Operating Agreement. It is agreed that the gas attributable to the interest of each non-producing party shall remain in the reservoir for production at a later date.

(b) SALE BY UNDER-PRODUCED OWNERS: Each Under-produced Party shall, upon commencing the sale of gas, have the right to take a greater percentage of the current gas production than such Under-produced Party's Percentage Ownership, subject to the following limitations:

(1) For the purposes of balancing gas production accounts, as soon as practical, any Over-produced Party or Parties will make available to any Under-produced Party or

Parties a portion of the Over-produced Party's or Parties' share of gas production at the current MER, but Over-produced Parties shall not be liable to Under-produced Parties under this paragraph except as provided in Section 4 hereof. In no event will any Over-produced Party be required to reduce the volume of gas which it is entitled to take from a proration unit during any calendar month to less than 50% of such Over-produced Party's Percentage Ownership in the gas produced. If at any time more than one Under-produced Party is taking in excess of its gas production account, then each such Under-produced Party shall be entitled to a share of the gas production made available by the Over-produced Parties in the ratio that the under-production of each Under-produced Party bears to the total under-production of all Under-produced Parties currently taking gas.

(2) For the purpose of balancing in the event of price increases as provided in Section 3 hereof and for the purpose of balancing production accounts as provided in Section 4 hereof, the Under-produced Party, to the extent it is taking gas in excess of that attributable to its Percentage Ownership, shall be deemed to be recovering volumes of gas offsetting prior over-production by the Over-produced Party on a last in, first out basis.

(3) Each party's gas production account is in balance when such party has utilized or sold the same percentage of the total cumulative production from a proration unit as such party's Percentage Ownership.

(4) It is contemplated that some of the parties may arrange to have their gas processed in a gas processing plant for the recovery of liquefiable hydrocarbons. This

Balancing Agreement shall not provide a basis for balancing any liquefiable hydrocarbons recovered from a gas processing plant.

(5) Only produced gas actually utilized or sold by a party shall be owned by it and charged against its share of the total recoverable reserves.

3. BALANCING IN THE EVENT OF PRICE INCREASES:

In the event the price received by the Under-produced Party for gas otherwise attributable to the Over-produced Party's interest in gas production which is being delivered for the Under-produced Party's account is greater than the price received by the Over-produced Party for the equivalent volume of gas, then the Under-produced Party shall pay to the Over-produced Party in cash, on a monthly basis, the product of the volume of gas otherwise attributable to the Over-produced Party's interest in gas production which is being delivered for the Under-produced Party's account and the difference between the lawful price which the Under-produced Party currently is collecting for the gas described above (but in no event higher than the price received by the Over-produced Party at the time such production is sold by the Under-produced Party) and the lawful price which the Over-produced Party actually collected for the volume of gas described above.

4. BALANCING OF PRODUCTION ACCOUNTS:

When production from a proration unit permanently ceases, there shall be an accounting between the parties hereto so that any Under-produced Party shall receive a sum of money equal to the amount actually received, less applicable taxes, royalty, and the cost of dehydration and compression if not participated in by the Under-produced Party, by any Over-produced Party from the sale of that part of the total cumulative volume of gas produced from the proration unit to which any Under-produced Party was entitled, but which was utilized or sold by the Over-produced Parties. For the purposes of this paragraph, the "amount actually received" shall be the dollar amount

received for the quantity of gas remaining after subtracting the quantity of any periodic under-production by an Over-produced Party from the unbalanced over-production of such party. If a portion of a party's gas is taken for its own use and a portion thereof is sold, the gas value will be based on the price received simultaneously by such party for gas being sold from the proration unit. During periods in which a party is taking all of its gas for its own use, any gas so taken will be valued at the maximum price which such party could have received for such gas if actually delivered under such party's contract, or if none, the weighted average price received simultaneously by all parties for gas sold from the proration unit. If gas is processed for the recovery of liquefiable hydrocarbons, the gas value will be based on the amount which would have been received for the sale of such gas without processing.

5. STATEMENTS:

During the term hereof, each party selling gas from a proration unit in any month will furnish or cause to be furnished to each of the other parties a statement showing the volume and value of gas utilized and the volume and proceeds if sold. The Operator under the Operating Agreement shall furnish monthly to each party a statement showing the status of the over and short accounts of all parties.

6. PRODUCTION TAXES:

Each Party taking gas shall pay any and all production taxes due on such gas.

7. PAYMENT OF ROYALTY:

At all times while gas is produced from the Unit Area, each party hereto shall make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to its purchaser its share, and its share only, of the total gas production exclusive of gas used in lease operations, vented or lost. 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.

8. OPERATING EXPENSES:

The operating expenses are to be borne as provided in the Operating Agreement, regardless of whether all parties are selling or using gas or whether the sales and use of each are in proportion to Percentage Ownership.

9. SCOPE AND TERM:

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

10. INDEMNITY:

Each party hereby indemnifies the other parties hereto against all liability for and agrees to defend the parties hereto against all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under its provisions, and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection therewith.

11. OPERATOR'S LIABILITY:

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

Attached to and made a part of Operating Agreement
dated December 5, 1981, between Mesa Petroleum Co., as
Operator, and Jack Grynberg and Associates, et al, as Non-Operators.

EXHIBIT "F"

CONTRACTOR'S CERTIFICATION FOR

MESA PETROLEUM CO.

A. EQUAL EMPLOYMENT OPPORTUNITY

It is hereby agreed that the following provisions, which are also set forth in Section 202 of Executive Order 11246, are made a part of each agreement and purchase order presently existing or which may be entered into hereafter, between Contractor and Mesa Petroleum Co.

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

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

3. Contractor will send to each labor union or representative of workers with which he 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' representatives of the Operator's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

5. Contractor will furnish all information and reports required by Executive Order No. 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 his 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 Contractor's non-compliance with the nondiscrimination 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 Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

7. Contractor 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 No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event Contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interest of the United States.

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

Contractor agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this agreement or the award of any such purchase order, as the case may be, (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually, on or before March 31. (41 CFR 60-1.7(a))

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

Contractor agrees to develop and maintain a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order No. 11246, as amended. (41 CFR 60-1.40)

D. CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into this contract, certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. It certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained.

Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, restrooms and washrooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom, or otherwise. It further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods), it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS
OF REQUIREMENT FOR CERTIFICATIONS
OF NONSEGREGATED FACILITIES

A Certification of Nonsegregated Facilities, as required by the May 9, 1967 Order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontractor or for all subcontracts during a period (i.e. quarterly, semi-annually, or annually).

E. EMPLOYMENT OF VETERANS

1. The Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause set forth at Section 60-250.4 of Title 41 Code of Federal Regulations is hereby incorporated herein by reference. (This clause is applicable to all contracts or purchase orders for $10,000 or more.)

2. Contractor agrees further to place the above provisions in any subcontract nonexempt under the rules and regulations promulgated by the Secretary under the Vietnam Era Veterans Readjustment Assistance Act of 1974.

F. EMPLOYMENT OF HANDICAPPED PERSONS

1. The Affirmative Action for Handicapped Workers Clause set forth in Section 60-741.41 of Title 41 Code of Federal Regulations is hereby incorporated herein by reference. (This clause is applicable to all contracts or purchase orders for $2,500 or more.)

2. Contractor agrees further to place the above provision in any subcontract nonexempt under the rules and regulations promulgated by the Secretary under the Rehabilitation Act of 1973.

SCHEDULE I

Attached to and made a part of Operating Agreement
dated December 5, 1981, between Mesa Petroleum Co., as
Operator, and Jack Grynberg and Associates, et al as Non-Operators.

The Combined Fixed Rates, as heretofore provided under Section III, Paragraph A. of the COPAS-1974 Accounting Procedure to which this schedule is attached, shall be in lieu of all charges to the Joint Account for the indirect costs and expenses incurred by Operator in providing the joint operations with the producing and development functions and services hereinafter identified as Compensation for Administrative, Supervision, Office Services and Warehousing costs.

The following reflects a representative abridged listing of the functions and/or services which shall be considered as included in the Operator's District Expense and Warehousing, and should serve as a guide for similar functions intended to be covered by the Combined Fixed Rates even though some of the functions may be contract services performed by third parties.

Salaries, Benefits and Related Costs of Field, Area and/or District:
- Managers and/or Superintendents
- Foreman - Superintendent
  - Drilling - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
  - Production - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
  - Construction - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Production Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Production Geologists - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Other Technical Employees - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Office Stenographers
- Office Clerks
  - Time Keeping
  - Preparation of Boat, Automotive and Other Vehicle Reports
  - Local Purchasing (Field Orders)
  - Preparation and coding of invoices
  - Preparation of Material Requisitions
  - Preparation of Field Transfers
  - Preparation of Field Receiving Reports
  - Posting of Production Reports
  - Preparation of Over and Short Reports
  - Reading and Integration of Charts
  - Preparation of Field Gas Production and Consumption Report
  - Preparation of Field Office Reports to State and Federal Regulatory Bodies
  - Miscellaneous Routine Field Office Clerical Duties
  - Field Office Inventory Men
    - Conducting Physical Inventories
    - Preparation of Field Inventory Records
  - Warehousemen and/or Clerks

Office Equipment, Supplies, Stationery and Forms

Maps, Photostats and Blueprints, when required for general District Use.

Rentals
- Rentals paid for buildings, office and storage space used by District employees.

Rentals paid in connection with sites for District produttion offices, camps, warehouses and other facilities used specifically for District purposes.

Ad Valorem Taxes
Taxes paid on buildings and equipment charged to Operator's Field, Area, and/or District investment accounts.

Insurance
Net cost of all types of insurance, including workmen's compensation and public liability insurance; when such insurance is applicable to the District.

The following reflects a representative abridged listing of the functions and/or services which shall be considered as included in the Operator's Administrative Overhead, and should serve as a guide for similar functions intended to be covered by the combined Fixed Rates even though some of the functions may be contract services performed by third parties.

General Management

General Operating Administration
Drilling Managers and/or Superintendents and Office Staffs
Production Managers and/or Superintendents and Office Staffs
Civil Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
Reservoir Analysis and Engineering
Petroleum Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
Negotiation of Production and Residue Gas Sales
Negotiation of Major Gas Sales
Preparation and Negotiation of Joint Operation Agreements
Preparation of General Production Records
Traveling and Transportation Expense of Home, Division, Area, Region, or similar Administrative Office Employees

General Accounting and Services
Checking of invoices
Preparation of Paychecks
Responsibility of Account Distribution or Coding
Payment of Vendor's Invoices
Maintaining Property Investment Records
Maintaining Joint Interest Cost Records
Preparation of Joint Interest Billing
Preparation of Royalty Checks
Machine Accounting and Data Processing Functions
Photostat and Other Reproduction Service
Ad Valorem Tax Service and/or Counsel
Systems and Procedures
Internal Auditing

Communications Expense - Telephone, telegraph and teletype service rendered to the district; also operating expenses of radio communication systems which serve the district and which are not chargeable to any particular lease or facility operation. The costs applicable to communication service and/or equipment directly employed on and serving the joint property shall be a direct charge to the joint property.

Area and/or District Office Utility Services

Local Field, Area and/or District Recreational Facilities

Safety Meetings and/or Dinners

Area and/or District Office Safety Equipment

First Aid Supplies

Physical and Medical Examinations - Cost of pre-employment and medical examinations of personnel to be employed in the district, including costs of annual or periodic examinations and immunizations.

Transportation, including freight and express costs when such costs are incurred directly in the operation and/or maintenance of district offices, buildings, and facilities.

Traveling Expense of district employees when such expense is for the sole benefit of the district. Traveling and personal expenses of district employees attending oil shows, API meetings, and company training schools, etc., which are for the primary benefit of the Operator shall be borne solely by the Operator.

Moving Expenses - Costs of moving and transfer of district employees including relocation expenses such as real estate fees, closing costs, compensation for loss on sale of home, carpeting and draperies, etc., when transferred within or into the district. Costs incurred for the primary benefit of the Operator, such as transfer of trainees, shall be borne solely by the Operator.

Memberships, dues and Subscriptions for Field, Area and/or District Personnel.

Depreciation on Operator's wholly-owned Field, Area, and/or District Production offices, equipment, buildings, camps, roads, fences, canals, docks, marine terminals, and slips, etc., used for District purposes.

Repair and Maintenance on Operator's wholly-owned Field, Area, and/or District production offices, equipment, buildings, camps, roads, fences, canals, docks, marine terminals, and slips, etc. including the cost of small tools and supplies used specifically for District purposes.

Warehouse - wholly-owned
- Depreciation
- Operating and Maintenance Expense
- Cost of Storing and Handling Material

Title Record and Division Order Administration
- Landmen and Titlemen
- Maintenance of Division of Interest Records
- Obtaining Royalty Signatures

Exploration Administration
- Geologists - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- General Research
- Geophysicists

General Purchasing Administration

Industrial and Public Relation Administration
- Employee Relation Counselor
- Safety Engineer
- Industrial Nurse and/or Doctor
- Dinners, Parties, etc.
- Safety Awards
- Incentive Awards
- Thanksgiving Turkeys or Christmas Baskets
- Contributions to Charity and/or Civic Organizations
- Special Investigators
- Administration of Benefit Plans

General Oil and Gas Well Proration and Pricing Administration
- Preparation of Reports to and Representation before Governmental Agencies

General Legal Counsel
- Preparation of Contracts
- Claims and Litigation
- Title and Other Opinions

Transportation and Traffic Administration

Insurance Administration

MESA
PETROLEUM CO.

Code General Account # _____

Exploratory _____ Development Y

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 6
CASE NO. 8

LEASE, WELL NAME, AND LOCATION PAT STATE COM #1
660', FSL & 660' FEL, SEC 12, T5S, R24E, CHAVES COUNTY, NEW MEXICO

DESCRIPTION Cost estimate to drill and complete a 4,100' flowing Abo gas well including production equipment.

Submitted by _____ Date _____

Old Acct. Codes	ITEM DESCRIPTION	Dry Hole Cost	Completion Cost	Producer's Total
01	DRILLING--FOOTAGE Ft. At $ /Ft.	$	$	$
02	DRILLING or COMPLETION RIG MI-RU, RD-MO	20,000	5,000	20,000
	(A) DAY WORK 9/6 DAYS At $ 6000/1250 /DAY	54,000	7,500	61,500
03	DRILLING or COMPLETION RIG			
	(A) BOILER DAYS At $ /DAY			
	(B) CAMP & CATERING DAYS At $ /DAY			
	(C) OTHER DAYS At $ /DAY			
04	CEMENTING SERVICES, CEMENT & ACCESSORIES	27,000	10,000	37,000
05	MUD, CHEMICALS, SERVICES & EQUIP. (A) MUD, CHEM., OIL	8,000		8,000
	(B) WATER	10,000	3,000	13,000
06	LOGS, TESTING & MUD LOGGING UNIT	8,000	3,000	11,000
07	DRILL STEM TEST & RELATED TESTING EQUIPMENT			
08	PERFORATING, WELL STIMULATION SERVICES		50,000	50,000
09	LOCATION, ROADS, SURVEYS, AIRSTRIPS	15,000	1,000	16,000
10	COMPANY LABOR, SUPERVISION, ENGINEERING & OVERHEAD	3,000	2,000	5,000
11	RENTAL EQUIPMENT & TOOLS	18,000	3,000	21,000
12	ROCK BITS, HOLE OPENERS, REAMERS, STABILIZERS	8,000		8,000
13	HAULING & FREIGHT	7,000	4,000	11,000
14	MOBILIZATION - INSTALLATION			
15	DEMOBILIZATION - DISMANTLING & SALVAGE			
16	SUPPLYBOATS, CREWBOATS, BARGES, TUGS			
17	FUEL, LUBES, POWER	5,000		5,000
18	SHOREBASE, OFFICE, DOCK FEE & CRANES			
19	AIRCRAFT RENTALS--HELICOPTERS, FIXED WING			
20	DIVERS AND RELATED EQUIPMENT			
21	MISCELLANEOUS	7,000	3,000	10,000
22	COST to ABANDON (NOT INCLUDED IN PRODUCER TOTAL)*	*8,000		
23	MUD ENGINEER DAYS At $ /DAY			
24	CONSULTING ENGINEER			
	(A) DRILLING DAYS At $ /DAY			
	(B) COMPLETION DAYS At $ /DAY			
25	GEOLOGICAL CONSULTANT2 DAYS At $ 250 /DAY	500		500
	Total Intangible & Non-Controllable Costs	$ 198,500	$ 86,500	$ 277,000*
31	BUOYS AND MARKERS	$	$	$
32	CASING/TUBULARS			
	(A) 900 FT. OF 13 3/8 " OD $ 27.00 /FT.	24,300		24,300
	(B) 1750 FT. OF 8 5/8 " OD $ 13.50 /FT.	23,600		23,600
	(C) 4100 FT. OF 4 1/2 " OD $ 6.50 /FT.		26,700	26,700
	(D) 3550 FT. OF 2 3/8 " OD $ 4.00 /FT.		14,200	14,200
	(E) FT. OF " OD $ /FT.			
33	WELL HEAD & GUIDE STRUCTURE	3,600	4,100	7,700
34	SUB-SURFACE WELL EQUIPMENT			
35	SURFACE WELL EQUIPMENT			
36	OTHER MAJOR EQUIPMENT			
	(A) SEPARATOR		8,000	8,000
	(B) 210-BBL FIBERGLASS TANK		3,000	3,000
	(C)			
37	BUILDINGS			
38	ELECTRICAL & INSTRUMENTATION EQUIPMENT			
39	INSTALLATION, MATERIALS, & SERVICES		3,500	3,500
	Total Tangible Controllable & Non-Controllable Costs	$ 51,500	$ 59,500	$ 111,000
	Total Costs	$ 250,000	$ 146,000	$ 388,000*

Prepared By Victor R. Mistafa Title DIV DRLG SPVR Date 11-10-81

Approved Richard F. Hunter Title OPS MGR Date 11-10-81

Approved _____ Title _____ Date _____

Approved _____ Title _____ Date _____

Approved Company Jack Grynberg & Assoc. By _____ Title _____ Date _____

Mesa WI
Others WI

Jack Grynberg & Assoc. 50

EXHIBIT "A"

FOR AFE/COST ESTIMATE DATED 11-10-81

WELL NAME PAT STATE COM #1

LOCATION 660' FSL & 660' FEL, SEC 12, T5S, R24E

COUNTY CHAVES COUNTY, NEW MEXICO

Under present market conditions, Mesa may be required to purchase tubulars directly from our supplier's warehouse at a price which exceed the published mill price (currently by 6-10%). Mesa may also elect to utilize company inventory in an effort to avoid premium prices. These tubulars are purchased and warehoused in advance to avoid paying out-of-stock premiums to the suppliers. This practice sometimes necessitates shipping material from storage points more distant than the "nearest railhead".

The values for tubulars on the attached AFE have been adjusted to show these increased costs. Although Mesa is of the opinion that in most instances the purchase of tubulars which are covered by the attached AFE from the supplier's warehouse will not be purchased at "Premium Prices," as that term is defined in Article IV, Paragraph 3, or require added transportation cost as outlined in Article IV, Paragraph 2A(1) of the Accounting Procedure, Mesa is hereby giving you the option to furnish your share of the tubulars in kind. Please advise within ten days if you elect to furnish your share of tubulars in kind.

Your approval of this AFE without notice to furnish tubulars in kind will constitute approval to pay the price invoices from the vendor in the event that Mesa is required to purchase tubulars directly from the supplier's warehouse at their out-of-stock price. If tubulars are used from Mesa inventory, it will necessitate charging freight calculated from Mesa's yard rather than equalized freight from the nearest railhead. However, the current market value, plus actual freight, should not exceed out-of-stock premium prices plus equalized freight.

Contact either Bob Rowe or Mike Houston at 1000 Vaughn Building, Midland, Texas 79701, or phone (915) 683-5391.

March 5, 1981

OPERATING COST CHART, ABO FIELD, CHAVES COUNTY, NEW MEXICO (THRU 4/16/82)

Well Name, Location & Status	ESTIMATED COSTS (Authority for Expenditure) Drilling Costs	Completion Costs	Total Estimated Costs	ACTUAL COSTS Drilling Costs	Completion Costs	Total Actual Costs	DIFFERENCE (Total Estimated Costs Minus Total Actual Costs)
T 5 S - R 24 E							
12 State #1 (5)	6	-	-	-	-	-	N/A
14 State Com #1 (1)	207,000	148,000	355,000	190,330.32	98,154.21	288,484.53	66,515.47
16 State #1 (2)	6	-	-	215,477.66	71,711.13	287,188.79	N/A
16 State #2 (2)	6	-	-	229,319.54	96,283.97	325,603.51	N/A
16 State #3 (2)	6	-	-	157,476.77	116,870.94	274,347.71	N/A
16 State #4 (1)	6	-	-	167,488.19	68,126.58	235,614.77	N/A
29 Fed #1 (1)	6	-	-	152,755.89	74,072.22	226,828.99	N/A
31 Fed #1 (2)	6	-	-	137,608.60	51,617.82	189,226.42	N/A
32 State #2 (1)	6	-	-	171,165.64	85,895.38	257,546.02	N/A
32 State #3 (1)	6	-	-	187,499.61	69,726.76	257,226.37	N/A
32 State #4 (1)	6	-	-	172,651.61	46,525.79	219,291.40	N/A
35 Fed Com #1 (1)	207,000	148,000	355,000	174,355.63	80,996.52	255,352.15	99,647.85
T 6 S - R 24 E							
#1 Youngman 11 Fed Com (5)	219,900	147,500	367,400	212.28	-	-	N/A
#2 Youngman 11 Fed Com (5)	196,900	151,100	348,500	212.28	-	-	N/A
#2 Hobbs Canyon Fed (5)	6	-	-	356.62	-	-	N/A
Section 12							
#1 Hobbs Canyon Fed (1)	6	-	-	138,209.22	67,719.78	205,929.07	N/A
#3 Hobbs Canyon Fed (2)	6	-	-	97,000.34	9,916.57	-	N/A
#4 Hobbs Canyon Fed (3)	6	-	-	11,911.68	-	-	N/A
#5 Hobbs Canyon Fed (4)	6	-	-	-	-	-	N/A
T 6 S - R 25 E							
17 Fed Com #1	207,000	148,000	355,000	192,540.25	45,865.95	238,406.20	116,593.80
#1 McDermett 30 Fed Com (2)	221,100	147,500	368,600	203,380.94	85,152.13	288,533.07	80,066.93

(1) Well Completed
(2) Completing
(3) Awaiting Completing Rig
(4) Drilling
(5) Location Staked
(6) No Est. Prepared; 100% W.I. w/JG&A

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 7
CASE NO. 7476
Submitted by JG&A
Hearing Date 5-17-82

OPERATING COST CHART, ABO FIELD, CHAVES COUNTY, NEW MEXICO (THRU 4/16/82)

Well Name, Location & Status	ESTIMATED COSTS (Authority for Expenditure) Drilling Costs	Completion Costs	Total Estimated Costs	ACTUAL COSTS Drilling Costs	Completion Costs	Total Actual Costs	DIFFERENCE (Total Estimated Costs Minus Total Actual Costs)
T 5 S - R 24 E							
14 State Com #1 (Completed)	207,000	148,000	355,000	190,330.32	98,154.21	288,484.53	66,515.47
35 Fed Com #1 (Completed)	207,000	148,000	355,000	174,355.63	80,996.52	255,352.15	99,647.88
T 6 S - R 25 E							
17 Fed Com #1 (Completed)	207,000	148,000	355,000	192,540.25	45,865.95	238,406.20	116,593.80
#1 McDermett 30 Fed Com (Well being completed)	221,100 129,500* 350,600	147,500 - 147,500	368,600 129,500 498,100	203,380.94	85,152.13	288,533.07	Well not complete. No comparison of Estimated and Actual Costs possible.

*Supplemental Authority for Expenditure submitted 3/5/82

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 8
CASE NO. 7476
Submitted by YGA
Hearing Date 5-17-82

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT 9
CASE NO. 7476
Submitted by 36A
Hearing Date 5-17-82

Jack Grynberg and Celeste Grynberg
Statement of Financial Position

	2-28-82	11-30-81
Assets		
Current Assets		
Cash and Certificates of Deposit	$ 4,050,341	$ 6,350,264
Accounts Receivable	964,446	884,953
Installment Note Receivable--Viking Petroleum, Inc.	820,850	820,850
Total Current Assets	$ 5,835,637	$ 8,056,067
Property and Equipment		
Equipment (Estimated Value)	$ 300,000	$ 300,000
Producing Properties:		
New Mexico Natural Gas Field	76,707,433	42,177,807
Other Producing Properties	54,098,276	54,098,276
Undeveloped Leases	19,569,285	19,569,285
Total Property and Equipment	$150,674,994	$116,145,368
Investments		
Marketable Securities held in Name of Oceanic Holding Co. (at cost)	$ 4,665,787	$ 5,210,439
Certificate of Deposit (Encumbered)	7,191,708	7,191,708
Other	3,784	3,784
Total Investments	$11,861,279	$12,405,931
Total Assets	$168,371,910	$136,607,366
Liabilities and Net Worth		
Current Liabilities		
Accounts Payable-Regular	$ 404,962	$ 96,140
Other Amounts Payable to Undisputed Creditors	3,103,931	3,103,931
Provision for Income Taxes	3,400,000	3,400,000
Total Current Liabilities	$ 6,908,893	$ 6,600,071
Contingent Liabilities		
(See Notes and Schedule)	$10,069,295	$10,069,295
Total Liabilities	$16,978,188	$16,669,366
Net Worth	$151,393,722	$119,938,000
Total Liabilities and Net Worth	$168,371,910	$136,607,366

FILED
UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO
APR 21 1982
BRADFORD L. BOLTON, Clerk
BY ..... DEPUTY CLERK

UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF COLORADO

In re	)	
	)	
JACK J. GRYNBERG, a/k/a	)	
JACK JAKOB GRYNBERG, a/k/a	)	
JACK GRYNBERG, d/b/a JACK	)	Case No. 81 B 00821 M
GRYNBERG AND ASSOCIATES, d/b/a	)	
JACK GRYNBERG & ASSOCIATES,	)	
	)	
Debtor.	)	
and		
In re	)	
	)	
CELESTE C. GRYNBERG, a/k/a	)	
CELESTE CONSTANCE GRYNBERG,	)	Case No. 81 B 00825 M
a/k/a CELESTE GRYNBERG,	)	
	)	
Debtor.	)	

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 10
Submitted by Gryn
Hearing Date 5/17/82

NOTICE OF ORDER CONFIRMING PLAN AND DISCHARGE

To the Debtors, their creditors, and other parties in interest:

Notice is hereby given of the entry of an order of this Court on April 21, 1982, confirming the Second Modified Joint Plan of Reorganization filed by the Debtors, on December 23, 1981, as modified by Amendments thereto filed on February 5, 1982, and providing further that:

A. Except as otherwise provided or permitted by the Plan as amended or such order:

(1) The above-named Debtors are released from all dischargeable debts;

(2) The discharge

(a) voids any judgment at any time obtained, to the extent that such judgment is a determination of the personal liability of the Debtors with respect to any debt discharged under 11 U.S.C. § 1141, whether or not discharge of such debt is waived;

(b) Operates as an injunction against the commencement or continuation of any action, the employment of process, or any act, to collect, recover, or offset any such debt as a personal liability of the Debtors, or from property of the Debtors, whether or not discharge of such debt has been waived.

DATED: April 21, 1982

BY ORDER OF THE COURT:

BRADFORD L. BOLTON, Clerk
By Diane D. Carney, Deputy Clerk
United States Bankruptcy Court
400 Columbine Building
1845 Sherman Street
Denver, Colorado 80203

JACK GRYNBERG AND ASSOCIATES
PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS
1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455
TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

May 7, 1982

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 11
Submitted by Grynn
Hearing Date 5/17/82

Dr. Guy T. McBride
President
Colorado School of Mines
Golden, CO 80401

Dear Guy:

Enclosed please find my check dated May 17, 1982, in the amount of $100,000 payable to the Colorado School of Mines Foundation, Inc. May 17 will be the effective date of my Plan of Reorganization, and the check is dated accordingly on advice of counsel. You will recall that, as a member of the Board of Trustees of Colorado School of Mines from 1975-1981, I made a commitment of $100,000 in 1977 to be paid to the Colorado School of Mines Foundation, Inc., over a ten-year period. I am happy to fulfill this commitment in full at this time upon my 30th anniversary of graduation from the Colorado School of Mines.

This money is to be used as an endowment, with income from the fund to be used and, if necessary, the principal may be utilized as well, to benefit, encourage and educate American Indian students in pursuing careers on both graduate and undergraduate levels in oil, gas and minerals so that they may become engineers and managers of tribal lands.

The money should be applied to establish an adequate training program for Indian high school graduates, so that they will meet the entrance requirements of the Colorado School of Mines, and for academic scholarships. The money may also be used for subsistence funds, for purchase of books and for any health services while in school, including those of a mental health nature. The program is to be designed for Indian students utilizing the definition of an American Indian as designated by the Bureau of Indian Affairs.

Pending use of the fund for purposes such as outlined above, I request that the fund be invested to generate as much income as practicable with reasonable safety, such as in money market funds, high-yield bank certificates of deposit or similar investments.

It is my hope that this gift will promote and enhance the educational development of American Indians in the oil and gas and mineral fields so that those educated by the Colorado School of Mines may contribute to the greater well-being of Indian tribes through the development of tribal natural resources. I would like the School to also be a beneficiary of this fund and to pay for its expenses in developing an oil and gas and mineral program for American Indian students with this fund. The fund is to be administered by the Financial Aid Office of the School with the final decision resting with the President of the School.

Cordially yours,

Jack J. Grynberg

JJG:aj

Enclosure

PECOS SLOPE ABO GAS DEVELOPMENT
Billing Chart for Drilling Operations
November 1, 1981 - April 15, 1982

Bills Paid Thru 4/15/82	$3,669,215.77
Outstanding Bills Due (undisputed)	187,424.95
Outstanding Bills (disputed)*	132,578.00
TOTAL ~~ACCOUNTS PAYABLE~~:	$3,989,218.72

*Disputed bills total 3.3% of total bills.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 12
Submitted by Coryn
Hearing Date 5/17/82

JACK J. GRYNBERG
#1 Grynberg 12 State "Com"
1980' FSL & 660' FEL
Sec. 12, T 5 S - R 24 E
Chaves County, NM

5/10/82 Day 1, depth 370', drlg. Made 370' 14 3/4 hole. Repair downtime 4 1/2Hrs., Aztec #50. Brief Description of Operations: Down time is repair on pillar block bearing and rotary chain. Well was SPUD @8PM 5/9/82. Bit #1 14 3/4, Hughes OSC3AJ,nozzles 13,13,13. Made 370' 7 1/2Hrs., 52' p/hr.,35,000# on bit, 90RPM. SPP 800, Pump #1 5 1/2 Liner, 68 SPM. Sample Time 12 Midnight: MW 9.4, Vis 30. Added 10 sxs gel, 1 sx lime. 9Hrs., 8-5PM move and rig up, 3Hrs. 5-8PM WO water, 1Hr., 8-9 spud and drilled, 1/2Hr. 9-9:30PM rig repair, 5 1/2Hrs., 9:30-3AM drlg., 1Hr., 3-4 rig reapir, 1/4Hr. 4-4:15 drlg., 3Hr., 4:15-7:15AM rig repair, 3/4Hrs., 7:15-8AM dlrg.

5/11/82 Day 2, Depth 906', drlg. Made 536' 14 3/4 Hole. LHr repair down time, Aztec #50. Bit #1 14 3/4, OSC3AJ,nozzles 13,13,13,depth out 536'. Made 536' 10 1/2Hrs., 53' p/Hr., 35,000# on bit, 90RPM,dull cond. 2,2,I. SPP 800, Liner 5 1/2",68 SPM. Bit #2, 14 3/4 Hughes J-22, nozzles 11,11,11,depth out 906', made 370' in 16 1/2 Hrs., 19' p/Hr., 35,000# on bit, 55RPM. SPP 1000, 5 1/2" liner, 68 SPM. Sample time 5AM: MW 10.1, Vis 45, Added 26 sxs gel, 1 sx thinner, 3 sxs LCM, 4 sxs lime. Dev. Survey @495' of 1/4 deg. 1/2Hr., 8-8:30AM service rig, 1/2Hr., 8:30-9 rig repair 2 1/2Hrs., 9-11:30AM drlg., 1/2Hr., 11:30-12 run survey, 1/2Hr., 12-12:30 drlg., 2 1/2Hrs., 12:30-3PM trip for bit #2, 1/2Hr., 3-3:30PM drlg, 1/2Hr., 3:30-4PM rig repair, 14 3/4Hrs., 4-6:45AM drlg., 1/4Hr. 6:45-7AM repair pump #2, 1Hr., 7-8AM Drlg. (Bit #2 Dull Cond. 2,2,I.)

5/12/82 Day 3, depth 906', Drlg. Made 60' 7 7/8, anhydrite,sand. DCP 897' 10 3/4. Aztec #50. Bit #2, 14 3/4 J-22, nozzles 11,11,11, Depth out 906'. Made 370' 16 1/2Hrs.,22.4'p/Hr 35,000# on bit 55RPM. Dull Cond. 2,2,I. SPP 1000, 5 1/2" liner Pump #1, 68 SPM. Bit #3, 7 7/8 Smith F-2, nozzles 12,12,12. Made 60' 1 1/2Hrs., 45' p/Hr., 35,000# on bit, 60 RPM, 800 SPP, 5 1/2 " liner, 68 SPM. Drlg. with Brine. Dev. Survey of 3/4 deg @906'.See end of line. 1/2Hr., 10-10:30AM ran survey and TOOH; 2 1/2Hrs., 10:30-1PM ran csg and circ (circ 1/2 Hr.), 1Hr., 1-2PM cmt with Halliburton, 2Hrs., 2-4PM WOC, 14Hrs., 4PM-6AM WOC and nipple up, 1/2Hr., 6-6:30AM tested BOP @1000 psi, 1 1/2 Hrs. 6:30-8AM drld out cmt and 60' of new hole. (2Hr., 8-10AM Wrk tight hole).

CSG. INFORMATION: Rec. 988.74' of 10 3/4" 40# Limited Service Csg., Ran 24 Jts., and set @897', Cmt with 300 sxs Halliburton Lite, 1/4# flo cel, 2% Cal Chl., 300 sxs Class "C", 1/4# flo cel, 2% Cal Chl., Circ 60 sxs back to surface. WOC 18 Hrs., Test Csg. & BOP to 1000 psi.

5/13/82 Day 4, depth 2115', Drlg., Made 1149' 7 7/8, Anhydrite, salt, sand. DCP 897' 10 3/4 Aztec #50. Bit #3 7 7/8, Smith F-2, nozzles 12,12,12. Made 1149' in 22.5 Hrs., 52.3' p/Hr., 35,000# on bit, 60 RPM. SPP 1000. Pump #1 5 1/2" liner, 68 SPM. MW 9.9, Vis 28 PH 8, Chl. 92,000. Total Mud Cost: $330.00. Added 3 sxs Lime. Dev. Survey @1395' of 1/2 deg and @1893' of 1/2 deg. 1/2Hr. 8-8:30AM service rig, 7 1/2Hrs., 8:30-4PM Drlg., 1/2Hr., 4-4:30 survey, 10Hrs., 4:30-2:30AM Drlg., 1/2Hr., 2:30-3AM survey, 5Hrs., 3-8AM Drlg.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 13
Submitted by: Gaya
Hearing Date

JACK GRYNBERG AND ASSOCIATES

PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS

1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455

TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

May 10, 1982

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 7476 Exhibit No. 14
Submitted by Corym
Hearing Date 5/17/82

Mesa Petroleum Company
1000 Vaughn Building
Midland, TX 79701

ATTN: Exploration Department - Donna

Re: JACK J. GRYNBERG
#1 Grynberg 12 State "Com"
1980' FSL & 660' FEL
Sec. 12, T 5 S - R 24 E
Chaves County, NM
AZTEC #50 RIG

Dear Donna:

Enclosed please find the following information on the above well:

1 - Daily drilling report.

1 - Permit to Drill

1 - Sundry Notice - Change of Operator (Waiting on Approved copy)

1 - Letter Oil Conservation Commission

If you have any questions, please call us at the above number.

Sincerely,

JACK GRYNBERG AND ASSOCIATES

Ginger Howell

Ginger Howell
Geo. Secretary

:GH
Encl.5
CC: Corona Oil Company
4835 LBJ Freeway, Suite 635
Richardson, TX 75234
ATTN: Exploration Department - Helen

JACK GRYNBERG AND ASSOCIATES

PETROLEUM, GEOLOGICAL, GEOPHYSICAL AND MINING ENGINEERS

1050 17th STREET • SUITE 1950 • DENVER, COLORADO 80265 • PHONE 303 – 572-1455

TELEX: 45-4497 ENERGY DVR
TELECOPIER: 303-623-5224

May 13, 1982

Mesa Petroleum Company
1000 Vaughn Building
Midland, TX 79701

ATTN: Exploration Department - Donna

Re: JACK J. CRYNBERC
#1 Grynberg 12 State "Com"
1980' FSL & 660' FEL
Sec. 12, T 5 S - R 24 E
Chaves County, NM

Dear Donna:

Enclosed please find one (1) copy of the approved Sundry Notice on Change of Operator , and one (1) copy of the Daily Drilling Report through May 13, 1982.

If you have any questions, please call us at the above number.

Sincerely,

JACK GRYNBERG AND ASSOCIATES

Ginger Howell

Ginger Howell
Geo. Secretary

:CH
Encl. 2
CC: Corona Petroleum ✓
4835 LBJ Freeway, Suite 635
Richardson, TX 75234
ATTN: Exploration Dept. - Helen

NAME OF COMPANY	PERSON TALKED TO	TIME	DATE	SENT COPY OF DRILLING REPORT OUT & DATE SENT
Corona	Helen	10:10AM	5/10/82	X- 5/10/82
Mesa	Donna	10:18AM	5/10/82	X- 5/10/82
Mesa	Donna	4:14PM	5/11/82	----------
Corona	Helen	4:23PM	5/11/82	----------
Mesa	Donna	9:00AM	5/13/82	X-5/13/82
Corona	Helen	9:10AM	5/13/82	X-5/13/82

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

IN THE MATTER OF THE APPLICATION OF JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO	))))	CASE 7476

MAY 26 1982
CONSERV.
SANTA

MEMORANDUM OF APPLICANT IN OPPOSITION TO
MOTION TO DISMISS BY MESA PETROLEUM COMPANY

J. E. GALLEGOS
JONES, GALLEGOS, SNEAD & WERTHEIM, P.A.
Attorneys for Jack J. Grynberg
Post Office Box 2228
Santa Fe, New Mexico 87501
(505) 982-2691

MAY 28, 1982

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

PRELIMINARY STATEMENT

This case came on jointly with the application of Mesa Petroleum Company in Case 7513. Each applicant seeks the pooling of all mineral interests down through and including the Abo formation underlying a 160 gas spacing unit being the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County. On April 5, 1982, the Oil Conservation Division, Director Joe D. Ramey, entered Order No. R-6925 and R-6930 by which pooling was directed, Grynberg was designated operator and the application of Mesa denied.

Mesa appealed those Orders to the Oil Conservation Commission for de nova consideration. The cases came before the Commission on May 17, 1982, on the issues as framed by the applications and appeal for de nova hearing.

During the course of the presentation of evidence before the Commission, cross-examination by Mesa elicited that the State Land Office lease (LG-0565, September 1, 1972) covering the E/2 SE/4 of Section 12 was assigned on March 30, 1982, to JJ-CC Limited, a Colorado limited partnership. This limited partnership had not registered as a foreign limited partner with the Secretary of State of New Mexico. (Mesa Exhibit 44).

Citing §54-3-6 NMSA 1978 (transaction of business by foreign limited partnerships without registration) and §70-2-17 NMSA 1978 (forced pooling), Mesa has moved to dismiss the application of Grynberg on the ground that JJ-CC is the owner of the mineral interest and is disqualified to maintain this proceeding.

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

POINT I

THE REGISTRATION REQUIREMENT FOR A FOREIGN LIMITED PARTNERSHIP HAS NO BEARING ON ITS LEGAL EXISTENCE OR CONDUCT OF BUSINESS

Partnerships generally result from a variety of associations, formal or informal. A characteristic of partnerships is that each of the partners share generally in the responsibility and liability of the entity's business. See §54-1-1 to 54-1-43 NMSA 1978, the Uniform Partnership Act.

There is no requirement that an ordinary partnership from one state register to do business in another state. Indeed, there is a view that such a requirement would run afoul of the "privilege and immunities" clause of the United States Constitution. Crane and Bromberg, Law of Partnerships, pps. 108-109.

A "limited partnership" is a form of partnership in which liability to third persons of its limited members is held or "limited" to a fixed amount. §54-2-1 through 54-2-30 NMSA 1978. Commonly, states have a registration requirement, as does New Mexico (54-3-2, supra), for foreign limited partnerships as well as for domestic limited partnerships. 54-2-2A(2), supra. The registration requirement does not go to the legal existence of the limited partnership. The purpose of registration is (1) to communicate to third persons trading with it that the liability of some of its members is only limited and (2) ensure the limitation of liability of limited partners. Crane and Bromberg, Law of Partnerships, p. 145; Hoefer v. Hall, 75 N.M. 751, 411 P.2d 230; Heritage Hills v. Zion's First National Bank, (9th Cir., 1979) 601 Fed. 1023.

What is the effect of the failure to register? Simply that the partnership is not accorded the special limited obligation status for its limited partners. Heritage Hills v. Zion's First National Bank, supra, (Failure to register under the

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Arizona law did not omit "a necessary condition to the birth of the business entity." It did exist as a business entity but the limited partners had general liability as far as third persons were concerned.) Ruth v Crane, E.D.Pa. 1975, 392 F.Supp. 724 (Not recording a proper certificate under the Limited Partnership Act means the parties are treated as general partners as to third persons); Accord, Peerless Mills, Inc. v. American Telephone and Telegraph Co., (2nd Cir., 1975), 527 F.2d 445. Even this loss of limitation of liability does not absolutely follow under the New Mexico law. 54-3-6C, supra.

Mesa's motion is, thus, a classic red herring. The failure of registration by JJ-CC is no impediment to the partnership's existence and conduct of business. The Mesa motion is even more misplaced when one has a reflective moment to read the statute which was flashed at the Commission by its counsel. In pertinent part, 54-3-6 provides:

> A. A foreign limited partnership transacting business in New Mexico may not maintain any action, suit or proceeding in any court of this state until it has registered in this state.
>
> B. The failure of a foreign limited partnership to register in this state does not impair the validity of any contract or act of the foreign limited partnership or prevent the foreign limited partnership from defending any action, suit or proceeding in any court of this state.
>
> (Emphasis added).

The only disability attendant to non-registration is maintaining a suit in a court. The "act" of the non-registered partnership is expressly valid.

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

POINT II

BY THE U. S. BANKRUPTCY COURT PROCEEDING TITLE TO THE INTEREST IN QUESTION WAS VESTED IN ESTATES BANKRUPT THROUGH MAY 17, 1982

On February 20, 1981, Mr. and Mrs. Grynberg filed voluntary Chapter 11 petitions in the United States Bankruptcy Court for the District of Colorado as Cases 81B 00821M and 81B 00825M. The effect of the filing was to create two new juristic entities: the estate of Jack J. Grynberg and the estate of Celeste C. Grynberg, and to transfer their property to such estates by opertion of law. 28 U.S.C.A. §1471(3), effective April 1, 1984, and made applicable during the transition by §405(6) of the Act of November 6, 1978.

Attached as Appendix "A" are copies of the Bankruptcy Court Orders entered January 28, 1982, which authorized the formation of a Colorado limited partnership by the Grynbergs. It recognized that historically Jack and Celeste Grynberg had conducted their oil and gas business as a partnership. It provided for a formal partnership arrangement along with the contribution of $5 million cash and the mineral properties held of record by either party.

The partnership was formed with Jack J. Grynberg as the general partner. He was given the exclusive right to manage and control the business of the partnership. Celeste C. Grynberg is a limited partner. Expressly and unequivocably, the partnership agreement recognized (a) the business and assets of the partnership remained completely subject to the Bankruptcy Court and (b) that status would continue until final confirmation of a plan of reorganization. A copy of the JJ-CC Limited Partnership Agreement is attached as Appendix "B".

On April 21, 1982, an Order Confirming Plan was entered by the Bankruptcy Court confirming The Joint Plan of Reorganization which had been proposed by Mr. and Mrs. Grynberg.

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

A copy of that Order and of the Court's Memorandum Opinion are attached as Appendixes "C1" and "C2" respectively. Under the Bankruptcy Code (11 U.S.C.A. §1141(c)) all property covered by the Plan is free and clear of all claims and interests of creditors, as provided in the Plan. The confirmed Plan revests the Grynbergs with title to their assets and authorizes them to take charge of their management without order of the court. The effective date of the Plan was the tenth business day after the Order Confirming Plan became final and non-applicable. That day was May 17, 1982, when this matter was before the Commission for hearing.

CONCLUSION

The true status of the ownership of the mineral estate in the E/2 SE/4 in question was in the bankruptcy estates of Jack and Celeste Grynberg under jurisdiction of the Bankruptcy Court of the Federal District of Colorado through May 17, 1982. Following that day, title was vested in JJ-CC Limited, a Colorado limited partnership, of which Jack J. Grynberg, the general partner, has the complete and exclusive power of management. To be technically precise, the application here is made by Jack J. Grynberg, as managing general partner of JJ-CC Limited.

The Colorado Limited Partnership would not have been subject to the registration requirements of New Mexico law until May 17, 1982. Such registration is being affected in the regular course of business. Even if the partnership had been in business as such before the time, the failure to register would not disqualify it to act validly by its managing partner to obtain from the Oil Conservation Division a forced pooling order.

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

The Motion to Dismiss by Mesa is totally groundless and should be denied.

Respectfully submitted,

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A.

By _____
J. E. CALLEGOS
Post Office Box 2228
Santa Fe, New Mexico 87501
(505) 982-2691

CERTIFICATE OF MAILING

It is herely certified that on the 26th day of May, 1982, a true and correct copy of the foregoing Memorandum of Applicant in Opposition to Motion to Dismiss by Mesa Petroleum Company was mailed to opposing counsel of record, William F. Carr, Esq., Campbell, Byrd & Black, P.A., Post Office Box 2208, Santa Fe, New Mexico 87501, and to Steven James, Esq., Mesa Petroleum Co., 1000 Vaughn Building, 400 West Texas Avenue, Midland, Texas 79701, by first-class mail, postage prepaid.

_____
J. E. CALLEGOS

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

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_____
J. E. GALLEGOS

JONES, GALLEGOS, SNEAD & WERTHEIM, P.A., ATTORNEYS AT LAW, SANTA FE, NEW MEXICO

UNITED STATES BANKRUPTCY COURT

DISTRICT OF COLORADO

In re:	)	
	)	
CELESTE C. GRYNBERG,	)	Case No. 81 B 00825M
a/k/a Celeste Constance Grynberg,	)	
a/k/a Celeste Grynberg,	)	
	)	
Debtor.	)	

ORDER AUTHORIZING FORMATION OF LIMITED PARTNERSHIP

Having considered the Debtor's "Application for Authority to Form Limited Partnership" (the "Application") filed on January 6, 1982, it appearing that notice thereof was duly given on the same date to all parties in interest with no objection to or request for a hearing upon the Application being filed in accordance with the notice on or before January 21, 1982, and taking notice of all other matters of record herein, the Court finds that

(a) for many years prior to the filing of the Debtor's original petition and since, the Debtor and her husband, Jack J. Grynberg, the Debtor-in-Possession in Case No. 81 B 00821M, in fact if not in form, generally have conducted their business and oil and gas operations as a de facto partnership with mutual sharing of profits and losses;

(b) the Debtor and her husband have never executed a written partnership agreement or other formal organizational instrument;

(c) the absence of a definitive agreement between the Debtor and her husband tends to prevent clarity of legal relationships between them, their respective estates and third parties and otherwise tends to impede a speedy and efficient reorganization of their respective estates; and

(d) formalization of legal relationships between the Debtor and her husband in accordance with the terms and conditions stated in the form of Limited Partnership Agreement

UNITED STATES BANKRUPTCY COURT

DISTRICT OF COLORADO

In re:	)	
	)	
JACK J. GRYNBERG,	)	Case Number 81 B 00821M
a/k/a Jack Jakob Grynberg,	)	
a/k/a Jack Grynberg,	)	
d/b/a Jack Grynberg and Associates,	)	
d/b/a Jack Grynberg & Associates,	)	
	)	
Debtor,	)	

ORDER AUTHORIZING FORMATION OF LIMITED PARTNERSHIP

Having considered the Debtor's "Application for Authority to Form Limited Partnership" (the "Application") filed on January 6, 1982, it appearing that notice thereof was duly given on the same date to all parties in interest with no objection to or request for a hearing upon the Application being filed in accordance with the notice on or before January 21, 1982, and taking notice of all other matters of record herein, the Court finds that

(a) for many years prior to the filing of the Debtor's original petition and since, the Debtor and his wife, Celeste C. Grynberg, the Debtor-in-Possession in Case No. 81 B 00825M, in fact if not in form, generally have conducted their business and oil and gas operations as a de facto partnership with mutual sharing of profits and losses;

(b) the Debtor and his wife have never executed a written partnership agreement or other formal organizational instrument;

(c) the absence of a definitive agreement between the Debtor and his wife tends to prevent clarity of legal relationships between them, their respective estates and third parties and otherwise tends to impede a speedy and efficient reorganization of their respective estates; and

(d) formalization of legal relationships between the Debtor and his wife in accordance with the terms and conditions stated in the form of Limited Partnership Agreement

attached as Exhibit 1 to the Debtor's Application and contribution to the partnership, when formed, of $5,000,000 in cash or its equivalent, technical data and all oil and gas or other mineral properties in which the Debtor has an interest, all to be on and subject to the terms and conditions set forth in said Exhibit 1, would be in the best interests of the Debtor and the Debtor's estate.

It is, therefore, ORDERED

That the Debtor is authorized, together with his wife, Celeste C. Grynberg, to execute, with such immaterial changes (if any) as counsel may advise, a limited partnership agreement in the form attached as Exhibit 1 to the Application and to transfer oil, gas or other mineral properties and otherwise to make contributions to the partnership as set forth in said Exhibit 1, subject, however, to all conditions therein also set forth, including, without limitation, the conditions set forth in Paragraph 2 thereof which are to remain applicable in accordance with the provisions of Paragraph 3 thereof.

Dated this 28th day of January, 1982.

BY THE COURT:

John P. Moore
United States Bankruptcy Judge

1311

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DEPARTMENT OF STATE
STATE OF COLORADO

FILED
10 MAR '82
STATE OF COLORADO

JJ-CC LIMITED

LIMITED PARTNERSHIP AGREEMENT

THIS AGREEMENT of Limited Partnership is executed this ____ day of MAR 5, 1982, by and between Jack J. Grynberg, both individually and as debtor-in-possession in Case No. 81 B 00821 M currently pending in the United States Bankruptcy Court for the District of Colorado (the "General Partner") and his wife, Celeste C. Grynberg, both individually and as debtor-in-possession in Case No. 81 B 00825 M currently pending in the United States Bankruptcy Court for the District of Colorado (the "Limited Partner").

NAME

1. The name of the partnership shall be: JJ-CC Limited. The partnership, through the General Partner, shall execute and file all assumed or fictitious name certificates required by law to be filed or deemed necessary by the General Partner.

CONDITIONS OF FORMATION AND BUSINESS

2. Formation of the partnership is subject to and conditional upon prior approval, authorization or other appropriate order of the United States Bankruptcy Court for the District of Colorado (the "Court") in the reorganization proceedings, Case Nos. 81 B 00821 M and 81 B 00825 M, under Chapter 11 of the Bankruptcy Code, 11 U.S.C. §§101 et seq., which were pending as of execution of this limited partnership agreement and involve the General Partner and the Limited Partner, respectively. The formation, business, assets and operations of the partnership are further subject to the following conditions until termination of their applicability as hereinafter provided:

(a) neither the formation of the partnership nor the transfer of any assets of the General Partner or the Limited

Partner or of their reorganization estates to the partnership shall in any way diminish or otherwise modify the jurisdiction of the Court over the General Partner or the Limited Partner as debtors in the reorganization proceedings or over assets included in their respective estates in the reorganization proceedings, and by executing this limited partnership agreement the General Partner and the Limited Partner expressly consent to such continuing jurisdiction of the Court;

(b) the assets, business and operations of the partnership shall at all times be subject to any proper Order of the Court entered in the reorganization proceedings in respect to activities of the General Partner or the Limited Partner;

(c) neither formation of the partnership nor any transfer of assets thereto shall enlarge, diminish or otherwise modify any claim, right or interest of any party in interest in the reorganization proceedings, whether under the Bankruptcy Code or otherwise;

(d) the partnership upon its formation shall assume and be jointly and severally liable with the General Partner and the Limited Partner upon all claims finally allowed and ordered paid by the Court in the reorganization proceedings; and

(e) any amendment of this Limited Partnership Agreement shall be made only pursuant to authorization of the Court given upon application and after such notice and hearing as the Court may direct.

3. The conditions specified in paragraph 2 shall remain applicable until the first to occur of the following:

(a) final confirmation and effectiveness of a plan or plans of reorganization in respect to the General Partner and the Limited Partner pursuant to Section 1129 of the Bankruptcy Code except to the extent, if any, specified in such plan or plans or the Order(s) of the Court confirming such plan or plans;

Partner or of their reorganization estates to the partnership shall in any way diminish or otherwise modify the jurisdiction of the Court over the General Partner or the Limited Partner as debtors in the reorganization proceedings or over assets included in their respective estates in the reorganization proceedings, and by executing this limited partnership agreement the General Partner and the Limited Partner expressly consent to such continuing jurisdiction of the Court;

(b) the assets, business and operations of the partnership shall at all times be subject to any proper Order of the Court entered in the reorganization proceedings in respect to activities of the General Partner or the Limited Partner;

(c) neither formation of the partnership nor any transfer of assets thereto shall enlarge, diminish or otherwise modify any claim, right or interest of any party in interest in the reorganization proceedings, whether under the Bankruptcy Code or otherwise;

(d) the partnership upon its formation shall assume and be jointly and severally liable with the General Partner and the Limited Partner upon all claims finally allowed and ordered paid by the Court in the reorganization proceedings; and

(e) any amendment of this Limited Partnership Agreement shall be made only pursuant to authorization of the Court given upon application and after such notice and hearing as the Court may direct.

3. The conditions specified in paragraph 2 shall remain applicable until the first to occur of the following:

(a) final confirmation and effectiveness of a plan or plans of reorganization in respect to the General Partner and the Limited Partner pursuant to Section 1129 of the Bankruptcy Code except to the extent, if any, specified in such plan or plans or the Order(s) of the Court confirming such plan or plans;

(b) closing of the reorganization proceedings and any other successor proceedings, if any, under the Bankruptcy Code into which the reorganization proceedings may be converted; or

(c) entry of an Order of the Court terminating such conditions or requiring dissolution of the partnership after due application therefor and such notice and hearing as the Court may direct.

SCOPE OF PARTNERSHIP BUSINESS

4. The partnership is formed to hold, own, buy, sell, lease, farmout, farmin and otherwise deal generally in; to explore, develop and operate; and otherwise to conduct any lawful business involving, relating or incidental to oil and gas and any other mineral properties including, without limitation, those to be contributed to the partnership by the General Partner and the Limited Partner as set forth herein. The partnership may engage in such other operations and businesses as the General Partner reasonably may deem necessary, appropriate or incidental to any of the foregoing. The business of the partnership may be conducted for its own account or for the account of or in conjunction with others in any lawful manner.

OFFICE AND PLACE OF BUSINESS

5. The principal executive office of the partnership shall be located at 1050 Seventeenth Street, Suite 1950, Denver, Colorado. The partnership may maintain such other offices and places of business as determined by the General Partner.

NAME AND ADDRESS OF AGENT FOR PROCESS

6. The name and address of the partnership's agent for service of process is Ernest W. Lohf, a resident of the State of Colorado, whose business address is 2410 Prudential Plaza, Denver, Colorado 80265.

NAMES AND ADDRESSES OF PARTNERS

7. The name and address of the General Partner is Jack J. Grynberg, Suite 1950, 1050 Seventeenth Street, Denver, Colorado 80265.

8. The name and address of the Limited Partner is Celeste C. Grynberg, 4661 South Dasa Drive, Englewood, Colorado 80110.

DURATION OF BUSINESS

9. The partnership shall commence business with the filing for record of its Certificate of Limited Partnership in such public office in the State of Colorado as shall be required under The Colorado Uniform Limited Partnership Act of 1981 and shall continue thereafter until dissolved as hereinafter provided.

CAPITAL CONTRIBUTIONS

10. The General Partner shall contribute to the partnership the following:

(a) all oil, gas or other mineral properties or interests of any nature in which the General Partner has any interest, exclusive of all such interests held, operated or managed for the benefit of any person other than the General Partner;

(b) all geological, seismic, petrophysical and other technical data owned or controlled by the General Partner in respect to the properties to be transferred to the partnership; and

(c) cash or its equivalent in the amount of $5,000,000.

11. The Limited Partner shall contribute to the partnership all oil, gas or other mineral properties or interests in which the Limited Partner has any interest, exclusive of all such interests held, operated or managed for the benefit of any person other than the Limited Partner.

12. After making the contribution specified in paragraph 11, the Limited Partner shall not be required to make any additional contribution to the capital of the partnership.

13. A capital account for the General Partner and a capital account for the Limited Partner shall be established and maintained. Neither such accounts nor contributions to the capital of the partnership by the General Partner and the Limited Partner shall bear interest. Solely for purposes of this Agreement and the partnership, the minimum agreed value of the property and services to be contributed to the partnership's capital, as described in paragraphs 10 and 11 above, is as follows: General Partner $10,000,000; Limited Partner $10,000,000. The General Partner's capital account shall equal 50 percent of the total capital accounts of the partnership and the Limited Partner's capital account shall equal 50 percent of the total capital accounts of the partnership. The capital of the partnership shall not be withdrawn except as provided herein.

PROFITS AND LOSSES

14. The profits and losses of the partnership during each fiscal year of the partnership shall be determined in accordance with the accounting methods followed by the partnership for federal income tax purposes and otherwise in accordance with generally accepted accounting procedures and principles applied in a consistent manner. The partnership's fiscal year shall be the calendar year.

15. For all purposes, including federal and state income tax purposes, the profits, income, gains, losses, deductions, expenses, depreciation and credits of the partnership shall be allocated 50 percent to the General Partner and 50 percent to the Limited Partner.

16. The partnership is to be a partnership for federal and state income tax purposes and the General Partner shall take such

action as is necessary and appropriate (consistent with the provisions of this agreement) so that the partnership will be deemed a partnership for federal and state income tax purposes including, without limitation, the preparation and filing, in a timely manner, of annual federal and state partnership income tax returns.

17. The Limited Partner may make any tax election authorized or permitted under applicable law. The General Partner shall make all tax elections for the partnership which, under applicable law, are required to be made solely by the partnership.

18. The respective interests of partners in income or expense, or in gains or losses, shall be determined as of the end of each fiscal year of the partnership and recorded, as to each partner, in the partnership's books in appropriate income accounts. Until dissolution of the partnership, such income accounts shall be maintained separately from the respective partners' capital accounts which, prior to such dissolution, shall not be augmented or diminished by the closing of such income accounts into the capital accounts or otherwise.

BOOKS AND RECORDS

19. The partnership shall keep accurate, full and complete books of account and records showing its assets and liabilities, the results of its operations and its financial condition. The partnership shall prepare financial statements annually showing the financial condition of the partnership as of the end of each year and results of its operations for such year and shall furnish a copy of such financial statements to the Limited Partner within 100 days after the end of each such year. The General Partner shall cause the partnership to keep and maintain at the principal office of the partnership located in the State of Colorado all of the partnership books and records required, pursuant to The Colorado Uniform Limited Partnership Act of 1981, to be so kept by the partnership.

DISSOLUTION AND LIQUIDATION

20. Subject to the provisions of paragraphs 2 and 3, the partnership shall be dissolved upon the first to occur of any of the following:

(a) the withdrawal of the General Partner;

(b) mutual written consent to dissolution by the General Partner and the Limited Partner.

(c) the sale by the partnership of all or substantially all, or a principal part of the partnership's property; and

(d) when required by law or applicable order of Court.

21. Subject to the provisions of paragraphs 2 and 3, the General Partner shall, upon dissolution of the partnership but subject to the effect of any applicable law or order of court, promptly wind up and terminate the business and affairs of the partnership, discharge its liabilities as hereinafter provided and, in connection therewith and in accordance with paragraph 23, liquidate all assets of the partnership with all reasonable speed and in such manner as the General Partner may determine in reasonable exercise of discretion, with the proceeds of such liquidation (the "Liquidation Proceeds") to be applied as provided in paragraph 22.

22. Subject to the provisions of paragraphs 2 and 3, the Liquidation Proceeds shall be applied to the following purposes in the following order of priority, subject to the provisions of paragraph 23 and to the proper effect of any applicable law or order of Court:

(a) the payment of all liabilities of the partnership to creditors other than to partners who are creditors;

(b) the payment of liabilities, if any, of the partnership to partners as creditors of the partnership;

(c) the payment of liabilities, if any, of the partnership to partners or ex-partners for interim distributions

previously declared but unpaid or due as the result of a previous withdrawal; and

(d) the payment to partners for return of their contributions and respecting their partnership interests in the proportions in which the partners share in distributions.

23. All payments pursuant to paragraph 22 shall be made in cash except for payments to partners which, in the sole discretion of the General Partner shall be distributed to one or both of the partners in kind or in a form other than cash, including, without limitation, the assignment of undivided interests in mineral properties owned by the partnership. The General Partner shall have the right to purchase from the partnership, in connection with the winding up and liquidation of the partnership, assets of the partnership, for a price and upon such terms as the General Partner could sell such assets to an unaffiliated third party.

24. All amounts owing to partners in respect to capital contributions and profits pursuant to subparagraph 22(d) shall be determined as of the date of dissolution of the partnership from its books of account maintained and kept in accordance with this agreement. In the event of any dispute as to such amounts, a certificate of a firm of independent certified public accountants, setting forth such amounts and certifying that such amounts have been determined in accordance with this paragraph and other applicable provisions of this agreement, shall be conclusive and binding upon all partners. No amounts payable to partners pursuant to subparagraph 22(d) shall bear interest from and after the date of dissolution.

DISTRIBUTIONS

25. Subject to the provisions of paragraphs 2 and 3, the General Partner shall cause the previously undistributed net income, profits and gains of the partnership, or such portion

thereof as may be feasible under the circumstances, to be distributed at least annually and, upon 30 days' written notice to the General Partner from the Limited Partner, at monthly intervals, in cash to all partners pro rata in accordance with their respective interest therein, subject, however, to the following:

(a) at the time of such distribution, the partnership shall have available to it unencumbered cash funds sufficient for such distribution and, after giving effect thereto, sufficient, in the judgment of the General Partner, for the continuing conduct of the business of the partnership and for normal working capital;

(b) immediately after any such distribution, partnership assets shall exceed all liabilities of the partnership exclusive of the liabilties due to the General Partner of any kind;

(c) at the time of any such distribution, neither the partnership nor the General Partner shall be in default in respect to any indebtedness or liability of the partnership or have suffered the occurrence or nonoccurrence of any event or condition which, but for the giving of notice or the passage of time, has matured or thereafter will mature into any such default;

(d) no such distribution shall have the effect, directly or indirectly, of constituting or resulting in a withdrawal of any part of the capital contributions of the partners.

26. Except as provided in the preceding paragraph 25, or as is required to reimburse the General Partner or the Limited Partner for funds or services temporarily advanced to the partnership to meet expenses or other immediate needs, no assets of the partnership shall be distributed to partners except upon dissolution of the partnership.

GENERAL PARTNER'S PARTNERSHIP INTEREST

27. The General Partner shall not transfer (other than by operation of law) his interest in the partnership to any person, unless:

(a) the person who acquires the General Partner's interest in the partnership shall, directly or indirectly, be controlled by the General Partner and such person shall expressly assume in writing the due performance of every covenant of this agreement on the part of the General Partner to be performed or observed; and

(b) immediately after giving effect to such transaction, no event has occurred which would cause a dissolution of the partnership.

28. Upon any conveyance or transfer of the General Partner's interest in the partnership in accordance with paragraph 27, the person to whom such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the General Partner under this agreement with the same effect as if such successor had been named as the General Partner herein.

29. The General Partner's interest under this agreement shall be non-assignable except as provided in paragraphs 27 and 28, but the General Partner may assign to any person any right to receive payments or distributions due from the partnership to the General Partner subject, however, to the following:

(a) the provisions of paragraphs 2 and 3;

(b) the General Partner shall have no right to possess partnership property, or assign rights in specific partnership property, for other than a partnership purpose;

(c) no assignment by the General Partner shall, directly or indirectly, operate to relieve the General Partner of any liability to the partnership, to third persons, to the Limited Partner or otherwise under this agreement; and

(d) no assignment of any right to receive payments or distributions from the partnership shall in any manner accelerate or otherwise modify the time or manner in which such payment or distribution would be made if no such assignment had been effected.

WITHDRAWAL OF THE GENERAL PARTNER

30. The withdrawal of the General Partner upon the occurrence of any of the events of withdrawal enumerated in The Colorado Uniform Limited Partnership Act of 1981, shall cause a dissolution of the partnership. For purposes of this Agreement, the occurrence of the events described in 7-62-402(d) and (e) Colorado Revised Statutes, 1973, as amended, shall not be deemed events of withdrawal.

ASSIGNMENT AND TRANSFER OF LIMITED PARTNERSHIP INTERESTS

31. Subject to the provisions of paragraphs 2 and 3 hereof and any restrictions on transferability required by law or contained in this agreement, the Limited Partner may transfer the whole or any part of her partnership interest only after complying with the conditions of this paragraph 31. The term "transfer," when used in this agreement with respect to a partnership interest, includes any sale, assignment, or other disposition of a partnership interest. The conditions precedent to any transfer of a partnership interest are:

(a) A duly executed and written instrument of transfer approved by the General Partner has been filed with the partnership;

(b) The transferee and transferor execute and acknowledge such additional instruments as the General Partner deems necessary or convenient to effect such transfer; and

(c) The General Partner consents to such transfer. The General Partner may refuse to give his consent to the transfer for any reason.

32. Any transfer of the whole or a portion of the Limited Partner's partnership interest shall be subject to the provisions of paragraphs 2 and 3 hereof; and no transferee shall have the right to become a substituted Limited Partner in place of his assignor unless and until all of the following additional conditions are satisfied:

(a) The written instrument of transfer approved by the General Partner and filed with the partnership sets forth the intention of the transferor that the transferee become a substituted Limited Partner in her place;

(b) The transferor and transferee execute and acknowledge such other instruments as the General Partner may reasonably deem necessary or desirable to effect such substitution, including the written acceptance and adoption by the transferee of the provisions of this agreement;

(c) An appropriate amendment of the Certificate has been duly filed and recorded. The General Partner agrees to file such amendment and cause it to be recorded promptly after the conditions specified above in subparagraphs (a) and (b) have been satisfied.

Such substitution shall become effective upon the filing of the Certificate of Amendment as provided in subparagraph (c) hereof and upon satisfaction of any other applicable requirement for substitution. Upon such substitution becoming effective, the substituted limited partner shall be deemed a limited partner for purposes of this agreement.

33. The Limited partner may pledge or otherwise hypothecate her interest in the partnership, subject, however, to the provisions of paragraphs 2 and 3 hereof and to the following:

(a) No pledgee or holder of a similar security interest, merely as such, shall be entitled to recognition as a transferee of any limited partnership interest or as a substituted limited partner;

(b) Any foreclosure of any pledge or similar lien against a limited partnership interest shall be effected only in compliance with the provisions of paragraphs 31 and 32; and

(c) Nothing contained herein shall be deemed to detract from or limit any proper rights of creditors of a limited partner under The Colorado Uniform Limited Partnership Act of 1981.

MANAGEMENT

34. Subject to the provisions of paragraphs 2 and 3 hereof, the General Partner shall have the exclusive right and power to manage and control the business and affairs of the partnership. The General Partner shall have the right and power to obligate and bind the partnership to take any action which the General Partner reasonably may deem appropriate in conducting and furthering the business of the partnership, including, without limitation, the following:

(a) maintain the books and records of the partnership at his principal executive offices, which books and records shall be open for inspection by the Limited Partner or her designated agents during normal business hours;

(b) obtain and pay for out of partnership funds the preparation of required partnership tax returns, copies of which shall be furnished to the Limited Partner;

(c) maintain accounts in banking institutions or savings and loan associations;

(d) pay the obligations of the partnership and collect obligations owed to the partnership;

(e) maintain insurance on partnership property reasonably to protect the partnership against loss or liability;

(f) perform normal administrative and ministerial acts;

(g) furnish financial statements to the Limited Partner at such time and in such form as is herein required;

(h) maintain reserves for the purpose of paying mortgages, real and personal property taxes, insurance costs, lease payments and any other similar types of costs or expenses;

(i) employ accountants and legal counsel, or other experts to perform services for the partnership and compensate them from partnership funds;

(j) borrow money and incur secured and unsecured indebtedness on behalf of the partnership and execute on behalf of the partnership (without obligation on the part of third parties for inquiry as to actual authority or as to disposition of funds) all contracts, leases, notes, mortgages, deeds, evidences of indebtedness or security agreements;

(k) purchase, lease, or otherwise acquire any personal or real property for use in connection with the business of the partnership;

(l) contract for the drilling, exploration or development of the partnership's mineral properties;

(m) enter into any and all other agreements on behalf of the partnership, with any other person or entity for any partnership purpose, in such forms as the General Partner may reasonably approve;

(n) contract with persons or entities, whether or not affiliated with the General Partner; and

(o) do all other acts which the General Partner may reasonably deem to be in the best interrests of the partnership.

35. The Limited Partner shall have no right or authority to participate in or control the business or affairs of the partnership, to transact any business on behalf of or in the name of the partnership, or to have any power or authority to bind or obligate the partnership in any manner whatsoever except as follows:

(a) this partnership agreement may not be amended in any manner without the approval of the Limited Partner;

(b) to the extent permitted elsewhere in this agreement, the Limited Partner shall have the right to vote on or consent to various matters which materially effect the partnership and its business including, without limitation, the dissolution of the partnership.

36. The General Partner may cause title to any property or property interest of the partnership to be held in the name of any nominee, including the name of the General Partner or the Limited Partner, for the sole and exclusive benefit of the partnership.

37. The General Partner shall not be liable to the Limited Partner because any taxing authorities disallow or adjust any deductions or credits in the partnership income tax returns. In addition, the doing of any act or the omission to do any act by the General Partner, the effect of which may cause or result in loss or damage to the partnership, if done in good faith and otherwise in accordance with the terms of this agreement, shall not subject the General Partner or his successors and assigns to any liability.

MISCELLANEOUS

38. Any notice which shall or may be necessary to be given in connection with this agreement or the business of the partnership shall be deemed to have been duly given if delivered personally to the person to be so notified or if given or sent by certified mail, return receipt requested, postager prepaid, to such person at the last address furnished by him for such purpose and duly recorded on the books or records of the partnership. Any such notices given by mail shall be deemed effective upon due mailing thereof.

(a) this partnership agreement may not be amended in any manner without the approval of the Limited Partner;

(b) to the extent permitted elsewhere in this agreement, the Limited Partner shall have the right to vote on or consent to various matters which materially effect the partnership and its business including, without limitation, the dissolution of the partnership.

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MISCELLANEOUS

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39. This agreement has been executed and made in accordance with The Colorado Uniform Limited Partnership Act of 1981 and is to be construed and enforced in accordance therewith and governed thereby. Nothing contained herein shall be interpreted or construed to create rights or obligations hereunder inconsistent with The Colorado Uniform Limited Partnership Act of 1981.

40. This agreement shall be binding upon and inure to the benefit of the parties thereto, their heirs, legal representatives and assigns.

IN WITNESS WHEREOF, the undersigned have hereunto set their respective signatures on the dates opposite thereto.

GENERAL PARTNER:

Date: MAR 5 1982

Jack J. Grynberg

LIMITED PARTNER:

Date: MAR 5 1982

Celeste C. Grynberg

STATE OF COLORADO)
) ss.
COUNTY OF DENVER)

On this 5th day of March, 1982, before me, a Notary Public in and for said County and State, personally appeared Jack J. Grynberg and Celeste C. Grynberg to me known to be the identical persons described in and who executed the foregoing instrument and acknowledged to me that they executed the same as their free and voluntary act and deed for the uses and purposed therein set forth.

WITNESS my hand and official seal the day and year above written.

My Commission Expires: 5/20/85

Notary Public
Address: 1038 Garfield, Denver, CO

4/23/82

FILED
UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO
APR 21 1982
BRADFORD L. DOLTON, Clerk
BY ..... DEPUTY CLERK

UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF COLORADO

In re JACK J. GRYNBERG, a/k/a JACK JAKOB GRYNBERG, a/k/a JACK GRYNBERG, d/b/a JACK GRYNBERG AND ASSOCIATES, d/b/a JACK GRYNBERG & ASSOCIATES, Debtor.	)	Case No. 81 B 00821 M
and		
In re CELESTE C. GRYNBERG, a/k/a CELESTE CONSTANCE GRYNBERG, a/k/a CELESTE GRYNBERG, Debtor.	)	Case No. 81 B 00825 M

ORDER CONFIRMING PLAN

The joint plan under Chapter 11 of the Bankruptcy Code filed by the Debtors, on August 31, 1981, as modified by modifications filed on October 14, 1982, December 23, 1981, and February 5, 1982, and the plan or a summary thereof having been transmitted to creditors and equity security holders; and

It having been determined after hearing on notice:

1. That the plan has been accepted in writing by the creditors and equity security holders whose acceptance is required by law; and

2. That the provisions of Chapter 11 of the Code have been complied with; that the plan has been proposed in good faith and not by any means forbidden by law; and

3. Each holder of a claim or interest has accepted the plan or will receive or retain under the plan property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the Debtors were liquidated under Chapter 7 of the Code on such date; and

4. All payments made or promised by the Debtors or by a person issuing securities or acquiring property under the plan or by any other person for services or for costs and expenses, or in connection with, the plan and incident to the case, have been fully disclosed to the Court and are reasonable or, if to be fixed after confirmation of the plan, will be subject to the approval of the Court; and

5. The identity, qualifications, and affiliations of the persons who are to be directors or officers, or voting trustees, if any, of the Debtors and an affiliate of the Debtors participating in a joint plan with the Debtors or a successor to the Debtors under the plan, after confirmation of the plan, have been fully disclosed, and the appointment of such persons to such offices, or their continuance therein, is equitable, and consistent with the interests of the creditors and equity security holders and with public policy; and

6. The identity of any insiders that will be employed or retained by the Debtors and his compensation have been fully disclosed; and

7. Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors under the plan:

It is ordered that:

The Second Modified Plan and Amendments thereto filed by the Debtors on December 23, 1981 and February 5, 1982 respectively, copies of which are attached hereto, is confirmed.

DATED: April 21, 1982

BY THE COURT:

JOHN P. MOORE, Judge
United States Bankruptcy Court

4. All payments made or promised by the Debtors or by a person issuing securities or acquiring property under the plan or by any other person for services or for costs and expenses, or in connection with, the plan and incident to the case, have been fully disclosed to the Court and are reasonable or, if to be fixed after confirmation of the plan, will be subject to the approval of the Court; and

5. The identity, qualifications, and affiliations of the persons who are to be directors or officers, or voting trustees, if any, of the Debtors and an affiliate of the Debtors participating in a joint plan with the Debtors or a successor to the Debtors under the plan, after confirmation of the plan, have been fully disclosed, and the appointment of such persons to such offices, or their continuance therein, is equitable, and consistent with the interests of the creditors and equity security holders and with public policy; and

6. The identity of any insiders that will be employed or retained by the Debtors and his compensation have been fully disclosed; and

7. Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors under the plan:

It is ordered that:

The Second Modified Plan and Amendments thereto filed by the Debtors on December 23, 1981 and February 5, 1982 respectively, copies of which are attached hereto, is confirmed.

DATED: April 21, 1982

BY THE COURT:

JOHN P. MOORE, Judge
United States Bankruptcy Court

4/22/82

FILED
UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO

APR 21 1982

BRADFORD L. BOLTON, Clerk
BY ..... DEPUTY CLERK

UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF COLORADO

In re JACK J. GRYNBERG, a/k/a JACK JAKOB GRYNBERG, a/k/a JACK GRYNBERG, d/b/a JACK GRYNBERG AND ASSOCIATES, d/b/a JACK GRYNBERG & ASSOCIATES, Debtor.	)	Case No. 81 B 00821 M
and		
In re CELESTE C. GRYNBERG, a/k/a CELESTE CONSTANCE GRYNBERG, a/k/a CELESTE GRYNBERG, Debtor.	)	Case No. 81 B 00825 M

MEMORANDUM OPINION

THIS MATTER arises after notice and the solicitation of acceptances upon the confirmation of the Debtors' second amended joint plan of reorganization. Two objections to confirmation have been filed; one by Camay Drilling Company, and the second by the creditors Hood and Weinberger. After hearing the arguments and the evidence, I conclude an order of confirmation should enter.

The Debtors' proposed plan is unique. Not only does it propose to pay each valid claim in full, it also gives creditors the opportunity to allow their claims to remain unimpaired or to be provided for out of distribution of proceeds from certain natural gas producing property dedicated to the benefit of the electing creditors and placed in the hands of a custodian. Because of the nature of the objections to be considered, further description of the plan is unnecessary.

At the hearing, I considered and dealt with the objections; therefore, as lengthy conclusions are already

on the record, only a summary disposition thereof is warranted here. Hood and Weinberger object on the grounds the plan impairs or purports to impair the legal rights of those persons whom Hood and Weinberger purport to represent as a class. Since no class has been certified, and since I have disallowed a class claim by Hood and Weinberger, there is no "class" of creditors whose rights, as a class, are affected by the plan. Moreover, as it is clear the plan specifically leaves unaltered the legal rights and remedies of all creditors who do not elect to be governed by Article IV of the plan; therefore, even if such a "class" exists or is later certified to exist, the rights of the class members are not impaired. 11 U.S.C. § 1124(1).

Camay objects on the ground the plan fails to comply with 11 U.S.C. § 1129(a)(7)(A). This provision, applicable to each creditor who does not accept the plan, requires distribution to the non-accepting creditor of property not less in "value" than the amount that creditor would receive were the Debtors' estates liquidated in Chapter 7 on the effective date of the plan. This so-called "best interest" test, it is argued, requires the payment of something more than the principle amount of the creditor's claim when Debtors' estate is solvent and all creditors are to be paid the full amount of their claims. The contention is that "something extra" is an amount representing the capitalized value of the principle of the claim.

Without agreeing to what that amount should be in the case of Camay,[1] the Debtors submit that within the plan's definition of the word "debt" and the provisions of paragraph 4.17 of the plan, there is a basis for the treatment of the Camay claim in accordance with its assertion.

---

[1]The Debtors' liability upon the Camay claim is in litigation in the United States District Court for this District, and until resolution of that suit, not even the principle amount of the claim can be determined.

With that admission, Camay concedes its objection has been met.

With the resolution of the objections, there remains only to determine whether the Debtors have established their burden under § 1129 of the Code. I conclude that they have, and accordingly confirmation should be ordered.

There is now no contention that the Debtors and their plan fail to comply with any of the particulars of § 1129. Accordingly, the only real concern of the Court is whether the Debtors have sufficient income to make the plan feasible, and have sufficient assets to avoid the necessity of further reorganization or liquidation.

To the extent it is humanly possible to forecast income which in part is determined by the acts of others as well as by the current trend of energy prices, it now appears to me that the Debtors have the prospect of more than ample income to maintain their business and still pay all possible claims that can be asserted against them in this proceeding.

The Debtors' immediate cash needs are for the payment of priority claims and those unsecured claims which are not disputed. As to the latter class, it appears on the effective date of the plan the Debtors must distribute $630,065.81. In addition, the Debtors must provide $1,000,000.00 to the custodian for the benefit of creditors holding disputed claims. This money is currently on hand and ready for payment. Payment of the pending Internal Revenue Service claim will be predicated on a pending offer of settlement in an amount substantially lower than the claim itself. Funds are available for this payment (or for payment in full if the settlement is rejected and the IRS prevails at suit) and for payment of post-petition federal income taxes as well. Additionally, it would appear the Debtors can reasonably expect cash flow from their interests in the Abo and Dragon Trail fields alone which will be more

than ample to meet any other needs generated by the plan and to sustain themselves in the foreseeable future. When this fact is coupled with the size of their liquid and non-liquid assets, it now appears further reorganization or liquidation of their debts is not in prospect. Accordingly, a formal order of confirmation shall enter.

DATED: April 21, 1982

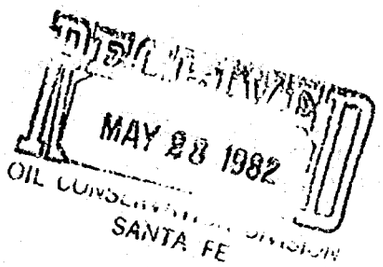
BY THE COURT:

JOHN P. MOORE, Judge
United States Bankruptcy Court

Steven C. James
attorney at law
permian basin division

MESA
PETROLEUM CO.

May 24, 1982



Oil Conservation Division
P. O. Box 2088
Santa Fe NM 87501

Gentlemen:

Subject: Cases 7476 and 7513

Attached please find three copies of the Memorandum of Law requested by Commissioner Ramey at the May 17, 1982 De Novo hearing in the above referenced cases. The Memorandum pertains to the fact that Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates at no time during the pendency of the proceedings in the above referenced cases was the owner of an interest with the right to drill on the SE/4 of Section 12, Township 5 South, Range 24 East, Chaves County, New Mexico. Now that Mr. Grynberg has plugged and abandoned the dry hole he drilled on the said lands, the Commission may impartially give full effect to the laws of the State of New Mexico.

Very truly yours,

Steven C. James

Steven C. James

ld

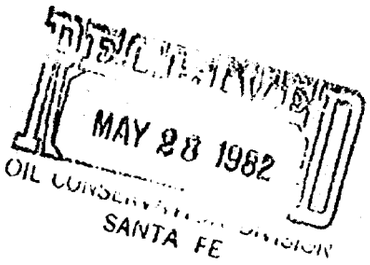
Attachment

cc: J. E. Gallegos
Box 2228
Santa Fe NM 87501

Steven C. James
attorney at law
permian basin division

MESA
PETROLEUM CO.

May 24, 1982



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Very truly yours,

Steven C. James

Steven C. James

ld

Attachment

cc: J. E. Gallegos
Box 2228
Santa Fe NM 87501

MEMORANDUM OF LAW

Cases 7476 and 7513

Submitted by Mesa Petroleum Co.

MAY 28 1982

The application filed by Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates ("Jack Grynberg") in Case 7476 should be dismissed because at no time throughout that case was Jack Grynberg the owner of an interest with the right to drill on the SE/4 of Section 12, Township 5 South, Range 24 East, Chaves County, New Mexico.

Section 70-2-17(C) of the New Mexico Statutes states, "Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit." I underlined the key phrase. I have attached a copy of the statute for your reference.

In January, 1982 when Jack Grynberg filed his application in Case 7476, Celeste C. Grynberg owned the entire interest in the oil and gas lease covering the E/2 of the said SE/4. A copy of the assignment to Celeste C. Grynberg of the entire interest and title in and to that oil and gas lease is attached to this Memorandum. The said assignment was pages 16 and 17 of Mesa Petroleum Co.'s ("Mesa") Exhibit No. 4A which was received as evidence in these cases at the May 17, 1982 hearing. This lease was Celeste C. Grynberg's separate property. Section 40-3-3 of the New Mexico Statutes states that neither husband nor wife has any interest in the property of the other. A copy of that statute is attached to this Memorandum. Jack Grynberg never made any reference in his application, in the instruments he sent to Mesa and Corona Oil Company ("Corona") or in either of the hearings in these cases to the sole and separate ownership interest of Celeste C. Grynberg.

The Grynbergs have no interest whatsoever in the W/2 of the said SE/4. As an owner of an interest with the right drill in the W/2 of the said SE/4, Mesa's application in Case 7513 is the only application properly filed.

Jack Grynberg represents that he was appointed to manage Celeste C. Grynberg's properties by the Bankruptcy Court. Even if this were true, it still does not change the ownership of the interest in the E/2 of the said SE/4. Section 70-2-17(C) is clearly limited to owners of interests. The Bankruptcy Court when entering an order with respect to management of the bankrupt's properties does not say that the bankrupt may ignore the statutes of a state. Jack Grynberg can no more ignore the statutes applicable to transacting business in New Mexico than he could ignore the statutes relating to murder in New Mexico.

On or about March 5, 1982 papers were filed with the County Clerk in Denver County, Colorado creating JJ-CC Limited, a Colorado Limited Partnership ("JJ-CC"). On March 30, 1982 Celeste C. Grynberg transferred the entire interest and title in and to the oil and gas lease covering the E/2 of the said SE/4 to JJ-CC. A copy of that assignment is attached hereto and was admitted in evidence as pages 17 and 18 of Mesa's Exhibit No. 4B at the May 17, 1982 hearing in these cases. Again, in his correspondence to Mesa and Corona and in his representations to the Oil Conservation Division, Jack Grynberg made no mention of the fact that JJ-CC was now the owner of the entire interest in the oil and gas lease covering the E/2 of the said SE/4. To the contrary, Jack Grynberg stated under oath to the Oil Conservation Division at the May 17, 1982 hearing that Jack Grynberg d/b/a Jack Grynberg & Associates owned an interest in the said SE/4.

As a Colorado limited partnership JJ-CC is covered by Sections 54-3-1 through 54-3-7 of the New Mexico Statutes. I have also attached a copy of those statutes for your information. Section 54-3-2 makes it clear that before transacting business in New Mexico a foreign limited partnership such as JJ-CC must register with New Mexico's Secretary of State. As of May 17, 1982 JJ-CC had not been registered in the State of New Mexico as foreign limited partnership. A copy of the Certificate to that effect issued by New Mexico's Secretary of State on May 17, 1982 is attached. The Certificate was accepted in evidence in these cases on May 17, 1982 as Mesa's Exhibit No. 44.

For your reference I would direct your attention to Section 53-17-1 of the New Mexico Statutes which governs the admission of foreign corporations to do business in New Mexico. A copy of that statute is attached hereto for your reference. In paragraph K of that section "investing in or acquiring, in transactions outside New Mexico, royalties and other nonoperating mineral interests and the execution of division orders, contracts of sale and other instruments incidental to the ownership of the nonoperating mineral interests" is not to be considered transacting business in New Mexico. The implication is that a foreign corporation is not allowed to operate with respect to its mineral interests in New Mexico without properly registering as a foreign corporation in New Mexico. This is also true for foreign limited partnerships that want to operate with respect to their mineral interests in New Mexico. Before transacting such business in New Mexico, the foreign limited partnership must register with New Mexico's Secretary of State.

Since JJ-CC could not transact business in New Mexico and could not, therefore, drill on the said SE/4, JJ-CC had no standing to apply for compulsory pooling under the said Section 70-2-17(C). That section is only available to parties who own an interest and have the right to drill thereon.

Jack Grynberg may attempt to file the proper registration papers for JJ-CC with New Mexico's Secretary of State and then assert that the issue is now moot. However, section 70-2-7 of the New Mexico Statutes requires notice be given of compulsory pooling applications including the name of the petitioner or applicant. That statute is also attached hereto. No such notice has ever been given in the name of JJ-CC Limited. Basically, with such an assertion, Jack Grynberg would be asking the division to say it is okay to ignore New Mexico's Statutes but, if the Oil Conservation Division catches him at it, he can no longer ignore them. In my opinion, this weak position should not be the one the division takes. Rather, strict compliance with the statutes of the State of New Mexico should be insisted upon.

At no time during the pendency of these proceedings has Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates been the owner of an interest in the said SE/4 with the right to drill thereon. It follows that neither Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates had standing to apply for compulsory pooling in Case 7476 under the said Section 70-2-17(C). The application filed by Jack Grynberg or Jack Grynberg d/b/a Jack Grynberg & Associates in Case 7476 should be dismissed. The only application properly filed by an owner of an interest in the said SE/4 with a right to drill thereon is the application filed by Mesa Petroleum Co. in Case 7513. Mesa Petroleum Co.'s application in Case 7513 should be granted.

Respectfully submitted,

Steven C. James

Steven C. James
Attorney for Mesa Petroleum Co.

70-2-17. Equitable allocation of allowable production; pooling; spacing.

A. The rules, regulations or orders of the division shall, so far as it is practicable to do so, afford to the owner of each property in a pool the opportunity to produce his just and equitable share of the oil or gas, or both, in the pool, being an amount, so far as can be practically determined, and so far as such can be practicably obtained without waste, substantially in the proportion that the quantity of the recoverable oil or gas, or both, under such property bears to the total recoverable oil or gas, or both, in the pool, and for this purpose to use his just and equitable share of the reservoir energy.

B. The division may establish a proration unit for each pool, such being the area that can be efficiently and economically drained and developed by one well, and in so doing the division shall consider the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells, and the prevention of reduced recovery which might result from the drilling of too few wells.

C. When two or more separately owned tracts of land are embraced within a spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit.

All orders effecting such pooling shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will afford to the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas, or both. Each order shall describe the lands included in the unit designated thereby, identify the pool or pools to which it applies and designate an operator for the unit. All operations for the pooled oil or gas, or both, which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract within the unit by the owner or owners of such tract. For the purpose of determining the portions of production owned by the persons owning interests in the pooled oil or gas, or both, such production shall be allocated to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. The portion of the production allocated to the owner or owners of each tract or interest included in a well spacing or proration unit formed by a pooling order shall, when produced, be considered as if produced from the separately owned tract or interest by a well drilled thereon. Such pooling order of the division shall make definite provision as to any owner, or owners, who elects not to pay his proportionate share in advance for the prorata reimbursement solely out of production to the parties advancing the costs of the development and operation, which shall be limited to the actual expenditures required for such purpose not in excess of what are reasonable, but which shall include a reasonable charge for supervision and may include a charge for the risk involved in the drilling of such well, which charge for risk shall not exceed two hundred percent of the nonconsenting working interest owner's or owners' prorata share of the cost of drilling and completing the well.

In the event of any dispute relative to such costs, the division shall determine the proper costs after due notice to interested parties and a hearing thereon. The division is specifically authorized to provide that the owner or owners drilling, or paying for the drilling, or for the operation of a well for the benefit of all shall be entitled to all production from such well which would be received by the owner, or owners, for whose benefit the well was drilled or operated, after payment of royalty as provided in the lease, if any, applicable to each tract or interest, and obligations payable out of production, until the owner or owners drilling or operating the well or both have been paid the amount due under the terms of the pooling order or order settling such dispute. No part of the production or proceeds accruing to any owner or owners of a separate interest in such unit shall be applied toward the payment of any cost properly chargeable to any other interest in said unit.

If the interest of any owner or owners of any unleased mineral interest is pooled by virtue of this act, seven-eighths of such interest shall be considered as a working interest and one-eighth shall be considered a royalty interest, and he shall in all events be paid one-eighth of all production from the unit and creditable to his interest.

D. Minimum allowable for some wells may be advisable from time to time, especially with respect to wells already drilled when this act takes effect, to the end that the production will repay reasonable lifting cost and thus prevent premature abandonment and resulting waste.

E. Whenever it appears that the owners in any pool have agreed upon a plan for the spacing of wells, or upon a plan or method of distribution of any allowable fixed by the division for the pool, or upon any other plan for the development or operation of such pool, which plan, in the judgment of the division, has the effect of preventing waste as prohibited by this act and is fair to the royalty owners in such pool, then such plan shall be adopted by the division with respect to such pool; however, the division, upon hearing and after notice, may subsequently modify any such plan to the extent necessary to prevent waste as prohibited by this act.

F. After the effective date of any rule, regulation or order fixing the allowable production, no person shall produce more than the allowable production applicable to him, his wells, leases or properties determined as in this act provided, and the allowable production shall be produced in accordance with the applicable rules, regulations or orders.

NM-60,391

NEW MEXICO STATE LAND OFFICE

ASSIGNMENT OF OIL AND GAS LEASE

From lease number
LG-0565 -C
To lease number
LG-5657

APR 14 10 02 AM '80

00170

KNOW ALL MEN BY THESE PRESENTS:

That Jack J. Grynberg and Celeste C. Grynberg, husband and wife
(wife, if any or state of incorporation)

1050 17th Street, Suite 1950, Denver, Colorado 80265

hereinafter called "Assignor" (whether one or more), for and in consideration of Ten or more Dollars, paid by Celeste C. Grynberg

whose Post Office address is 1050 17th Street, Suite 1950, Denver, Colorado 80265,

hereinafter called "Assignee" (whether one or more), does hereby sell, assign and convey to the Assignee the entire interest and title in and to that certain Oil and Gas Lease No. LG-0565 made by the State of New Mexico to Jack J. Grynberg under date of September 1st 1972, only insofar as said lease covers the following land, in Chaves County, New Mexico, towit:

T. 5 S., R. 24 E.
Sec. 12: NE¼NE¼, E½SE¼
Sec. 14: NE¼NW¼, E½SW¼

Containing 240.00 acres, more or less

RECEIVED
APR 7 10 19 AM '80
STATE LAND OFFICE
SANTA FE, N. M.

together with the rights incident thereto, and the personal property thereon, if any, appurtenant thereto, or used or obtained in connection therewith.

Assignee assumes and agrees to perform all obligations to the State of New Mexico insofar as said described land is affected, and to pay such rentals and royalties, and to do such other acts as are by said lease required as to said land, to the same extent and in the same manner as if the provisions of said lease were fully set out herein. It is agreed that Assignee shall succeed to all the rights, benefits and privileges granted the Lessee by the terms of said lease, as to said land.

With warranty covenants as to the leasehold estate herein assigned, except as to any valid overriding royalty, production payment, operating agreement or sub-lease, if any, now of legal record, and Assignor covenants that said leasehold estate so assigned is valid and subsisting and that all rentals and royalties due thereunder have been paid.

EXECUTED this 1st day of March, 1980.

Jack J. Grynberg

Celeste C. Grynberg
Spouse

(PERSONAL ACKNOWLEDGMENT)

STATE OF COLORADO
COUNTY OF DENVER } ss.

The foregoing instrument was acknowledged before me this 1st day of March, 1980 by Jack J. Grynberg and Celeste C. Grynberg, husband and wife

My commission expires: 11-29-83

Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF
COUNTY OF } ss.

The foregoing instrument was acknowledged before me this day of 19 by

(Name) (Title) of (Corporation)

a corporation, on behalf of said corporation.

My commission expires:

Notary Public

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF.....
COUNTY OF..... } ss.

The foregoing instrument was acknowledged before me this.....day of....., 19....., by

.....as attorney-in-fact in behalf of

.....

My commission expires:..... Notary Public

APPROVAL OF THE COMMISSIONER

Office of Commissioner of Public Lands
Santa Fe, New Mexico

I hereby certify that the within Assignment was filed in my office on APR 14 1939, approved by me and to be effective as to the State of New Mexico on .....

Alex J. Armijo
Commissioner of Public Lands

INSTRUCTIONS AND INFORMATION

1. An annual rental, at the rate of 50¢ per acre shall become due and payable to the lessor by the lessee, or by any transferee or assignee of the same, or any part hereof, where such transferee or assignee has been recognized, and such transfer or assignment approved by the lessor, upon each acre of land above described and then claimed by such lessee, transferee or assignee, and the same shall be due and payable in advance to the Lessor on the successive anniversary dates of the lease, (not the date this assignment was executed) but the annual rental on any assignment shall in no event be less than Six Dollars ($6.00).

2. The lease is for a primary term of Five Years from the date of the lease, and as long thereafter as oil and gas in paying quantities, or either of them is produced from said land by the lessee, subject to all of the terms and conditions set forth in the lease.
   If the lessee shall have failed to make discovery of oil and/or gas in paying quantities during the primary term of the lease, the lessee may continue the lease in full force and effect for an additional term of five years and as long thereafter as oil and gas in paying quantities, or either of them is produced from the leased premises, by paying each year in advance, as herein provided, double the rental provided herein for the primary term, or the highest rental prevailing at the commencement of the secondary term in any rental district, or districts in which the lands or any part thereof, may be situated, if it be greater than double the rental provided for the primary term. But the annual rental on any assignment shall in no event be less than Twelve Dollars ($12.00) during the secondary term.

3. All Assignments must be filed in triplicate in the State Land Office within 100 days from date of signing and accompanied by Cashier's Check, Bank Draft, P.O. or Express Money Order.

4. Effective September 1, 1957, recording fee for each assignment is $10.00 (if filed over 100 days from date of signing, additional fee of $25.00 is charged).

5. When assignments are accompanied by personal check, the Commissioner of Public Lands reserves the right to withhold approval of assignment until checks are paid.

6. Assignments will not be approved when assigned to more than two persons, or for less than a regular subdivision or for undivided interests. By a regular subdivision is meant forty acres or a tract described by Lot number which may be more or less than 40 acres.

7. Assignments must show complete post office address of assignee.

8. Assignments must be executed before an officer authorized to take acknowledgments of deeds. Corporations must use corporate form of acknowledgment.

9. Assignments must show whether assignors are married or single; if married, both husband and wife must sign the assignment, and certificate of acknowledgment must show marital status of assignors.

10. All official business, letters and communications must be addressed to and sent direct to the Commissioner of Public Lands.

11. Make all payments for annual rental and recording and approval fees to .....

COMMISSIONER OF PUBLIC LANDS
Santa Fe, New Mexico 87501

40-3-3. [Separation of property; admission to dwelling of spouse.]

Neither husband nor wife has any interest in the property of the other, but neither can be excluded from the other's dwelling.

History: Laws 1907, ch. 37, § 3; Code 1915, § 2749; C.S. 1929, § 68-106; 1941 Comp., § 65-303; 1953 Comp., § 57-3-3.

Law review. — For comment, "Community Property — Power of Testamentary Disposition — Inequality Between Spouses," see 7 Nat. Resources J. 645 (1967).

Am. Jur. 2d, A.L.R. and C.J.S. references. — 41 Am. Jur. 2d Husband and Wife §§ 34 to 36, 59 to 60.

Right of wife to exclude husband from possession, use, or enjoyment of family residence or homestead owned by her, 21 A.L.R. 745.

Replevin, right of husband or wife to maintain against other, 41 A.L.R. 1054.

Joining in subsequent instrument as ratification of or estoppel as to prior instrument affecting real property, ineffective for nonjoinder of spouse, 7 A.L.R.2d 299.

Division of community property between spouses into separate property as constituting gift within gift statutes, 19 A.L.R.2d 860.

41 C.J.S. Husband and Wife §§ 469 to 501, 503 to 508.

From lease number
LG-0565-1
To lease number
LG-0565-2

NEW MEXICO STATE LAND OFFICE

ASSIGNMENT OF OIL AND GAS LEASE

KNOW ALL MEN BY THESE PRESENTS: 00087

That Celeste C. Grynberg and Jack J. Grynberg, wife and husband
(wife, if any or state of incorporation)

of 1050 17th Street, Suite 1950, Denver, Colorado 80265

hereinafter called "Assignor" (whether one or more), for and in consideration of Ten or more Dollars, paid by JJ-CC Limited, a Colorado Limited Partnership

whose Post Office address is 1050 17th Street, Suite 1950, Denver, Colorado 80265,

hereinafter called "Assignee" (whether one or more), does hereby sell, assign and convey to the Assignee the entire interest and title in and to that certain Oil and Gas Lease No. LG-0565 made by the State of New Mexico to Jack J. Grynberg under date of September 1, 1972, only insofar as said lease covers the following land, in Chaves County, New Mexico, to-wit:

T 5 S - R 24 E, NMPM
Sec. 12: NE¼NE¼, E½SE¼
Sec. 14: NE¼NW¼, E½SW¼ MIL. INST.

Containing 240.00 acres, more or less

A.C.
4-14-82
4-15-82
K.M.

together with the rights incident thereto, and the personal property thereon, if any, appurtenant thereto, or used or obtained in connection therewith.

Assignee assumes and agrees to perform all obligations to the State of New Mexico insofar as said described land is affected, and to pay such rentals and royalties, and to do such other acts as are by said lease required as to said land, to the same extent and in the same manner as if the provisions of said lease were fully set out herein. It is agreed that Assignee shall succeed to all the rights, benefits and privileges granted the Lessee by the terms of said lease, as to said land.

With warranty covenants as to the leasehold estate herein assigned, except as to any valid overriding royalty, production payment, operating agreement or sub-lease, if any, now of legal record, and Assignor covenants that said leasehold estate so assigned is valid and subsisting and that all rentals and royalties due thereunder have been paid.

EXECUTED this MAR 3 0 1982 day of _____, 19____.

Celeste C. Grynberg, Assignor

Jack J. Grynberg, Spouse

(PERSONAL ACKNOWLEDGMENT)

STATE OF COLORADO }
COUNTY OF DENVER } ss.

The foregoing instrument was acknowledged before me this MAR 3 0 1982 day of _____, 19____, by Celeste C. Grynberg and Jack J. Grynberg

My commission expires: 5/20/85

Janet N. Kerby
Notary Public
1088 Garfield, Denver, CO.

JANET N. KERBY NOTARY PUBLIC STATE OF COLORADO

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by

_____ (Name) _____ (Title) of _____ (Corporation)

a _____ corporation, on behalf of said corporation.

My commission expires: _____

_____ Notary Public

OG-43 (Replaces OG-43 and OG-44 ---Rev. 8/72) SEE OTHER SIDE

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF.....
COUNTY OF..... } ss.

The foregoing instrument was acknowledged before me this.....day of..... 19....., by

.....as attorney-in-fact in behalf of

.....

My commission expires:..... Notary Public

APPROVAL OF THE COMMISSIONER

Office of Commissioner of Public Lands
Santa Fe, New Mexico

I hereby certify that the within Assignment was filed in my office on APR 6 1982, approved by me and to be effective as to the State of New Mexico on APR 12 1982.

Alex J. Armijo
Commissioner of Public Lands

INSTRUCTIONS AND INFORMATION

1. An annual rental, at the rate of 50¢ per acre shall become due and payable to the lessor by the lessee, or by any transferee or assignee of the same, or any part hereof, where such transferee or assignee has been recognized, and such transfer or assignment approved by the lessor, upon each acre of land above described and then claimed by such lessee, transferee or assignee, and the same shall be due and payable in advance to the Lessor on the successive anniversary dates of the lease, (not the date this assignment was executed) but the annual rental on any assignment shall in no event be less than Six Dollars ($6.00).

2. The lease is for a primary term of Five Years from the date of the lease, and as long thereafter as oil and gas in paying quantities, or either of them is produced from said land by the lessee, subject to all of the terms and conditions set forth in the lease.
   If the lessee shall have failed to make discovery of oil and/or gas in paying quantities during the primary term of the lease, the lessee may continue the lease in full force and effect for an additional term of five years and as long thereafter as oil and gas in paying quantities, or either of them is produced from the leased premises, by paying each year in advance, as herein provided, double the rental provided herein for the primary term, or the highest rental prevailing at the commencement of the secondary term in any rental district, or districts in which the lands or any part thereof, may be situated, if it be greater than double the rental provided for the primary term. But the annual rental on any assignment shall in no event be less than Twelve Dollars ($12.00) during the secondary term.

3. All Assignments must be filed in triplicate in the State Land Office within 100 days from date of signing and accompanied by Cashier's Check, Bank Draft, P.O. or Express Money Order.

4. Effective September 1, 1957, recording fee for each assignment is $10.00 (if filed over 100 days from date of signing, additional fee of $25.00 is charged).

5. When assignments are accompanied by personal check, the Commissioner of Public Lands reserves the right to withhold approval of assignment until checks are paid.

6. Assignments will not be approved when assigned to more than two persons, or for less than a regular subdivision or for undivided interests. By a regular subdivision is meant forty acres or a tract described by Lot number which may be more or less than 40 acres.

7. Assignments must show complete post office address of assignee.

8. Assignments must be executed before an officer authorized to take acknowledgments of deeds. Corporations must use corporate form of acknowledgment.

9. Assignments must show whether assignors are married or single; if married, both husband and wife must sign the assignment, and certificate of acknowledgment must show marital status of assignors.

10. All official business, letters and communications must be addressed to and sent direct to the Commissioner of Public Lands.

11. Make all payments for annual rental and recording and approval fees to

COMMISSIONER OF PUBLIC LANDS

ARTICLE 3

Foreign Limited Partnerships

Sec.
54-3-1 Law governing.
54-3-1.1 Definition.
54-3-2 Registration.
54-3-3 Name.
54-3-4 Changes and amendments.
54-3-5 Cancellation of registration.
54-3-6 Transaction of business without registration.
54-3-7 Action by attorney general.

54-3-1. Law governing.

Subject to the New Mexico constitution, the laws of the state under which a foreign limited partnership is organized govern its organization and internal affairs and the liability of its limited partners, and a foreign limited partnership may not be denied registration under Sections 54-3-1 through 54-3-7 NMSA 1978 for the purpose of doing business in this state by reason of any difference between those laws and the laws of New Mexico.

History: 1978 Comp., § 54-3-1, enacted by Laws 1979, ch. 85, § 1.

54-3-1.1. Definition.

As used in this act [54-3-1 to 54-3-7 NMSA 1978], "foreign limited partnership" means a partnership formed under the limited partnership laws of any territory, possession, commonwealth or state of the United States other than New Mexico, having as members one or more general partners and one or more limited partners.

History: 1978 Comp., § 54-3-1.1, enacted by Laws 1979, ch. 85, § 2.

54-3-2. Registration.

A. Before transacting business in New Mexico, a foreign limited partnership shall register with the secretary of state. In order to register, a foreign limited partnership shall file with the secretary of state a statement of registration as a foreign limited partnership, signed and sworn to by a general partner and setting forth:

(1) the name of the foreign limited partnership and, if different, the name under which it proposes to register and transact business in New Mexico;

(2) the state and date of its formation;

(3) the general character of the business it proposes to transact in New Mexico;

(4) the name and address of any agent for service of process on the foreign limited partnership whom the foreign limited partnership elects to appoint; the agent must be an individual resident of New Mexico, a domestic corporation, or a foreign corporation having a place of business in, and authorized to do business in New Mexico;

(5) a statement that the secretary of state is appointed the agent of the foreign limited partnership for service of process if no agent has been appointed under Paragraph (4) of this subsection or, if appointed, the agent's authority has been revoked or if the agent cannot be found or served with the exercise of reasonable diligence;

(6) the address of the office required to be maintained in the state of its organization by the laws of that state or, if not so required, of the principal office of the foreign limited partnership; and

(7) if the certificate of limited partnership filed in the foreign limited partnership's state of organization is not required to include the names and business addresses of the partners, a list of the names and addresses.

B. The fee for filing the statement of registration and preparing a certified copy thereof shall be one hundred dollars ($100).

C. Upon receiving a statement of registration and the filing fee, the secretary of state shall:

(1) endorse on the statement of registration the word "filed" and the month, day and year of the filing thereof;

(2) file the statement of registration in his office; and

(3) at the request of the person who filed the statement of registration or his representative, prepare and deliver a certified copy of the statement of registration to such person or his representative.

History: 1978 Comp., § 54-3-2, enacted by Laws 1979, ch. 85, § 3.

54-3-3. Name.

A foreign limited partnership may register with the secretary of state under any name, whether or not it is the name under which it is registered in its state of organization, that could be registered by a domestic limited partnership.

History: 1978 Comp., § 54-3-3, enacted by Laws 1979, ch. 85, § 4.

54-3-4. Changes and amendments.

If any statement in the statement of registration of a foreign limited partnership was false when made or any arrangements or other facts described have changed, making the statement inaccurate in any respect, the foreign limited partnership shall promptly file in the office of the secretary of state a certificate, signed and sworn to by a general partner, correcting such statement. The fee for filing such a certificate shall be ten dollars ($10.00).

History: 1978 Comp., § 54-3-4, enacted by Laws 1979, ch. 85, § 5.

54-3-5. Cancellation of registration.

A foreign limited partnership may cancel its registration by filing with the secretary of state a certificate of cancellation signed and sworn to by a general partner. A cancellation does not terminate the authority of the secretary of state to accept service of process on the foreign limited partnership with respect to causes of action arising out of the transaction of business in New Mexico. The fee for filing such a certificate of cancellation shall be ten dollars ($10.00).

History: 1978 Comp., § 54-3-5, enacted by Laws 1979, ch. 85, § 6.

54-3-6. Transaction of business without registration.

A. A foreign limited partnership transacting business in New Mexico may not maintain any action, suit or proceeding in any court of this state until it has registered in this state.

B. The failure of a foreign limited partnership to register in this state does not impair the validity of any contract or act of the foreign limited partnership or prevent the foreign limited partnership from defending any action, suit or proceeding in any court of this state.

C. A limited partner of a foreign limited partnership is not liable as a general partner of the foreign limited partnership solely by reason of the limited partnership having transacted business in New Mexico without registration.

D. A foreign limited partnership, by transacting business in New Mexico without registration, appoints the secretary of state as its agent for service of process with respect to causes of action arising out of the transaction of business in New Mexico.

History: 1978 Comp., § 54-3-6, enacted by Laws 1979, ch. 85, § 7.

54-3-7. Action by attorney general.

The attorney general may bring an action to restrain a foreign limited partnership from transacting business in New Mexico in violation of Sections 54-3-1 through 54-3-7 NMSA 1978.

History: 1978 Comp., § 54-3-7, enacted by Laws 1979, ch. 85, § 8.

STATE OF NEW MEXICO

OFFICE OF

THE SECRETARY OF STATE

Certificate

I, Shirley Hooper, Secretary of State of the State of New Mexico, do hereby certify

that

our records have been reviewed and JJ-CC Limited, a Colorado Limited Partnership has not been registered in the State of New Mexico as a Foreign Limited Partnership.

Given under my hand and the Great Seal of the State of New Mexico, in the City of Santa Fe, the Capital on this 17th *day of* May *A.D.* 1982

Secretary of State

44

ARTICLE 17

Business Corporations; Foreign Corporations

Sec.
53-17-1. Admission of foreign corporation.
53-17-2. Powers of foreign corporation.
53-17-3. Corporate name of foreign corporation.
53-17-4. Change of name by foreign corporation.
53-17-5. Application for certificate of authority.
53-17-6. Filing of application for certificate of authority.
53-17-7. Application for readmission.
53-17-8. Effect of certificate of authority.
53-17-9. Registered office and registered agent of foreign corporation.
53-17-10. Change of registered office or registered agent of foreign corporation.
53-17-11. Service of process on foreign corporation.
53-17-12. Amendment to articles of incorporation of foreign corporation.
53-17-13. Merger of foreign corporation authorized to transact business in this state.
53-17-14. Amended certificate of authority.
53-17-15. Withdrawal of foreign corporation.
53-17-16. Filing of application for withdrawal.
53-17-17. Revocation of certificate of authority.
53-17-18. Issuance of certificate of revocation.
53-17-19. Application to corporations heretofore authorized to transact business in this state.
53-17-20. Transacting business without certificate of authority.

53-17-1. Admission of foreign corporation.

No foreign corporation shall transact business in this state until it has procured a certificate of authority to do so from the commission. No foreign corporation shall procure a certificate of authority under the Business Corporation Act [53-11-1 to 53-18-12 NMSA 1978] to transact in this state any business which a corporation organized under the Business Corporation Act is not permitted to transact. A foreign corporation shall not be denied a certificate of authority because the laws of the state or country under which the corporation is organized governing its organization and internal affairs differ from the laws of this state, and nothing in the Business Corporation Act authorizes this state to regulate the organization or the internal affairs of such corporation. Without excluding other activities which may not constitute transacting business in this state, a foreign corporation shall not be considered to be transacting business in this state, for the purposes of the Business Corporation Act, by reason of carrying on in this state any one or more of the following activities:

A. maintaining or defending any action or suit or any administrative or arbitration proceeding, or effecting the settlement thereof or the settlement of claims or disputes;

B. holding meetings of its directors or shareholders or carrying on other activities concerning its internal affairs;

C. maintaining bank accounts;

D. maintaining offices or agencies for the transfer, exchange and registration of its securities, or appointing and maintaining trustees or depositaries with relation to its securities;

E. effecting sales through independent contractors;

F. soliciting or procuring orders, whether by mail or through employees or agents or otherwise, where the orders require acceptance without this state before becoming binding contracts;

G. creating as borrower or lender, or acquiring, indebtedness or mortgages or other security interest in real or personal property;

H. securing or collecting debts or enforcing any rights in property securing them;

I. transacting any business in interstate commerce;

J. conducting an isolated transaction completed within a period of thirty days and not in the course of a number of repeated transactions of like nature; or

K. investing in or acquiring, in transactions outside New Mexico, royalties and other nonoperating mineral interests and the execution of division orders, contracts of sale and other instruments incidental to the ownership of the nonoperating mineral interests.

History: 1953 Comp., § 51-30-1, enacted by Laws 1967, ch. 81, § 103; 1969, ch. 48, § 1; 1975, ch. 64, § 40.

Emergency clause. — Laws 1969, ch. 48, § 2, makes the act effective immediately. Approved March 19, 1969.

70-2-7. Rules of procedure in hearings; manner of giving notice; record of rules, regulations and orders.

The division shall prescribe its rules of order or procedure in hearing [hearings] or other proceedings before it under this act. Any notice required to be given under this act or under any rule, regulation or order prescribed by the commission or division shall be by personal service on the person affected, or by publication once in a newspaper of general circulation published at Santa Fe, New Mexico, and once in a newspaper of general circulation published in the county, or each of the counties if there be more than one, in which any land, oil or gas or other property which may be affected shall be situated. Such notice shall issue in the name of "the state of New Mexico" and shall be signed by the director of the division, and the seal of the commission shall be impressed thereon, and it shall specify the number and style of the case, and the time and place of hearing, shall briefly state the general nature of the order or orders, rule or rules, or regulation or regulations contemplated by the division on its own motion or sought in a proceeding brought before the commission or division, the name of the petitioner, or applicant, and, unless the order, rule or regulation is intended to apply to and affect the entire state, it shall specify or generally describe the common source or sources of supply that may be affected by such order, rule or regulation. Personal service thereof may be made by any agent of the division or by any person over the age of eighteen years, in the same manner as is provided by law for the service of summons in civil actions in the district courts of this state. Such service shall be complete at the time of such personal service or on the date of such publication, as the case may be. Proof of service shall be the affidavit of the person making personal service, or of the publisher of the newspaper in which publication is had, as the case may be. All rules, regulations and orders made by the commission or division shall be entered in full by the director thereof in a book to be kept for such purpose by the division, which shall be a public record and open to inspection at all times during reasonable office hours. A copy of any such rule, regulation or order, certified by the director of the division under the seal of the commission, shall be received in evidence in all courts of the state with the same effect as the original.

History: Laws 1935, ch. 72, § 5; 1941 Comp., § 69-206; Laws 1949, ch. 168, § 5; 1953 Comp., § 65-3-6; Laws 1977, ch. 255, § 42.

Cross-references. — As to filing rules and regulations, see 14-4-1 NMSA 1978 et seq. As to publication of notice, see 14-11-1 NMSA 1978 et seq. As to service of summons in civil actions, see Rule 4, N.M.R. Civ. P.

The 1977 amendment substituted "division" for "commission" throughout the section, inserted "or division" following "commission" in the second sentence, near the middle of the third sentence and in the seventh sentence, substituted "the director of the division" for "at least a majority of the members of the commission or by the secretary of the commission" near the beginning of the third sentence, substituted "director" for "secretary" in the seventh sentence and substituted "director of the division" for "secretary of the commission" in the last sentence.

Meaning of "this act". — See same catchline in notes to 70-2-3 NMSA 1978.

Am. Jur. 2d and C.J.S. references. — 2 Am. Jur. 2d Administrative Law §§ 340 to 366.

73 C.J.S. Public Administrative Bodies and Procedures §§ 130, 131.

CASE 7569: Application of Petroleum Corp. of Delaware for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Atoka and Morrow production in the wellbores of its Parkway West Unit Well No. 3, located in Unit K of Section 29, and Well No. 10, located in Unit G of Section 27, both in Township 19 South, Range 29 East.

CASE 7570: Application of J. Cleo Thompson for three unorthodox oil well locations, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for three unorthodox well locations, being 660 feet from the North line and 1330 feet from the West line, 660 feet from the North line and 2630 feet from the East line, and 660 feet from the North line and 1310 feet from the East line, all in Section 2, Township 17 South, Range 30 East, Square Lake Pool.

CASE 7516: (Continued from March 31, 1982, Examiner Hearing)

Application of Benson-Montin-Greer for a unit agreement, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Canada Ojitos Unit Area, comprising 12,361 acres, more or less, of Jicarilla Apache Indian lands in Township 27 North, Range 1 West.

CASE 7571: 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 from the surface through the Abo formation underlying the SE/4 of Section 9, the SW/4 of Section 10, the NW/4 of Section 15, all in Township 6 South, Range 26 East, each to form a standard 160-acre spacing and proration unit 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 wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

CASE 7551: (Continued from April 14, 1982, Examiner Hearing)

Application of Harvey E. Yates Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 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 7572: Application of Anadarko Production Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its Ballard GSA Waterflood Project by drilling and converting ten wells located in Unit N of Section 5, Units N and P of Section 6, Units F, H, J, and P of Section 7, Units F and N of Section 8, and Unit F of Section 17, all in Township 18 South, Range 29 East, Loco Hills Pool.

CASE 7573: Application of Anadarko Production Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its West Square Lake Waterflood Project by the conversion to water injection of five wells located in Units J and N of Section 9, D and H of Section 10, and J of Section 3, all in Township 17 South, Range 30 East.

CASE 7574: Application of Sun Exploration and Production Company for two non-standard gas proration units and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 160-acre non-standard Jalmat gas proration units comprising the NW/4 of Section 21, for its Boren & Greer Com Well No. 2 in Unit C and the NE/4 of Section 20, for its Boren & Greer Com Well No. 3, to be drilled at an unorthodox location 660 feet from the North line and 940 feet from the East line of said Section 20, all in Township 22 South, Range 36 East. Applicant further seeks rescission of Order No. R-5688.

CASE 7575: Application of Eagle Oil & Gas Co. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location for a Wolfcamp-Penn test well to be drilled 1500 feet from the South line and 660 feet from the East line of Section 2, Township 17 South, Range 27 East, the S/2 of said Section 2 to be dedicated to the well.

CASES 7576 and 7577: Application of Apollo Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in each of the following cases, seeks an order pooling all mineral interests from the surface through the base of the San Andres formation underlying the lands specified in each case, each to form a standard 40-acre oil spacing and proration unit 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 wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7576: NE/4 SW/4 Section 6, Township 19 South, Range 38 East

CASE 7577: SE/4 SW/4 Section 6, Township 19 South, Range 38 East

Docket No. 13-82

Dockets Nos. 14-82 and 15-82 are tentatively set for May 26 and June 9, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 12, 1982

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:

ALLOWABLE: (1) Consideration of the allowable production of gas for June, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for June, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7540: (Continued and Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Pauly-Anderson-Pritchard, William H. Pauly, and all other interested parties to appear and show cause why the Maloy Well No. 1, located in Unit P, Section 16, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7539: (Continued and Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Francis L. Harvey and all other interested parties to appear and show cause why the Pinkstaff Estate Well No. 2, located in Unit A, Section 29, Township 29 North, Range 10 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7566: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Flag-Redfern Oil Co., Principal, National Surety Corporation, and all other interested parties to appear and show cause why four wells, being the Julander No. 1 located in Unit L, Section 34; Julander No. 2 located in Unit I, Section 33; Hargis No. 1 located in Unit G, Section 33; and Hargis No. 2 located in Unit J, Section 33, all in Township 30 North, Range 12 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7560: (Continued from April 28, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Charles H. Heisen, Fidelity and Deposit Company of Maryland, Surety, and all other interested parties to appear and show cause why the Crownpoint Well No. 1, located in Unit F, Section 18, Township 18 North, Range 13 West, McKinley County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7542: (Continued from April 14, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Benson-Montin-Greer Drilling Corporation, Hartford Accident and Indemnity Company, and all other interested parties to appear and show cause why the following wells: Dustin No. 1, located in Unit K, Section 6, and the Gallegos Canyon Unit No. 2, located in Unit K, Section 35, both in Township 29 North, Range 12 West, and the Segal No. 1, located in Unit K, Section 10, and the Price No. 1, located in Unit N, Section 15, both in Township 31 North, Range 13 West, San Juan County, should not be plugged and abandoned in accordance with Division-approved plugging programs.

CASE 7567: Application of Harvey E. Yates Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Richardson Unit Area, comprising 1,283.35 acres, more or less, of State and Fee lands in Townships 13 and 14 South, Range 36 East.

CASE 7565: (Continued from April 28, 1982, Examiner Hearing)

Application of Delta Drilling Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Mescalero Unit Area, comprising 719.77 acres, more or less, of State, Fee and Federal lands in Townships 9 and 10 South, Range 32 East.

CASE 7568: Application of Petroleum Corp. of Delaware for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Superior Federal Well No. 6 located in Unit N of Section 6, Township 20 South, Range 29 East, East Burton Flat Field, to produce oil from the Strawn formation through tubing and gas from the Morrow formation through the casing-tubing annulus by means of a cross-over assembly.

Docket No. 13-82

CASE 7515: (Continued from April 14, 1982, Examiner Hearing)

Application of Four Corners Gas Producers Association for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying all or portions of Townships 26 and 27 North, Ranges 12 and 13 West, Township 28 North, Range 13 West, Township 29 North, Ranges 13 through 15 West, and Township 30 North, Ranges 14 and 15 West, containing 164,120 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 7586: Application of Standard Resources Corp. for designation of a tight formation, Chaves and Eddy Counties, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Abo formation underlying all or portions of Township 15 South, Ranges 23 through 25 East, Township 19 South, Range 20 East, and Township 20 South, Range 20 East, all in Chaves County; in Eddy County: Township 16 South, Ranges 23 through 26 East, Township 17 South, Ranges 21, 23, 24, and 25 East, and Township 18 South, Ranges 21, 23, 24 and 25 East, Township 19 South, Ranges 21, 23, and 24 East, and Township 20 South, Ranges 21, 23, and 24 East, containing 460,800 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 7587: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending vertical and horizontal limits of certain pools in Chaves, Eddy, and Lea Counties, New Mexico:

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the Draper Mill-Wolfcamp Gas Pool. The discovery well is the HNG Oil Company Vaca Draw 16 State Well No. 1 located in Unit E of Section 16, Township 25 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM
Section 16: W/2

(b) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Jabalina-Morrow Gas Pool. The discovery well is the Amoco Production Company Perro Grande Unit Well No. 1 located in Unit J of Section 6, Township 26 South, Range 35 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 35 EAST, NMPM
Section 6: E/2

(c) ABOLISH the Diamond Mound-Morrow Gas Pool in Chaves and Eddy Counties, New Mexico, as heretofore classified, defined, and described as:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 35: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM
Section 31: E/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 3: Lots 1 through 16
Section 4: Lots 1 through 16
Section 5: Lots 1 through 16
Section 6: Lots, 1, 2, 7, 8, 9, 10, 15, 16, and S/2

(d) EXTEND the vertical limits of the Diamond Mound-Atoka Gas Pool in Chaves and Eddy Counties, New Mexico, to include the Morrow formation, and redesignate said pool to Diamond Mound-Atoka-Morrow Gas Pool, and extend the horizontal limits of said pool to include acreage from abolished Diamond Mound-Morrow Gas Pool and one additional well as follows:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 35: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM
Section 31: E/2

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM
Section 9: S/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 3: Lots 1 through 16
Section 4: Lots 1 through 16
Section 5: Lots 1 through 16
Section 6: Lots 1, 2, 7, 8, 9, 10, 15, 16, and S/2

Examiner Hearing - WEDNESDAY - MAY 12, 1982

Docket No. 13-82

CASE 7578: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the SE/4 of Section 31, Township 19 South, Range 39 East, to form a standard 160-acre gas proration unit 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 7579: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the N/2 NW/4 of Section 5, Township 20 South, Range 39 East, to form a non-standard 80-acre gas proration unit 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 7580: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Seven Rivers formation underlying the SW/4 of Section 31, Township 19 South, Range 39 East, to form a standard 160-acre gas proration unit 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 7581: Application of Estoril Producing Corp. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the South line and 990 feet from the East line of Section 10, Township 23 South, Range 34 East, Antelope Ridge-Morrow Gas Pool, the S/2 of said Section 10 to be dedicated to the well.

CASES 7582 thru 7585: Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each 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. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7582: NW/4 Section 13, Township 6 South, Range 24 East

CASE 7583: NE/4 Section 13, Township 6 South, Range 24 East

CASE 7584: SW/4 Section 13, Township 6 South, Range 24 East

CASE 7585: NW/4 Section 24, Township 6 South, Range 24 East

CASES 7525 thru 7534: (Continued from April 28, 1982, Examiner Hearing)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following 10 cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each 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. Also to be considered in each case will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7525: SW/4 Section 3, Township 5 South, Range 24 East

CASE 7526: NW/4 Section 3, Township 5 South, Range 24 East

CASE 7527: SE/4 Section 3, Township 5 South, Range 24 East

CASE 7528: NW/4 Section 4, Township 5 South, Range 24 East

CASE 7529: NE/4 Section 4, Township 5 South, Range 24 East

CASE 7530: NW/4 Section 11, Township 6 South, Range 24 East

CASE 7531: SW/4 Section 11, Township 6 South, Range 24 East

CASE 7532: SE/4 Section 27, Township 6 South, Range 24 East

CASE 7533: SW/4 Section 27, Township 6 South, Range 24 East

CASE 7534: NW/4 Section 34, Township 6 South, Range 24 East

(p) EXTEND the Millman Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 8: S/2

(q) EXTEND the West Nadine-Blinebry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 5: SW/4

(r) EXTEND the West Osudo-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 35 EAST, NMPM
Section 11: S/2
Section 12: S/2

(s) EXTEND the Pecos Slope-Abo Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 24 EAST, NMPM

Section 24: S/2
Section 25: All
Section 26: E/2
Section 35: W/2 and NE/4
Section 36: N/2

TOWNSHIP 4 SOUTH, RANGE 25 EAST, NMPM
Section 19: SW/4
Section 30: W/2
Section 31: NW/4

TOWNSHIP 5 SOUTH, RANGE 24 EAST, NMPM
Section 2: NW/4
Section 7: All
Section 8: All
Section 9: N/2 and SW/4
Section 16: W/2
Section 17 thru 20: All
Section 21: W/2
Section 28: W/2
Section 29: All
Section 30: All
Section 31: N/2
Section 32: N/2
Section 33: NW/4

TOWNSHIP 5 SOUTH, RANGE 25 EAST, NMPM
Section 1 thru 5: All
Section 6: E/2
Section 7: SW/4 and E/2
Section 8 thru 12: All
Section 14 thru 22: All
Section 23: N/2
Section 27: N/2
Section 28 thru 30: All
Section 31: NE/4
Section 32: N/2
Section 33: All
Section 34: All

TOWNSHIP 6 SOUTH, RANGE 24 EAST, NMPM
Section 2: All
Section 11 thru 14: All
Section 22 thru 28: All
Section 34: E/2
Section 35: All
Section 36: All

(e) EXTEND the Burton Flat-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM
Section 35: E/2
Section 36: N/2

(f) EXTEND the Crow Flats-Morrow Gas Pool in Eddy County, New Mexico to include therein:

TOWNSHIP 17 SOUTH, RANGE 27 EAST, NMPM
Section 1: All
Section 12: N/2

(g) EXTEND the South Culebra Bluff-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 10: All
Section 11: W/2
Section 14: W/2
Section 15: W/2
Section 34: W/2

(h) EXTEND the South Empire-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM
Section 17: N/2

(i) EXTEND the Golden Lane-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 30 EAST, NMPM
Section 28: All

(j) EXTEND the Kennedy Farms-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM
Section 10: N/2

(k) EXTEND the East LaRica-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 36: S/2

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 31: S/2

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

TOWNSHIP 21 SOUTH, RANGE 22 EAST, NMPM
Section 18: E/2

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

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM
Section 11: E/2

(n) EXTEND the South Millman-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 16: N/2

(o) EXTEND the East Millman-Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 7: NE/4

Docket No. 13-82

TOWNSHIP 9 SOUTH, RANGE 23 EAST, NMPM
Section 3: W/2
Section 4: All
Section 5: All
Section 6: E/2
Section 8: All

(u) 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: E/2 NE/4 and NE/4 SE/4

(v) EXTEND the Sand Ranch-Morrow Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 29 EAST, NMPM
Section 26: All

(w) EXTEND the Sawyer-San Andres Associated Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 38 EAST, NMPM
Section 4: SW/4

(x) EXTEND the Tom-Tom-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 31 EAST, NMPM
Section 7: All

(y) EXTEND the Turkey Track-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 2: W/2
Section 7: N/2

(z) EXTEND the Twin Lakes-San Andres Associated Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM
Section 18: N/2 SE/4 and SE/4 SE/4

(aa) EXTEND the South Vacuum-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 16: SE/4

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Docket No. 14-82

DOCKET: COMMISSION HEARING - MONDAY - MAY 17, 1982

OIL CONSERVATION COMMISSION - 9 A.M.
ROOM 205 - STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO.

CASE 7522: (DE NOVO)

Application of Santa Fe Exploration Co. for an unorthodox gas well location, Eddy County, New Mexico Applicant, in the above-styled cause, seeks approval of an unorthodox location 660 feet from the North and West lines of Section 14, Township 20 South, Range 25 East, Permo-Penn, Strawn, Atoka and Morrow formations, the N/2 of said Section 14 to be dedicated to the well.

Upon application of Chama Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

TOWNSHIP 6 SOUTH, RANGE 26 EAST, NMPM
Section 4 thru 6: All
Section 7 thru 8: All
Section 9: N/2
Section 17 thru 20: All
Section 29 thru 32: All

TOWNSHIP 7 SOUTH, RANGE 24 EAST, NMPM
Section 1: All
Section 2: All
Section 3: E/2
Section 9 thru 15: All
Section 22 thru 27: All
Section 34 thru 36: All

TOWNSHIP 7 SOUTH, RANGE 25 EAST, NMPM
Section 6: W/2
Section 7: S/2
Section 13: SW/4
Section 14: S/2
Section 15: S/2
Section 18 and 19: All
Section 20: S/2
Section 22 thru 27: All
Section 29 thru 32: All
Section 34 thru 36: All

TOWNSHIP 7 SOUTH, RANGE 26 EAST, NMPM
Section 5: All
Section 6: All
Section 7 thru 10: All
Section 11: W/2
Section 15 thru 17: All
Section 18: N/2
Section 19 thru 22: All
Section 28 thru 32: All

TOWNSHIP 8 SOUTH, RANGE 24 EAST, NMPM
Section 1 through 3: All
Section 10: E/2
Section 11: All
Section 12: All

TOWNSHIP 8 SOUTH, RANGE 25 EAST, NMPM
Section 1 through 12: All
Section 13 through 16: N/2

TOWNSHIP 8 SOUTH, RANGE 26 EAST, NMPM
Section 6: W/2

(t) EXTEND the West Pecos Slope-Abo Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 22 EAST, NMPM
Section 23: SE/4
Section 24: S/2 and NE/4
Section 25 through 27: All
Section 28: E/2

TOWNSHIP 8 SOUTH, RANGE 23 EAST, NMPM
Section 3 through 5: All
Section 6: N/2
Section 8 through 10: N/2
Section 17: W/2
Section 18: SE/4
Section 19: All
Section 20: W/2
Section 29: W/2
Section 30: All
Section 31: All
Section 32: W/2

CASE 7476: (DE NOVO)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 East, each 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.

Upon application of Mesa Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7513: (DE NOVO)

Application of Mesa Petroleum Company 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 SE/4 of Section 12, 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.

Upon application of Mesa Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

May 7, 1982

Mr. William F. Carr
CAMPBELL, BYRD & BLACK, P.A.
P. O. Box 2208
Santa Fe, NM 87501

RE: REQUEST FOR STAY OF NEW MEXICO OIL CONSERVATION DIVISION ORDER No. 6925

Dear Mr. Carr:

At your request, a conference was held with counsel for Mesa Petroleum Company and counsel for Jack J. Grynberg at which conference you requested an emergency stay of the above referenced order under the provisions of Section 70-2-23 N.M.S.A., 1978, and Rule 1202 of the Rules and Regulations of the Oil Conservation Division.

After considering your request and the arguments presented by counsel for the parties in these two cases, your request for an emergency stay is denied.

Sincerely,

JOE D. RAMEY
Director

JDR/jc

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

IN THE MATTER OF THE APPLICATION
OF JACK J. GRYNBERG FOR COMPULSORY
POOLING, CHAVES COUNTY, NEW MEXICO

CASE 7476
ORDER R-6925

APPLICATION FOR EMERGENCY ORDER

Comes now Mesa Petroleum Company, by and through its undersigned attorneys, and hereby makes application for an emergency order pursuant to the provisions of Section 70-2-23 NMSA 1978 Comp. (Rule 1202 of the Rules and Regulations of the Oil Conservation Division) or, in the alternative, for an order staying the effect of Division Order R-6925 and in support thereof states:

1. That the above referenced case came on for hearing before a duly appointed examiner of the Division on March 16, 1982 and that on April 5, 1982 the Division entered its order pooling the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico and designating Jack J. Grynberg operator of the well.

2. That Mesa Petroleum Company timely filed its application for hearing de novo and the case is set for hearing before the full commission on May 17, 1982.

3. That Mesa Petroleum Company has learned that Jack J. Grynberg intends to commence drilling of a well in the SE/4 of Section 12 on or about May 9, 1982.

4. That the drilling of such well will irreparably harm Mesa Petroleum Company in that Mesa will be foreclosed from pursuing its legal remedies before the Division on May 17 in which proceedings Mesa seeks to be designated operator of the well to be drilled in the SE/4 of said Section 12.

WHEREFORE, Mesa Petroleum Company hereby requests that the Oil Conservation Division enter an emergency order staying the

Division Order R-6925 thereby enabling Mesa to present testimony on May 17, 1982 in support of its application to be designated operator of a well drilled in the SE/4 of Section 12, Township 5, Range 24 East, NMPM, Chaves County, New Mexico or, in the alternative, to enter an order staying the effect of Division Order R-6925 pending the entry of an order following the May 17, 1982 hearing in case 7476.

Respectfully submitted

CAMPBELL, BYRD & BLACK, P.A.

By William F. Carr

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

Certificate of Notice

I hereby certify that notice of this application was given to Francis J. Matthew, Attorney for Jack Grynberg by telephone on this 7th day of May, 1982.

William F. Carr

William F. Carr

JACK J GRYNBER AND ASSOC NF
1050 17 ST SUITE 1950
DENVER CO 80265

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RICHARD STAMETS
STATE OF NEW MEXICO OIL CONVERSATION DIVISION
STATE LAND OFFICE BLDG
310 OLD SANTA FE TRAIL
SANTA FE NM 87501

Case 7476

COPY OF NIGHT LETTER SENT TO MR DON WILLIAMS CORONA OIL CO 4835 LBJ FREEWAY SUITE 635 DALLAS TEXAS 75234 AND MR MARK HANNIFAN MESA PETROLEUM CO. 1000 VAUGHN BLDG MIDLAND TEXAS 79701

PURSUANT TO THE AFE FOR THE NUMBER 1 GRYNBERG 12 STATE COM LOCATED 1980 FEET FROM THE SOUTH LINE AND 660 FEET FROM THE EAST LINE OF SECTION 12 TOWNSHIP 5 SOUTH RANGE 24 EAST NEW MEXICO PRINCIPAL MERIDIAN CHAVES COUNTY NM SENT TO YOU APRIL 7 1982. THIS LETTER IS TO NOTIFY YOU THAT JACK J GRYNBERG AS OPERATOR PLANS TO MOVE A DRILLING RIG MAY 9 1982 TO THE ABOVEMENTIONED LOCATION AND COMMENCE DRILLING OPERATIONS. UNLESS WE RECEIVE PAYMENT OF YOUR SHARE OF THE DRILLING COST PRIOR TO MAY 9 1982 WE WILL TREAT YOUR PARTICIPATION IN SAID WELL AS A NON-CONSENTING PARTY IN ACCORDANCE WITH THE OIL CONSERVATION DIVISION ORDER NUMBER 4-6925.
JACK J GRYNBERG

1738 EST

MGMCOMP MGM

RECEIVED
MAY 06 1982
OIL CONSERVATION DIVISION
SANTA FE

6241 (R1/78)

TO REPLY BY MAILGRAM, SEE REVERSE SIDE FOR WESTERN UNION'S TOLL - FREE PHONE NUMBERS

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE
KEMP W. GORTHEY

JEFFERSON PLACE
SUITE I - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

APR 06 1982
OIL CONSERVATION DIVISION
SANTA FE

April 6, 1982

HAND DELIVERED

Mr. Joe D. Ramey
Director
Oil Conservation Division
New Mexico Department of Energy
& Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Applications for Hearing De Novo in Oil Conservation Division Cases 7476 and 7513

Dear Mr. Ramey:

Enclosed are applications of Mesa Petroleum Company for hearings de novo in each of the above referenced cases.

We would appreciate your setting these applications for hearing before the full commission at the earliest possible date.

Very truly yours,

William F. Carr

WFC:jh
w/enc.
cc: Steven C. James, Esq.
Francis J. Mathew, Esq.

APR 06 1982

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF JACK J. GRYNBERG FOR COMPULSORY
POOLING, CHAVES COUNTY, NEW MEXICO CASE 7476

APPLICATION FOR HEARING DE NOVO

Comes now MESA PETROLEUM COMPANY, by through its undersigned attorneys, and states that it is a party adversely affected by Order No. R-6925 entered in the above-referenced case on April 5, 1982 and, pursuant to Oil Conservation Division Rule 1220, hereby makes written application for this case to be heard de novo before the Commission.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By William F. Carr

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

Certificate of Service

I hereby certify that a true copy of the foregoing Application for Hearing De Novo was hand delivered to Francis J. Matthew, attorney for Jack J. Grynberg on this 6th day of April, 1982.

William F. Carr

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 7476 DE NOVO
Order No. R-6925-A

APPLICATION OF JACK J. GRYNBERG FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO.

JJG

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 17, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this ____ day of June, 1982, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, JACK J. GRYNBERG, seeks an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico.

4(3) That the matter came on for hearing at 9 a.m. on March 16, 1982, at Santa Fe, New Mexico, before Examiner ~~Daniel S. Nutter~~ RLS and, pursuant to this hearing, Order No. R-6925 was issued on April 5, 1982, which granted Grynberg's application

(3) That the applicant's ~~subsequent~~ request for dismissal of his request to pool the mineral interests under the NE/4 of said Section 12 ~~should be~~ approved, and this case now involves only the SE/4 of said Section 12.

5 (a) That on April 6, 1982, application for Hearing De Novo was made by Mesa Petroleum Company and the matter was set for hearing before the Commission.

6 (a) That the matter came on for hearing de novo on May 17, 1982.

(7) That on May 9, 1982, Grynberg did spud a well located 1980 Feet From the south line & 660 feet from the east line of said Section 12.

(8) That said well was drilled to the Abo formation at a total depth of 4100 feet and was plugged and abandoned as a dry hole on May 19, 1982. The records of the Oil Conservation Division reflect

(9) That as a result of said dry hole, Order No. R-6925 should no longer be in force and effect.

(10) That the application of Jack J. Grynberg should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Jack J. Grynberg for an order pooling all mineral interests, whatever they may be, from the surface down through the Abo formation underlying the SE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, to form a Standard 160-acre gas proration unit is hereby denied.

(2) ~~(2)~~ Jurisdiction

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

(9) That $2500.00 per month while drilling and $250.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's 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 that portion of this application which seeks the pooling of mineral interests underlying the NE/4 of Section 12, Township 5 South, Range 24 East, NMPM, Chaves County, New Mexico, is hereby dismissed.

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