CASE NO.

7564

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
26 May 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Western Reserves Oil Company for compulsory pooling, Chaves County, New Mexico. CASE 7593

and

Application of Mesa Petroleum Company for compulsory pooling, Chaves County, New Mexico. CASE 7564

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

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MR. NUTTER: We'll call next Case Number 7593.

MR. PEARCE: 7593 is the application of Western Reserves Oil Company for compulsory pooling, Chaves County, New Mexico.

MR. JENNINGS: Mr. Examiner, I understand that there's another case that was filed previously. I don't know the docket number, I'm just down to this same case, and Mr. James is here on behalf of Mesa, and since they're going to be consolidated, he requests to be permitted to go first, which is satisfactory to me, or I'll go first if --

MR. NUTTER: Does the other case involve the same lands that are involved here?

MR. JENNINGS: Identical lands, yes, sir.

MR. NUTTER: Okay, good. We'll call Case Number 7564.

MR. PEARCE: That is the application of Mesa Petroleum Company for compulsory pooling, Chaves County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr, with the law firm Campbell, Byrd, & Black, P. A., of Santa Fe, appearing on behalf of the applicant in Case 7564.

I'm appearing in association with Steven C.

James, regional counsel for Mesa Petroleum out of Midland, who will present the case today.

MR. NUTTER: Since Cases Numbers 7564 and 7593 involve identical acreage, those cases will be consolidated for purposes of hearing only. Separate orders will be entered in each case, and I'll call for appearances in these cases, now, other than those that have been made.

MR. JENNINGS: I'm Jim Jennings, with Jennings and Christy, appearing on behalf of Western Reserves in Case Number 7594 and also appearing on their behalf in the other case.

MR. NUTTER: And, Mr. James, you're appearing in both cases, too, is that correct?

MR. JAMES: Yes, sir.

MR. NUTTER: All right, since the cases are consolidated, we'll call for all witnesses in both cases. Stand please.

MR. JENNINGS: We'll have two witnesses.

MR. JAMES: Mesa has one witness.

MR. JENNINGS: Mr. Janica and Mr. Beveridge.

(Witnesses sworn.)

MR. NUTTER: Inasmuch as the application of

Mesa Petroleum Company in these consolidated cases was filed prior to the other application, we will allow Mesa to go first with their direct case.

MARK HANNIFIN

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

DIRECT EXAMINATION

BY MR. JAMES:

Q. Would you please state your name and place of residence?

A. Mark A. Hannifin, Midland, Texas.

MR. NUTTER: What was your first name?

A. Mark.

MR. NUTTER: Mark Hannifin.

A. Right.

Q. And by whom are you employed and in what capacity?

A. Mesa Petroleum Company as a Senior Landman.

Q. Have you previously testified before this Commission or one of its examiners and had your qualifications accepted?

A. Yes, I have.

Q. Are you familiar with the application filed in these cases?

A. Yes, sir, I am.

MR. JAMES: I would tender the witness as qualified.

MR. NUTTER: The witness is qualified.

Q. Would you please state what Mesa seeks with its application?

A. Mesa seeks an order pooling all mineral interest from the surface down to the Abo formation underlying the northwest quarter of Section 30, 6 South, Range 25 East, Chaves County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon.

Mesa also seeks consideration of the cost of drilling and completing said well and allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of Mesa as operator of the well, and a charge for risk involved in drilling said well.

Q. Would you please identify what's been marked as Mesa's Exhibit One for us?

A. This is a land map depicting the proration unit for which compulsory pooling is sought, showing Mesa's proposed location for its No. 1 Donna Federal and a proration

unit.

Q Would this be a standard location?

A Yes, sir, it would.

Q Would you please identify for us and tell us what Exhibit -- Mesa's Exhibit Two is?

A This is a schedule of the ownership of the working interest in the proration unit, indicating Mesa Petroleum with 49.99025 percent working interest; Wester Reserves Oil Company, 50.00975 percent.

Q Would you please explain for us why there's a slight difference between Mesa's interest in this unit and Western's interest?

A Yes, sir. This is a non-standard sized unit. It contains 153.79 acres, of which Mesa has 76.88 acres.

Q And how many, do you recall, that would leave, what, 76.91 acres for Western?

A Yes, sir.

Q And this is because two townships meet --

A Yes, sir, it's a survey discrepancy.

Q Would you tell us, please, what Mesa's Exhibit Three is?

A Yes, sir, this a letter of transmittal dated May 3rd, 1982, to Corona Oil Company providing operating agreement for the -- proposed for this proration unit for their

execution.

Q Turning to Exhibit A to that operating agreement, which follows page fifteen of the agreement, are those working interest ownerships the same as what you've shown on your schedule?

A Yes, sir, they are.

Q Would you please identify Mesa's Exhibit Number Four for us, please?

A This is a letter of transmittal dated May 20, 1982, from Corona Oil Company to Steve James of our office, conveying the signature pages to the operating agreement provided them in the May 3, 1982, letter, executed on behalf of Mesa -- I mean on behalf of Corona Oil Company.

Q And would you please identify for us the exhibits marked Mesa's Exhibits Five through Twelve?

A Yes, sir. This first one is a letter from Kevin Dentzer to Western Reserves dated March 9, 1982, advising them of our intention to drill a well on the subject proration unit and requesting any title materials available on the Western Reserve lease.

Mesa Exhibit Number Six is a notification of intent to the surface owner, provided to Bronson M. Corn. It's dated March 10, 1982.

Mesa Exhibit Number Seven is a copy of

Mesa's application for permit to drill provided to the USGS, and it's dated March 11, 1982.

Mesa Exhibit Number Eight is a copy of the archaeological clearance report provided to Mesa dated March 13, 1982, approving Mesa's location in the subject proration unit.

Mesa Exhibit Number Nine is a copy of the letter of transmittal dated March 18, 1982 from Mesa to Western Reserves providing an AFE and operating agreement for their execution.

Mesa Exhibit Number Ten is a letter dated April 12th, 1982 from myself to Western Reserves, which reproposed the compromise set out in the Mesa letter dated March 18, 1982, which is Mesa Exhibit Nine, paragraph three.

MR. NUTTER: Now, wait a minute, do that again. What was -- this Exhibit Ten does what again?

A. Okay, this brief proposes a compromise that we suggested in Exhibit Nine, paragraph three, and again on the second paragraph of Mesa Exhibit Number Ten, proposing that they take one location, we take one location.

MR. NUTTER: Okay, and it's in response to a verbal conversation --

A. Yes, sir, it is.

MR. NUTTER: A telephone conversation.

A. Yes, sir, it is.

MR. NUTTER: So far you haven't entered any correspondence from Western Reserves to Mesa, have you?

A. No, sir, it's --

MR. NUTTER: It's all been from Mesa to the other parties.

A. Yes, sir, we'll get into that in just a moment.

MR. NUTTER: Okay.

A. Okay, that was Ten. Mesa Exhibit Number Eleven is a letter of transmittal dated February 23rd, 1982, from Western Reserve to Mesa providing an AFE for a well to be drilled on the subject proration unit, among others.

Mesa Exhibit Number Twelve is a letter from Western Reserve to Mesa dated March 24, 1982, rejecting the compromise attempts and insisting Mesa allow all further joint operations involving Western's lease to be operated by Western Reserve.

Q. Mr. Hannifin, were Mesa's Exhibits One through Twelve prepared by you or under your supervision?

A. Yes, sir, they were.

MR. JAMES: We tender Mesa's Exhibits One through Twelve into evidence.

MR. NUTTER: Exhibits One through Twelve

will be admitted in evidence.

MR. JENNINGS: Mr. Examiner, it's a lot of letters. I don't want to object to them but I don't think they were prepared under -- unless the photocopying was prepared under this gentleman's supervision, but I don't think the letters were --

A. He asked --

MR. JENNINGS: -- written by him if --

A. He asked if the exhibits were. The exhibits were prepared under my supervision.

MR. JENNINGS: By "exhibits" you mean the photocopies?

A. Yes, sir.

MR. JENNINGS: Okay.

MR. NUTTER: Mr. Hannifin, do these photocopies represent true copies of the letters on file in your office?

A. Yes, sir.

MR. NUTTER: That were directed to Western Reserve and also --

A. Yes, sir.

MR. NUTTER: -- replies that you received from Western Reserve?

A. Yes, sir.

MR. NUTTER: And to your own knowledge these are photocopies of those letters.

A. Yes, sir.

MR. NUTTER: I think we'll admit the --

MR. JENNINGS: No objection. No objection.

Q. Turning back to Mesa's Exhibit Number Nine, that contained Mesa's proposed AFE for this well, didn't it, Mr. Hannifin?

A. Yes, sir, it did.

Q. What does that AFE represent?

A. That represents the costs for drilling and completing a 4150 foot flowing Abo well, including production equipment.

Q. And that's an estimate, is that right?

A. Yes.

Q. And looking at the operating agreement signed by Corona, shown as Mesa's Exhibit Number Three, does it reflect drilling and producing administrative costs?

A. Yes, sir, it does.

Q. And what are those costs?

A. $3700 for a drilling well rate and $370 for a producing well rate.

Q. That's per month?

A. Per month.

Q. Okay. Are those costs in line with what is being charged by other operators in the area?

A. Yes, sir, they are.

Q. Do you recommend that these costs be incorporated into the order which results from this hearing?

A. Yes, sir.

Q. Looking back at the map that was entered as Mesa's Exhibit Number One, Mr. Hannifin, would you please tell the Commission what is shown by that map in addition to Mesa's location for the No. 1 Donna Federal?

A. Yes, sir. It shows the Abo completions and location for the area surrounding the area in question. The potential tests of completed wells are also noted by a red outline and a large dry hole symbol for dry holes. You'll note in the immediate area of the subject acreage the varying potentials and the dry hole.

The north offset well had an IPCOF of 390 Mcf GPD.

The east offset well is not completed but Mesa's evaluation indicates it will probably not be an outstanding well.

The Western Reserves No. 4 Bravo in that same section has not yet been completed but it should be an economic well.

MR. NUTTER: That's the one down in the southeast southeast?

A. Yes, sir, of that same section, and we would ask you to note the dry holes to the south and to the west.

Q. What is the standard risk penalty for non-consenting parties in operating agreements for this area?

A. 300 percent.

Q. And how does the Commission describe it?

A. Well, that adequates (sic) equates to the recoupment of costs plus 200 percent penalty.

Q. And what do you recommend for the risk factor to be assessed against those interest owners who do not participate in the drilling of the proposed well?

A. The recoupment of costs plus 200 percent.

Q. Approximately how many wells has Mesa drilled in the area of this well in the last couple of years?

A. In this play over 180.

Q. And has Mesa participated in a large number of wells drilled by other operators?

A. Yes, sir, we have.

Q. Does Mesa have an office in Roswell?

A. Yes, sir, they do.

Q. And approximately how many emplouees does

Mesa have in the Roswell area?

A. 17 employees.

Q. Does Mesa have other offices in New Mexico?

A. Yes, sir, we've got offices in Aztec, New Mexico, and Hobbs, New Mexico.

Q. Would you identify for us what has been labeled as Mesa's Exhibits Thirteen through Fifteen?

A. Okay, this is a copy of the Mesa Annual Report for 1981, prepared in the normal course of Mesa's business. That is Mesa Exhibit Number Thirteen.

Mesa Exhibit Number Fourteen is a copy of the Mesa First Quarter Report of 1982, prepared in the normal course of Mesa's business.

Mesa Exhibit Number Fifteen is a copy of the Mesa Message for 1981, prepared in the normal course of Mesa's business and the publication contains information showing Mesa's level of activity in the Pecos Slope Abo play, in which this proration unit is a part.

MR. JAMES: We would tender Mesa's Exhibits Thirteen through Fifteen to the Examiner.

MR. NUTTER: Exhibits Thirteen through Fifteen will be admitted.

Q. Mr. Hannifin, to your knowledge, what type of entity is Western Reserves Oil Company?

A. It is a Texas limited partnership.

Q. Would you identify for us, please, Mesa's Exhibit Number Sixteen?

A. This is a letter from the Secretary of State obtained this morning, State of New Mexico under her seal, stating that Western Reserves Oil Company has not been registered in the State of New Mexico as a foreign limited partnership.

MR. JAMES: We tender Mesa's Exhibit Number Sixteen to the Examiner.

MR. NUTTER: Exhibit Number Sixteen will be admitted in evidence.

MR. JAMES: Mr. Examiner, I've also prepared a memorandum of law on this issue. As a foreign limited partnership is not authorized to transact business in New Mexico, Western Reserves is not authorized to drill on the tract, and indeed, is not authorized to appear at this hearing.

We would, however, ask simply that you take these matters under consideration after all evidence is in.

MR. NUTTER: This is not an exhibit.

MR. JAMES: No, sir, it is entered merely as a statement by Mesa's counsel.

Q. Mr. Hannifin, does Mesa request to be designated operator of this proposed well?

A. Yes, sir, they do.

Q. If Mesa is designated operator, will you seek all necessary Federal approvals?

A. Yes, sir, Federal and State approvals necessary.

Q. Will Mesa promptly drill the proposed well?

A. Yes, sir, we will.

Q. Will granting Mesa Petroleum Co.'s application be in the interest of conservation and the prevention of waste and the protection of correlative rights?

A. Yes, sir,it will.

MR. JAMES: No further questions.

MR. NUTTER: Are there any questions for the witness?

MR. JENNINGS: I would like to ask a few questions.

CROSS EXAMINATION

BY MR. JENNINGS:

Q. Referring to your ownership of the acreage involved in this proration unit, Mr. Hannifin.

A. Schedule 3 -- or Exhibit Two?

Q. Well, that will be fine. What was your testimony concerning Mesa's interest?

A. Mesa owns 49.99025 percent of the working interest in this proration unit.

Q. What is the arrangement under which it acquired this interest from Corona Oil Company?

A. An operating agreement.

Q. Does it have on --

A. They elected to go nonconsent to Mesa.

Q. Is this a longtime operating agreement?

A. It's been in effect for several years, yes, sir.

Q. Actually Corona owns it and you are -- you've been designated as operator.

A. Yes, sir.

Q. So you're actually -- record ownership is actually only the figure which shows after work -- after pay-out, which is 24.99 acres.

A. Record title ownership, yes, sir, that's correct. We pay for half the costs. Or we pay for all their costs.

Q. You pay for the costs but you don't own the acreage. When it's paid out the other people own it, don't they?

A. After 300 percent, yes, sir.

Q. And actually isn't that true that the

majority of the interest under this particular tract is owned by Western Reserves Oil Company?

A Yes, sir, by 9.5/1000ths it looks like.

Q Very small interest.

A Comparatively small, yes, sir.

Q In Exhibit Number Five you made reference, a letter addressed to Western. You requested title opinions concerning their acreage.

A Yes, sir.

Q Did Western ever make similar request of you concerning any abstracts or title opinions that you had concerning the same acreage?

A I really couldn't swear to it one way or the other. I know in some joint wells we've had, we have exchanged title information. Whether or not this is one of them, I couldn't be certain.

Q Would you know if Mesa had refused to furnish Western with its abstracts or title opinions covering this same acreage?

A In some instances we might have. I'd,like I said, on this one I don't know.

Q Would there be a reason for that?

A Only if it looked like we were trying to reach a compromise situation and were waiting for answers on

that. If we did not think they were going to drill the well there was no reason to provide them with that information.

Q Mr. Hannifin, in connection with your Exhibit Number Nine you referred to a compromise which you proposed to Western. Would you just tell the Commission what the nature and extent of that compromise is?

A Yes, sir, we had a number of joint operations in the area. We suggested that they operate half of those operations and we'd operate half of them.

Q Well, did you refer to any particular wells?

A Yes, sir, we did.

Q Which were the wells which you proposed to compromise on?

A This well, which we refer to as the No. 1 Donna, and their well, which they refer to as the No. 3 Bravo Federal.

Q Where is the No. 3 Bravo Federal?

A According to this exhibit it's Section 7, 6 South, 25 East.

Q And how much acreage did you have under that well? Or do you know?

A Let's see, Section 7, we have in the neighborhood of 25 percent; depends on whether or not these are standard size units -- or standard size sections.

Q And Western has the same interest, or what was Western's interest?

A They would have the remaining.

Q So they had 3/4 of that.

A Somewhere in that vicinity, yes, sir.

Q Well, then under that one it was a 140 to 340 exchange, and I believe on the other the well in Section 30, now that's the one that you had 25 percent, or less than 25 percent, and then you had a farmout on the remaining -- the remaining acreage. That's how you -- that was your proposed exchange. Well, you had an operating agreement.

A Yes, sir, nonconsent.

Q Then the statement that you -- the statement in your application filed in this matter, that you had 25 percent is not -- and that together you and the other owners from which you had joined in an operating agreement had 50 percent, was not truly accurate.

A I really didn't understand the question.

Q Well, in your application you -- you stated in paragraph 3, I believe, that you had 25 percent of the working interest under the northwest, of 30.

A Yes, sir, that's subsequently changed.

Q Yeah, that didn't account for the acreage variance.

A No, sir.

Q And then the same statement that you had 50 percent of the working interest. You had slightly less.

A Yes, sir, slightly, yes.

Q Have you entered into a communitization agreement covering this tract?

A No, sir, until this is -- until we resolve who the operator is, we cannot enter into a communitization agreement and have it effective.

Q Where is the -- did you state where the well was proposed to be located?

A I stated where our well was proposed to be located, I believe.

Q Is that on your acreage?

A Let's see, no, sir, it is not on our acreage.

Q Whose acreage is that on?

A It would be on Western Reserves acreage.

Q Do you know the nature of Western Reserves lease, fee lease, State lease, Federal lease?

A I would presume that that is a Federal lease, although it's not designated on there in any of the well names in that section.

Q Had it not been a Federal lease, you wouldn't have gone to all the trouble to get those surveys made,

would you? That you have introduced?

A. What surveys?

Q. Ecological surveys and --

A. That would be correct.

Q. Have you actually staked a location there?

A. Yes, sir, I believe we have.

Q. Do you have a designation of operator from Western?

A. No, sir, they refused that.

Q. I might have missed this, Mr. Hannifin, was your testimony that the standard risk factor in the area was 200 percent?

A. No, sir, I believe I testified that a standard operating agreement provision for a risk factor, which is 300 percent in the case of nonconsent parties.

MR. NUTTER: Now you don't mean 300 percent risk factor. You mean --

A. Well --

MR. NUTTER: -- payment.

A. -- in an operating --

MR. NUTTER: 100 percent payment and 200 percent risk factor.

A. Yes, sir, recoupment plus 200 percent penalty.

Q. Well, you would make a distinction. You're not seeking a 200 percent risk factor in this case.

A. We are seeking a 200 percent penalty plus recoupment of the original costs of the oil well.

Q. And I believe your testimony was that the operating agreement provided for $3700 during drilling and $375 per month after that?

A. $370 per month.

Q. $370, is that customary in the area?

A. Yes, sir.

Q. Is that what you generally charge?

A. Yes, sir.

Q. And when somebody else is the operator would that be what you'd expect to pay?

A. Yes, sir.

Q. Did you ever obtain consent of the Secretary of the Interior to unitize this lease? The lease upon which you propose to drill the well?

A. No, sir, until we establish who's going to operate, that's not a necessary step.

There is a reasonable amount of time allowed for that either before, or during, or after drilling the well.

Q. Mr. Hannifin, when did the matter of drilling these wells first begin to be discussed by Mesa and Western Re-

serve?

A. To the best of my recollection, in February of this year.

Q. Was that about the time that Exhibit Number Eleven, which you've identified, which is a letter dated February 23rd, 1982, which Western Reserves addressed to you and proposed drilling the Bravo No. 3, 4, and 5 Wells, and the No. 5 Well being the same -- at the same location as is designated as your Donna No. 1?

A. Are you asking was that in February?

Q. Yes, sir.

A. Were they in February the same year, or what?

Q. Yes.

A. Yes, sir, they were.

Q. Well, this -- had you ever written to Western concerning these wells prior to the time you received this letter of February 23rd?

A. No, sir, we had not written to Western.

Q. Had you contacted them?

A. We had had verbal discussions about these wells prior to that, yes.

Q. Did Western drill the Bravo No. 3 -- or, no, Bravo No. 1 and 2 Wells? Did you participate in those?

A. Number --

Q. I believe they're in Section 7.

A. We have particpated with one of their wells and which name and number escapes me right now. We have participated with them in one well, yes, and I would anticipate it is one of those two.

Q. Did you drill a well in Section 19?

MR. JAMES: Section 19 has no -- that's not enough of a description, Mr. Examiner.

MR. JENNINGS: I'm sorry, I'll --

Q. Please refer to what has been Exhibit -- marked as Exhibit Number One, and identify the wells in that section drilled by Mesa.

A. Okay. The only well -- well, the two wells drilled in that section would be the Mesa No. 1 Western, TD'ed at 4150, and the Mesa No. 1 McDermott, M-C-D-E-R-M-O-T-T, TD'ed at 4100 feet.

Q. Referring to the Mesa No. 1 Western, do you know how much it actually cost to drill that well?

A. No, sir, I don't have that with me.

MR. JENNINGS: I believe that's all we have at this time.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Hannifin, actually, now, Exhibit Nine represents the first overture that Mesa made to Western Reserves for the drilling of the well, is that correct?

That's when you sent them a letter saying you proposed the drilling of this well in Section 30, and you attached an AFE.

A First written proposal, yes, sir.

Q And that was dated March the 18th, 1982.

A Yes, sir.

Q Now your Exhibit Number Eleven is the letter that Western Reserve wrote to Mesa and their proposing there to drill Wells Nos. 3, 4, and 5, Bravo, and No. 5 Bravo is the location that we're talking about here today, isn't it?

A Yes, sir.

Q So they actually proposed drilling this well on February 23rd, then.

A Actually verbal proposals were interchanged earlier than this; this was the first written proposal.

Q But your written proposal to them was dated March 18th and their written proposal to you was dated February 23rd.

A Yes.

Q So they made the written proposal first but I think you filed the application for the hearing before they did.

A Yes, sir, we realized we were running into an impasse. We tried several compromises and were turned down so we realized we were going to have to go to outside orders.

MR. NUTTER: Are there any further questions of Mr. Hannifin? Mr. Jennings?

MR. JENNINGS: I have one that I overlooked brought about by Mr. --

MR. NUTTER: Go ahead now.

RECROSS EXAMINATION

BY MR. JENNINGS:

Q Mr. Hannifin, was there a meeting at any time between the parties involved after your -- the time of your proposal which is contained in your March 18th, 1982, letter, which is Exhibit Number Nine?

A It was around that time; could have been before or after.

Q Well, could you tell us when that meeting was?

A No, sir, I don't remember, not the exact date on it.

Q If I were to tell you it was probably as late as April 20th, would that be -- would you say that's quite possible that was the date?

A No, sir, I wouldn't say that. I don't know.

Q Were you at the meeting?

A Yes, sir.

Q If I were to tell you -- is it possible it was earlier than that or could it have been on that date?

A It could have been anywhere around that period of time.

Q Or the 21st, or something like that?

A Yes, sir, it's possible.

Q Well, what was the nature of that meeting?

A It was, as I recall, the part that I was in on, I was not there during the whole meeting, was discussions over this well, I believe the Bravo 3, and perhaps the Western Com 1 and the other well that they drilled.

Q At that meeting did you or anyone in Mesa's organization while you were present advise Western that Mesa had already filed an application to force pool this acreage?

A I do not recall whether we told them that or not.

Q You knew it, though,didn't you?

A. If the dates are correct and we had done that, then yes, I would have known that.

MR. JENNINGS: I believe that's all.

REDIRECT EXAMINATION

BY MR. JAMES:

Q. Mr. Hannifin, so prior to this February 23rd date you had oral conversations with Western regarding this well, among others?

A. Yes, sir.

Q. Now, on your Exhibit Number Nine, which is your March 18th -- excuse me, Kevin Dentzer's March 18th letter to Western, I note, is there not an operating agreement attached to that letter?

A. Yes, sir, there is.

Q. So that would be a more formal written proposal with an AFE and an operating agreement?

A. Yes, sir, it would.

Q. And you were unable to reach agreement with Western with respect to this well?

A. Yes, sir.

Q. Now, if and when Mesa drills this well, out of each dollar risked how many cents will Mesa be risking?

A. Oh, obviously 49.99025 cents out of each

dollar.

Q Now, and the difference between acreage of, say, 76.88 and 76.91 acres, would you consider that a significant difference?

A No, sir.

MR. JAMES: I have no other questions.

MR. NUTTER: Are there any further questions of Mr. Hannifin? He may be excused.

You didn't have any more witnesses, did you, Mr. James?

MR. JAMES: No, sir.

MR. JENNINGS: Before proceeding, Mr. Examiner, insofar as the application of Mesa is concerned, we would like to move that the application at this time be dismissed, as it is our position that without the communitization agreement or the approval of the Secretary, that Mesa and this Commission cannot force pool the acreage of the United States which comprises the Western Reserve acreage, this being a Federal lease, and in support of my statement I would call the Commission's attention to a United States Court of Appeals Tenth Circuit case of Kirkpatrick Oil and Gas Company versus United States, renderod on April 19th, 1982.

MR. JAMES: Mr. Examiner, this -- I've just been given the case just a few moments before the hearing

and just a chance to have a cursory look at it.

It is my opinion, I'd be willing to brief it, if necessary, but it is not on point and clearly the Commission has the authority to grant Mesa's application.

If -- there are a couple of instances in the case itself where there were communitization agreements obtained and the Court distinguishes those instances. Here clearly there's been no attempt to go to the Secretary of Interior and obtain a communitization agreement to -- to this point, and certainly Mesa intends to do that.

MR. PEARCE: Well, gentlemen, if I may, in regard to this matter could either of you, or your witnesses who are currently under oath in this matter, or anybody who I could get under oath in this matter, explain to me the procedure for getting Federal consent to a communitization under a forced pooling order and secondly, could either of you or someone else who's available to this Examiner, indicate to us what would be the effect of submitting a proposed communitization agreement to the appropriate Federal Agency prior to the hearing of a forced pooling case?

It's a process that -- that I am not sufficiently familiar with to know when that Federal consent is supposed to be gained or even can be gained.

If anybody can enlighten me, I'd appreciate

it.

MR. JAMES: We would certainly appreciate the opportunity to take those questions and have a chance to research them and give you an answer to that. I'm sure that -- that -- it's unimaginable to me that a party would come in here and say that you cannot have forced poolings that affect significant amounts of acreage in New Mexico. That clearly could, you know, just take the jurisdiction of the Commission away entirely with respect to those matters.

For example, if you carried it to the furthest extent, if a person had one acre in a 160-acre proration unit, you could not force pool that one acre. Clearly that's not the law.

MR. NUTTER: Well, apparently this is Tenth Circuit Appeal, is contrary to what we've been going under for quite some time. I'd be inclined to enter an order, run it up the flagpole, see if the USA salutes it.

I'm not saying we'd enter an order here, Mr. Jennings, because we still have half these combined cases to hear.

MR. JENNINGS: I'm not -- I'm --

MR. NUTTER: But it will be interesting for us to have some kind of a -- this is new and no one's had a chance to really research it, and if both of you would like

to submit briefs on this -- on this order of the Tenth Circuit, why --

MR. JENNINGS: I'm satisfied with it.

If it please, Mr. Examiner, I'm not under oath and I think Mr. Pearce wanted somebody to say something --

MR. PEARCE: Well, I think either counsel, that would be just fine.

MR. NUTTER: Or both.

MR. PEARCE: Yes.

MR. JENNINGS: I don't know, but I would suspect it would be quite similar to a situation in which the USGS, or the Minerals Management Group, now, approved a unit. They will approve it subject to approval -- subject to getting approval of the Oil Conservation Commission, and I would imagine that getting approval of a communitization agreement, the parties entering a communitization agreement, then, that they would do it. Now, that's just my -- my feel for it, and I would think that the Minerals Management, who approves communitization agreements, the same officers who approve those would have the authority to approve these.

MR. PEARCE: Okay. If I may, this may be unfair and you may certainly refuse to participate, if you wish to, Mr. Jennings, but if in the next few minutes we get your witnesses on the stand and Mr. James rises and objects to

the fact that you cannot compulsorily pool this acreage because you do not have the consent of the Federal government, what is your response going to be, sir?

MR. JENNINGS: We have the right to drill on the acreage because we have a lease.

MR. PEARCE: But you, as I understand it, the objection goes to whether or not you can force pool without the censent of the Federal government.

MR. JENNINGS: Yeah, but we can drill on a Federal lease. We have a -- we have the right --

MR. PEARCE: Yes, but you -- but you can't get the acreage to dedicate to that well without force pooling.

MR. JENNINGS: I realize that, but we can-- you can order forced pooling. We have the right to drill at this location on the lease.

MR. PEARCE: I'm sorry, I thought your objection was going to the fact that I did not have the right to enter the forced pooling order because Mr. James had not presented me with the consent of the Federal government to that communitization.

MR. JENNINGS: Well, somebody. He hasn't got the consent of the parties owning the lease or the United States.

MR. PEARCE: And do you have the consent

of the United States?

MR. JENNINGS: We have the oil and gas lease from the United States. We're not -- the only thing that they're getting --

MR. PEARCE: His acreage is not Federal acreage.

MR. JENNINGS: Right.

MR. PEARCE: Thank you, sir.

MR. JAMES: Mr. Examiner, we're willing to run with the flag on this one on behalf of the Commission, so to speak, that you do have jurisdiction in this matter. We -- of course, compulsory pooling in Oklahoma in itself is distinguishable from compulsory pooling in New Mexico, so you have to go back and have a chance to look at the facts of the case. You have to see what process the parties follow and then you have to look at it and see if it is applicable to this hearing and simply just with a cursory glance, it's not applicable.

MR. NUTTER: Go ahead and put your witnesses on, Mr. Jennings.

MR. JENNINGS: I'll have two witnesses.

MR. NUTTER: It's 12:00 o'clock. I don't know if you all want to break for lunch now. We're not going to finish this thing, obviously I think, before we all get hungry.

MR. JENNINGS: I would anticipate that we will be through by 12:30.

MR. JAMES: I don't have a ton of questions for the opposition, so to speak.

MR. NUTTER: If you want to go ahead with the case now, we'll finish it.

JOE T. JANICA

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

DIRECT EXAMINATION

BY MR. JENNINGS:

Q. Would you please state your name, place of residence, and occupation?

A. My name is Joe Janica. I live in Hobbs, New Mexico. I'm a consulting engineer.

MR. NUTTER: Would you spell your last name, please?

A. J-A-N-I-C-A.

MR. NUTTER: Thank you.

A. Yes, sir.

Q. Mr. Janica, what is your basic education and qualifications?

A. I have a geological engineering degree from Texas A&M University. I have twenty -- twenty-five years experience in the oil business in drilling, completions, evaluations, and production.

Q. Have you previously testified before this Commission as an expert and as a geological engineer --

A. Yes, I have.

Q. -- and had your qualifications accepted?

A. Yes, I have.

MR. JENNINGS: We tender the witness.

MR. NUTTER: Mr. Janica's qualified.

Q. Mr. Janica, are you familiar with the application which has been filed herein by Western Reserves Oil Company?

A. Yes, sir, I am.

Q. Generally what does Western Reserves seek with this application?

A. We seek to drill on our acreage.

Q. Well --

A. On the acreage in Section 30, southwest -- northwest quarter.

Q. And this is an Abo well?

A. Yes, it's an Abo well.

MR. JAMES: Mr. Examiner, if I might at this

time, Mesa objects to the entry of any testimony by Western Reserves in that it is not authorized to transact business in New Mexico, and we have asked that their application be dismissed.

MR. NUTTER: I was expecting that. We are going to go ahead and hear the case and determine later whether it's appropriate or not.

Q What is your connection with this proposed application and the drilling of this proposed well?

A I am charged with all the drilling and completion and production supervision of Western Reserves wells in the State of New Mexico.

Q And elsewhere?

A And elsewhere.

Q How long have you been in charge of this operation, Mr. Janica?

A About eight years.

Q Would you please refer to what has been marked as Western Reserves Exhibit Number One?

MR. NUTTER: Do you have a copy of that for us?

MR. JENNINGS: Yes, sir, right there.

A Okay, this is just an acreage plat of the area in Township 6 South, 25 East, and 6, 24.

Q How many wells has Western drilled in this Township?

A In this Township 26, 4 -- 6, 25, Western has drilled three wells.

Q Would you identify those wells, please?

A Yes, in Section 7, Bravo Federal Numbers 1 and 2; 1 being the southeast quarter of 7; 2 being the northwest -- northeast quarter of 7; and the No. 4 is in the southeast quarter of Section 30.

Q Now, referring to the northwest quarter of Section 30, Mr. Janica, is that the acreage where you propose to drill this?

A Yes, sir, that's affirmative. The outlined area, the northwest quarter of 30, is acreage which we would like to operate, drill a well on.

Q Has Western joined in the drilling of other wells in this particular area?

A Yes, we have.

Q With Mesa or with others?

A With Mesa. We joined in Mesa's in the southwest quarter of 19 and we own a 75 percent working interest in the southeast quarter of 30.

Q And is the Western acreage in this area reflected in yellow on Exhibit Number One?

A Yes, it is.

Q And I believe that the well is at the same location as was testified by Mesa in their application for their Donna No. 1.

A That's affirmative.

Q All right. Have you been to that location?

A Yes, I have.

Q Has a location, actual well location been staked there?

A Yes, sir it has.

Q By whom?

A I imagine Mesa Petroleum.

Q Doesn't show by whom?

A Negative.

Q Mr. Janica, the northwest quarter of Section 36 is a standard proration -- or of Section 30 is a standard proration unit?

A Yes, sir, it is.

Q And the well location is a standard well location?

A Yes, it is.

Q Mr. Janica, are you familiar with well costs of drilling and completion cost in the area?

A Yes, I am.

Q Please tell us what experience have you had with that?

A Well, Western Reserves has drilled seven wells -- six wells in this area and I have supervised and made AFE's for all seven wells -- all six wells, I'm sorry.

Q Refer to what has been marked as Exhibit -- Western's Exhibit Number Two and tell us what that is, if you would, please?

A That's an AFE prepared by me for the drilling of the Western Reserves Bravo Federal No. 5, located in Section 30.

Q Do you feel that this is -- the figures set forth therein are fair and reasonable?

A I do.

Q If the well is drilled by Western would it be drilled under your direction and supervision?

A Yes, it will.

Q Does Western have the capabilities of drilling this well and other wells?

A Yes, they do.

Q Do you have any idea how many wells Western has drilled or participated in in the past year?

A I would estimate twelve to fifteen.

Q Was Exhibit Number One and Two prepared by

you or under your supervision?

A. Yes, they were.

MR. JENNINGS: That's all we have of this witness.

MR. NUTTER: Are there any questions of the witness?

MR. JAMES: I have a question.

CROSS EXAMINATION

BY MR. JAMES:

Q. Mr. Janica, I notice on your Exhibit Number Two that you show the location for the proposed well at 1980 feet from the north and 1980 feet from the west line, is that correct?

A. That's correct.

Q. And you are aware that that is -- that proposed location on your AFE is too close to the east line under the Commission's rules?

A. No, I wasn't aware of that.

Q. Did you --

A. I generally don't get aware of that until my surveyor goes out and stakes it. If it's too close to the east line, well, then I don't --

Q. But you intend to move it to -- you don't

intend to have a non-standard --

A. We have not staked the well. When we stake it, we'll stake it correctly.

Q. I see. To your knowledge is Western Reserves Oil Company a Texas limited partnership?

A. To my knowledge, they are.

Q. Does Western have an office in the Roswell area?

A. No, not to my knowledge. We have representative counsel in Roswell.

MR. JAMES: I have no other questions of this witness.

MR. NUTTER: Who is your other witness to be, Mr. Jennings?

MR. JENNINGS: Mr. Beveridge.

MR. NUTTER: And what is his capacity, landman?

MR. JENNINGS: No, sir, he's the general partner of Western Reserves and landman and geologist and --

MR. NUTTER: I see.

Are there any further questions of Mr. Janica? He may be excused.

R. C. BEVERIDGE

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

DIRECT EXAMINATION

BY MR. JENNINGS:

Q. Would you state your name and occupation, please?

A. My name is Richard C. Beveridge. I'm General Partner for Western Reserves Oil Company.

Q. Where is Western Reserves Oil Company located?

A. Our main office is in Midland, Texas.

Q. Do you have other offices?

A. Yes, we do.

Q. Where are these?

A. We have offices in Hobbs, New Mexico, Nashville, Tennessee, and Jackson, Mississippi, and Oneida, Tennessee.

Q. How many general partners are there in Western Reserves Oil Company?

A. One.

Q. How many limited partners?

A. One.

Q. Would you please identify the limited partner?

A. Mr. R. N. Moran, Moranco.

Q. A resident of Hobbs?

A. Yes, sir.

Q. What's your background and training, Mr. Beveridge?

A. I have a Bachelor and a Master's degree with a major in geology.

I've been active in petroleum exploration for about twenty-eight years.

Q. Are you in charge of operations for Western Reserves as its general partner?

A. Yes, I am.

Q. Are you familiar with the application that is involved herein?

A. Yes.

Q. And you heard Mr. Janica's testimony as to the nature and extent of this application?

A. Yes, I did.

Q. Is that basically what your testimony would be?

A. Yes, sir.

Q. Do you have anything that you wish to add

as to the nature of this application?

A. No, sir.

Q. Mr. Beveridge, referring to what has been marked as Exhibit Three, would you -- Exhibit One, would you identify the portion of the northwest quarter of Section 30 that is owned by Western Reserves Oil Corporation?

A. Well, the tract description would be the north -- the south half of the northwest quarter of Section 30.

Q. Is that actual Lot 3 in the southeast quarter northwest quarter?

A. I believe it's Lot 2.

Q. Lot 2.

A. Lot 2 in the southeast quarter of the northwest quarter.

Q. What's the nature of your ownership in that tract, Mr. Beveridge?

A. A federal oil and gas lease.

Q. Would you identify the lease? Or do you have a copy of the lease?

A. Yes, sir. The Federal, the U. S. Bureau of Land Management serial number is NM-1263-A, covering 749.99 acres, all in 6 South, 25 East, Chaves County; portions of Section 7, 19, and Section 30.

Should I describe within each section?

MR. NUTTER: I don't think that's necessary.

Q No, that's fine. I hand you what has been -- has not yet been marked, but which will be marked as Western's Exhibit Number Three and ask you if that's a copy of the lease?

A Yes, that's the original lease and yes, that's correct.

MR. JAMES: Mr. Examiner, we don't have any copies, I don't believe of --

MR. JENNINGS: We'll make some copies.

MR. JAMES: -- Exhibit Three.

MR. JENNINGS: I intend to mark this.

MR. JAMES: We would like to have copies of any exhibits that are entered.

MR. NUTTER: This is the original, I think, is it not? Are there Xeroxed copies of this?

MR. JENNINGS: That's a Xeroxed copy.

MR. NUTTER: Mr. Jennings, you can furnish us with two copies of these exhibits.

MR. JENNINGS: Yes.

MR. JAMES: Mr. Examiner, my experience with Federal leases tells me that what has been tendered is not a Federal lease. We would object to it.

This is merely an offer to lease and contains no lease attached to it. A lease incorporates a number

of terms and conditions, which there are none here.

I don't mind it being tendered as what it actually is, however.

MR. JENNINGS: Mr. Examiner, I have here what is an abstract prepared by an abstractor, Federal Abstract Company, and I'll hand Mr. James a copy of the complete lease for his examination and we will furnish the Examiner a complete copy of the lease as is reflected by this abstractor, certified, if they desire.

MR. NUTTER: Yes, sir, we would like a copy of this lease in our records.

Q. Mr. Beveridge, you heard testimony heretofore presented in connection with your dealings with Mesa. Would you please just briefly, as it's getting late, outline from the outset, the dealings prior to your letter of February 23rd addressed to Mesa, which has been marked as Exhibit Number Nine, I believe?

A. The contact prior to my letter of February 23rd was initiated by Western, by me, in Mesa's office. We described to them our plans to drill five test wells on the lease earlier described, and namely the Bravo Federal 1, 2, 3, 4, and 5.

We had not at that time commenced our operations. During this initial meeting we proposed that Mesa and

Western exchange two 40-acre tracts, which were located in the west half of Section 7, namely, the Western tract described as Lot 3, or the northwest/southwest of Section 7, in exchange for the Mesa tract, which is owned -- or is earlier described as owned by Mesa and Corona, and it is Lot 1, or the northwest/northwest of Section 7.

Our proposal was to exchange those two tracts in the hope that we could expedite the operation.

Under our proposal Western would have then owned 100 percent of the working interest in the northwest quarter of Section 7 and Mesa, et al, would have had 100 percent, or the western portion described as Lot 3.

At that time Mesa promptly advised that they would not entertain such a proposal. They would prefer to join with us in the proposed Bravo location and at such time as a well was initiated in the southwest of Section 7 we would simply be offered the opportunity to join.

Subsequent to that meeting I sent them our letter which has earlier been submitted dated February 23rd, with an AFE --

Q Mr. Beveridge, could I interject? I might have referred to that in my question as Exhibit Number Nine. I believe it's Exhibit Number Eleven. Excuse me.

MR. NUTTER: Go ahead.

A So subsequent to this February meeting we submitted in writing a letter, dated February 23rd, with an AFE for each of the three wells described as the Bravo 3, 4, and 5.

Q And what followed after that, the best you recall?

A Well, on March 9th, 1982, Mesa advised us by letter that they wanted to drill a test well at the same location that we had selected in February, namely a test well in the southeast/northwest of Section 30.

Shortly after their March 9th letter I discussed orally with Mr. Hannifin, their landman, a conflict in that we had earlier elected to drill this same spot, and Mr. Hannifin replied that they, Mesa, would like to be operator because they had a rig or two tied up on a two-year commitment.

On March 18th Mesa sent us a second letter about their proposed location. Approximate costs were stated in the letter but no detail or AFE was submitted, although the March 18th letter indicated th re was an AFE, and at this point the location was changed, the footage location was changed from the March 9th proposal.

On the 24th, by letter from Western, we advised Mesa that we initiated this northwest Section 30 location and we returned their March 9th -- excuse me, March 18th

letters.

On April 5th our land department was contacted -- had contacted Mesa's land department per request from our attorney in attempt to borrow some abstracts to have a title examination on this drillsite, and at that time they informed us that they preferred not to give us a copy of their opinion because they were planning to force pool Western.

Q Did you have any other meetings with them?

A On April 20th we had a meeting in the Mesa Midland office -- excuse me, it was scheduled on April 20th and it was changed to the next day, April 21st, and at that time we discussed a number of matters, among them the fact that we had had to release our rig obligation -- or excuse me, not obligation but commitment, rig commitment to drill the No. 3 because they then advised us they wanted to use that as their decision on the No. 3 location, as a lever to compromise us in giving up the Section 30 idea, and we discussed on a number of occasions during this meeting, which took place over probably an hour and a half's time, that we wanted to operate it and perhaps if we couldn't resolve it at that time it would have to brought before the Oil Conservation Commission.

Q Did they -- anyone at that meeting advise you or anyone else who was present while you were present that Mesa had already commenced an application to force pool this

acreage?

A. No, sir, I was present during the entire meeting and while there were opportunities, none was offered.

Q. When did you first learn that they had filed an application to force pool the acreage?

A. Well, it was at some time after this April 21st meeting. I don't recall the exact -- exact date.

Q. Well --

A. I'm sorry, I had no notification from them.

Q. Okay. Mr. Beveridge, are you -- have you made any further efforts to bring -- excuse me, strike that question.

Have you contacted the owner of the other 25 percent interest in this acreage in connection with the formation of a proration unit?

A. Well originally we sent copies of our proposal to Corona Oil Company, and they -- they did join in what we call the Bravo No. 4. They executed an AFE, but we did not have any response on the No. 3 and No. 5.

Q. Mr. Beveridge, are you familiar with drilling in this general area?

A. Yes, I am.

Q. And have you watched the development of the pool?

A. Yes, sir.

Q. Have you become acquainted sufficiently to have an opinion as to a reasonable risk cost, the charge for risk involved in the drilling of a well in this area?

A. Yes, sir. The figure of 200 percent as a risk is reasonable.

Q. Do you feel that is reasonable and to your knowledge has that been used in a number of instances in that area?

A. Well, to my knowledge, whether or not it has been exercised is an election I'm not -- I'm not familiar with.

Q. Mr. Beveridge, do you have any knowledge as to the cost of operation during drilling and after completion insofar as administrative overhead is concerned?

A. Yes, I do.

Q. In your opinion what is a reasonable charge to be made for administrative costs during drilling operations?

A. $2500 a month.

Q. Is that what Western Reserves would charge?

A. Yes.

Q. And do you have an opinion concerning the charge during and after completion?

A. Yes, sir.

Q What would that be?

A $200 per month.

Q Are those charges generally made by Western in connection with wells in this area?

A Yes, they are.

Q Mr. Beveridge, in your opinion would the pooling of this proration unit prevent waste and prevent the drilling of unnecessary wells?

A Yes, it would.

Q Would it protect the rights of all the interested owners?

A Yes, it would.

Q Does Western Reserves desire to be the operator in this unit?

A Yes.

Q Are you equipped, willing, and able to conduct the operations and operate the well?

A Yes, we are.

Q Mr. Beveridge, it has been submitted and furnished as Exhibit, I believe, Number Sixteen, which would purport to be a certificate from the Commissioner of Public -- or from the Secretary of State that you have not registered in the State of New Mexico as a foreign limited partnership. Do you know if that is correct or not?

A. I have no knowledge. I saw it just a few moments ago.

Q. If it should develop that you are not registered as a foreign partnership and if that is required by the statute, are you prepared to immediately register as a foreign limited partnership?

A. Yes, I am.

Q. Do you have anything -- oh, one other thing. Mr. Beveridge, I hand you a document which will be marked as Western's Exhibit Number Four and tell me if this is a document that you received in the ordinary course of business and then what it is.

A. Yes, this is a copy of a joint interest billing from Mesa Petroleum Company and it's a billing amount on the well called the No. 1 Donna Federal Community. It reflects a cost amount, dollar amount, and a percentage ownership amount of the three owners named on the joint interest billing.

Q. What does that show as the interest ownership?

A. The percentage interest ownership is Corona Oil Company, 24.99512; Western Reserves Oil Company, 50.00975; Mesa Petroleum Company, 24.99513.

Q. Did you state from whom you received that?

A. It came from the -- from Mesa. The post

office box is their Amarillo office. I assumed it came from the Amarillo office.

MR. JENNINGS: I believe that's all.

MR. JAMES: I have a couple questions for him, Mr. Examiner.

MR. NUTTER: Go ahead.

CROSS EXAMINATION

BY MR. JAMES:

Q Mr. Beveridge, Western Reserves Oil Company is a Texas limited partnership?

A Yes, sir.

Q And now under the Federal lease that you intend to offer as an exhibit, would you say that the Federal government expects you to comply with the applicable State laws for doing business in that state?

A Yes.

Q Now have you gone out and sought an archaeological clearance for your proposed location?

A For the Section 30 location?

Q Yes, the location we're talking about here today.

A No, we did not stake the location.

Q Have you surveyed the location?

A. No, sir, as I say, we have not staked or surveyed this.

Q. And you have not sought the archaeological clearance?

A. No, sir.

Q. And have you approached the landowner with respect to access? Surface -- surface lessee or landowner?

A. Well, we haven't, we haven't done any of the field work yet. We were waiting on this hearing.

Q. And have you filed a drilling permit?

A. No, sir.

Q. Did you in all of these documents that have been before the Examiner, have you sent Mesa the proposed operating agreement for this well?

A. Proposed operating agreement?

Q. Yes.

A. No, sir.

Q. So you just simply sent an AFE.

A. Yes, which is typical. We always send the AFE first.

Q. Now how much of Western Reserves do you own?

A. Fifty percent.

Q. So if this well is drilled you will actually

only be risking 25 cents of each dollar risked.

A Well, as general partner I'm responsible for the full amount.

Q But in terms of profits and losses, I believe they're attributed to the partners and limited partners individually, are they not?

A It varies, but the responsibility for the commitments and expenditures are mine.

MR. JAMES: I have no further questions.

MR. NUTTER: Are there any questions of Mr. Beveridge?

MR. JENNINGS: We would at this time like to offer Exhibits Three and Four. Exhibit Three was the lease and I furnished Mr. James with a copy of the complete lease. It's a Federal form, the one we offered. I would be glad to furnish the Commission with it, a complete copy of that, and Exhibit Four has been handed and you have Exhibit Four, yes, sir.

MR. NUTTER: Okay.

MR. JAMES: Mr. Examiner, I have, if Mr. Jennings is finished, I do want to rebut Exhibit Four with our witness under oath.

MR. NUTTER: This is the original Exhibit Four, apparently, too, is it not?

That's a copy which you received from Mesa?

MR. JENNINGS: That's a photocopy.

MR. BEVERIDGE: I believe it's a Xeroxed copy.

MR. NUTTER: Oh, is it.

MR. JAMES: If I might have just a moment to show this to our witness so he may be familiar with it.

Mr. Examiner, we -- has Mr. Jennings witness been dismissed?

MR. NUTTER: I believe if there's no more questions, Mr. Beveridge may be excused.

MR. JAMES: We would recall Mr. Hannifin at this time.

MARK HANNIFIN

being recalled as a witness and being previously sworn, testified as follows, to-wit:

REDIRECT EXAMINATION

BY MR. JAMES:

Q Mr. Hannifin, you have in front of you what's been, I believe, submitted as Western's Exhibit Number Four, and would you please tell us what the date is on that exhibit?

A. Yes, sir, it's dated 3-31-1982.

Q. That would be March 31 of this year?

A. Yes, sir.

Q. And did the interests in this property change to Mesa's -- in accordance with Mesa's schedule as submitted under --

A. Exhibit Two.

Q. -- Exhibit Two, did they change to that since that date?

A. Yes, sir, they did.

Q. So you are not attempting to state interests that Mesa does not indeed have?

A. That's correct.

Q. And why would, why would a joint interest billing even be sent?

A. Well, there's a certain amount of lag time any time we reach an agreement with a partner, and that's what happened here. In essence, the date this was sent out it was correct. Subsequent to that date the interest changed. Corona decided to go nonconsent in this well and have us bear their share of the cost, which is what's happened there; that was within three days of this, so I imagine the subsequent billings would be correct.

Q. So the reason you sent out a joint interest

billing is that I believe that comes from the Amarillo office, is that correct --

A. Yes, sir.

Q. -- and you work in the Midland office.

A. Yes.

Q. And you set up the sheets anticipating promptly drilling a well, submit them to accounting, is that correct?

A. Yes, sir, to the best of my knowledge at that point in time.

Q. Anticipating that the well would be drilled and that data would be sent timely to all --

A. Yes, sir.

Q. -- parties and interests.

MR. JAMES: No further questions.

MR. JENNINGS: Just one question, Mr. Hannifin.

RECROSS EXAMINATION

BY MR. JENNINGS:

Q. You stated that Mesa changed their -- or that Corona or the other parties changed their mind and decided that they -- to go nonconsent and the interest changed. When and how did that change?

A That was effective 4-1-82.

Q You submitted a number of exhibits which kind of snowed me under, but I didn't find that in here. Was it submitted, the evidence of that, of their agreement, desiring to go nonconsent? Is it in this multitude of documents as presented here?

A Yes, sir, it's in the form of the operating agreement that they executed and stating their interest in Exhibit A, which would be Exhibit Three; the signature pages should be Exhibit Four.

Q Well, Exhibit Four indicates it was from Corona Oil Company May 20, 1982, executed signature page of the above referenced operating agreement, Sandra Parks, and it doesn't show when you received this but this would indicate from Exhibit Four that it was not signed, at least you did not receive the executed documents until May 20.

Now do you still go by your statement that it was received by you and the deal was changed on April 1st?

A I never said it was received by us. I said it was effective by 4-1-82.

Q Well, I'm looking at the document and I don't know how it could be effective unless it was retroactively effective.

A That was sent to us as a result of the --

or their election to go nonconsent.

Q And it was sent to you just six days before this hearing.

A Yes, sir, according to that letter. That's correct.

Q You weren't making your -- building your ground behind you, were you?

A Beg pardon, sir?

Q I said you weren't getting this together a little late, were you?

MR. JAMES: Mr. Examiner, he's testified what our interests are. I don't know what kind of a question that is, so the implication and such is not a proper question.

MR. JENNINGS: It certainly is a proper question in light of his testimony.

We have nothing further.

MR. JAMES: Mr. Hannifin, if I may ask a question.

REDIRECT EXAMINATION

BY MR. JAMES:

Q Mr. Hannifin, simply in order to bring this Commission the evidence of Corona's nonconsent position, you obtained the operating agreement --

A. Yes, sir.

Q. -- signature pages?

MR. JAMES: That's all I have.

MR. NUTTER: Does anyone have any further questions of Mr. Hannifin? He may be excused.

MR. JAMES: I have no further witnesses.

MR. NUTTER: Okay, we're going to take the case under -- the two cases under advisement pretty soon, but-- and then I'm going to call for closing statements, but prior to calling for closing statements, I want to mention that we have two -- two motions this morning. Mr. Jennings moved that we dismiss Mesa's case and Mr. James moved that we dismiss Great Western's case -- I mean Western Reserves case.

I think it would be appropriate since I'm not dismissing either case to find out whether I did the right thing or not.

So I'd like for both attorneys to prepare briefs on both of these questions, on the appriateness of conducting this hearing this morning for Wester Reserves, inasmuch as they may not have been authorized to do business in the State of New Mexico, and also to brief their opinions as to the effect of the late Tenth Circuit Court opinion. So prior to getting into those closing statements, I'd like to ask if twenty days would be sufficient in which you could brief both

of these issues?

MR. JAMES: We would ask that the time period be much shorter than that, Mr. Examiner. We would like to proceed promptly drilling this well. If Mr. Jennings has no objections to submitting it within a shorter time period.

MR. NUTTER: Does ten days sound reasonable?

MR. JENNINGS: There's a minimum of fifteen days. As you can well see, we're not quite as well endowed or equipped as Mesa is. I don't know, they might have a hundred lawyers up there to get it out. Our client doesn't happen to have that many and we have some other things to take care of, and I see -- I --

MR. NUTTER: Can you do it in fifteen days, Mr. Jennings?

MR. JENNINGS: I would imagine.

MR. NUTTER: Now we'll have two briefs on two subjects from each of you, and we'll give you fifteen days to get those in.

Okay, I'll call for closing statements.

MR. JENNINGS: I don't understand you, Mr. Nutter. Are we going -- is he going to give us his brief and then we answer or --

MR. NUTTER: No, they'll both be simultaneous briefing as to your opinion of the effect of these

motions that we've had this morning, whether the action taken was appropriate, and if not, why not, and if so, why so.

Now, I'll call for closing statements. Mr. James, you may go last.

Do you have a statement, Mr. Jennings?

MR. JENNINGS: You said I may go last?

MR. NUTTER: Mr. James may go last.

MR. JENNINGS: Oh, I thought you said I may go last.

Well, I would just like to briefly point out that it would appear that Western is -- had some acreage in there and a New Mexico operator decided to develop the acreage and contacted Mesa and then it wrote a letter to Mesa and it appears then that Mesa decided that was a good idea and they too wanted to develop the acreage, and that Western actually is the majority -- has the greatest interest, even though it is small and I note that in a number of prior, at least one involving some of the same personnel, in my understanding, that the Commission has taken the position, and I understand it's under appeal, that the party having the largest, the greatest interest is entitled to -- that they ought to be the operator. I further point out that Western proposes to operate it at a much lesser, for a much less figure; that Western is well qualified to operate it; they have a majority of interest; and

Mesa has a 25 percent interest and they -- somebody else has elected to go nonconsent, which apparently, as far as I can determine, is an afterthought.

Western is the majority interest owner and are developing their acreage and they advised Mesa at an early date that they intended to drill at this acreage and I think it's only right that Western be permitted to go forward.

I will not go into a question of the forced pooling of a Federal lease, as you want to look into this, and I might further add that if -- I think that Western was duly qualified at the time that it started to do business and if it failed to register it will register immediately and be qualified by the time it starts the well.

It's indicated and shown every desire to drill the well and they're ready, willing, and able to drill the well, and they'll drill it and charge a much lesser fee than is proposed by Mesa, who apparently wants to take over all the operation in that part of northern New Mexico -- northern Chaves County.

MR. NUTTER: Thank you.

MR. JAMES: Mr. Examiner, the ownership interests of the two parties before you are essentially equal. There's a difference of .03 of an acre. The real differences here lie today, and not in the costs, if you examine the AFE's

they're within $1000 of each other, but they lie in the fact that Mesa Petroleum Co. is authorized to transact business in New Mexico and Wester Reserves Oil Company is not.

We're not talking about them promptly getting out and filing the necessary papers. We're talking about whether they had standing to come before you today or not; whether they were the owner of an interest with the right to drill and properly file an application.

They did not have the right to drill since they can't transact business in this state.

Of course I've submitted a legal brief. I will supplement that legal brief based on the testimony today with respect to that matter.

Mesa promptly and properly filed the first application in this matter seeking to drill and produce the proposed unit. Mesa is the owner of an interest in the proposed unit with the right to drill thereon. Mesa has made the necessary filing for a drilling permit. They sought and obtained the archaeological clearance data for the drill site. They've approached the surface tenant. They surveyed the property in question, none of which Western has done.

It's clear, and Western is not trying to dispute it, that Mesa is one of the most experienced operators in the area; has repeatedly expressed its commitment to the

development of New Mexico's resources, and I think just based on what we've heard today that Western's application in Case Number 7593 should be dismissed and Mesa's application in Case 7564 should be granted.

MR. NUTTER: Thank you. Now, here is your copy of your offer to lease, Mr. Jennings. We don't need that. And we do want two copies of that Federal lease.

MR. JENNINGS: We'll get it to you.

MR. NUTTER: And I think we only got one -- no, we got two copies of your map, Exhibit One, and we'll another copy of the -- of the Exhibit Number Four.

MR. JAMES: Mr. Examiner, do I need to submit a further copy of Mesa's exhibits?

MR. NUTTER: No, we've got two copies of your --

MR. JAMES: You've got two. Do you need a third copy?

MR. NUTTER: Yes, sir, we're supposed to have three copies, that's correct.

(Hearing concluded.)

CERTIFICATE

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2564 - 2593 heard by me on 5/26, 19 82.

, Examiner
Oil Conservation Division

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

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
28 April 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Mesa Petroleum Company for compulsory pooling, Chaves County, New Mexico. CASE 7564

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

MR. NUTTER: We'll call next Case Number 7564.

MR. PEARCE: That is the application of Mesa Petroleum Company for compulsory pooling, Chaves County, New Mexico.

MR. CARR: May it please the Examiner, Mesa Petroleum Company requests that this case be continued to the Examiner Hearing scheduled for May 26, to enable the Examiner to hear at that time both Mesa application and an opposing application to be filed by Western Reserves.

MR. NUTTER: Case Number 7564 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. May 26, 1982.

(Hearing concluded.)

C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7334, heard by me on 4/28 1982.

, Examiner
Oil Conservation Division

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

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

August 11, 1982

Re: CASE NO. 7564
ORDER NO. R-7050

Mr. William F. Carr
Campbell, Byrd & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico 87501

Applicant:

Mesa Petroleum Company

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Steven James, James Jennings

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7564
Order No. R-7050

APPLICATION OF MESA PETROLEUM COMPANY FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 26, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 10th day of August, 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 April 8, 1982, the applicant in the instant case, Mesa Petroleum Company ("Mesa"), filed with the Division application for hearing seeking an order pooling all mineral interests from the surface down through the Abo formation underlying the NW/4 of Section 30, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico.

(3) That on May 3, 1982, the applicant in Case No. 7593, Western Reserves Oil Company ("Western"), filed with the Division application for hearing seeking an order pooling all mineral interests from the surface through the Abo formation underlying the same lands, i.e., the NW/4 of Section 30, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico.

(4) That Case No. 7564, the Mesa case, was originally set for hearing at 9 a.m. April 28, 1982, but was continued to May 26 so that it and Case No. 7593, the Western case, could be heard at the same time.

(5) That at the hearing of the instant case, counsel for Western moved for the dismissal of Mesa's application on the grounds that without prior approval of a communization agreement or prior approval to pool by the Secretary of Interior, the Division cannot pool federal lands, and supported his argument by citing a recent decision by the United States Tenth Circuit Court of Appeals, Kirkpatrick Oil Company vs. United States of America. Ruling on the motion was postponed pending the filing of briefs on the motion.

(6) That from said briefs it would appear that in the Kirkpatrick case, as well as in other cases cited in the briefs, that prior approval by the Secretary of Interior is not a required prerequisite to the Division hearing a compulsory pooling case involving federal lands and entering an order pooling such lands.

(7) That the motion to dismiss Case No. 7564 should be denied, and said case should be decided on its merits.

(8) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

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

(10) That the proposed unit contains 153.79 acres, and of this, Mesa presently controls 76.88 acres, or 49.9902 percent of the unit.

(11) That Mesa actually owns only 50 percent of the aforesaid 76.88 acres, and Corona Oil Company ("Corona") owns the remaining 50 percent.

(12) That Mesa has a long-term non-consent operating agreement with Corona whereby it controls Corona's interest in the subject unit until payout of costs plus penalty at which time Corona's interest reverts to Corona and Mesa's interest in the subject unit would reduce to 24.9951 percent.

(13) That of the proposed unit's 153.79 acres, Western holds a lease on 76.91 acres, or 50.0098 percent.

(14) That although Mesa's application for hearing in the instant case preceded Western's application for hearing in Case No. 7593, Western apparently made the first effort to voluntarily pool the subject lands, having transmitted an AFE to Mesa on February 23, 1982, whereas Mesa transmitted an AFE to Western on March 18, 1982.

(15) That each company's AFE appears to represent a reasonable estimate of well costs.

(16) That both Mesa and Western have drilled and completed several Abo wells in the immediate area, and have demonstrated their competence by past performance.

(17) That considering the factors described in Findings Nos. (10) through (16) above, it would appear that Western has a higher stake in the proposed proration unit than does Mesa, will drill and operate the proposed well in a competent manner and should be approved as operator of the unit in Case No. 7593, whereas Mesa's application in the instant case should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Mesa Petroleum Company for an order pooling all mineral interests from the surface down through the Abo formation underlying the NW/4 of Section 30, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico, is hereby denied.

(2) 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

Steven C. James
attorney at law
permian basin division

MESA
PETROLEUM CO.

June 7, 1982

JUN 07 1982
OIL CONSERVATION DIVISION
SANTA FE

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

Gentlemen:

Subject: Cases 7564 and 7593

Attached please find three (3) copies each of the two (2) different Memoranda of Law requested by Examiner Nutter at the May 26, 1982 hearing in the above referenced cases. The first Memorandum pertains to the fact that Western Reserves Oil Company 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 NW/4 of Section 30, Township 6 South, Range 25 East, Chaves County, New Mexico. The second Memorandum discusses the Kirkpatrick Oil & Gas Company opinion submitted for consideration by Western Reserves Oil Company during the said hearing. I am sending a copy of both Memoranda to Mr. James T. Jennings, the Attorney for Western.

Very truly yours,

Steven C. James

Steven C. James

ld

cc: James T. Jennings
Jennings & Christy
P. O. Box 1180
Roswell NM 88202

JUN 07 1982
OIL CONSERVATION DIVISION
SANTA FE

MEMORANDUM OF LAW

CASES 7564 and 7593

Submitted by Mesa Petroleum Co.

The application filed by Western Reserves Oil Company ("Western") in Case 7593 should be dismissed because throughout that case Western did not have the right to drill on the said NW/4 of Section 30, Township 6 South, Range 25 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.

Western Reserves Oil Company is a Texas limited partnership. As such it is a foreign limited partnership 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 Western must register with New Mexico's Secretary of State. As of the hearing in these cases on May 26, 1982, Western had not so registered with New Mexico's Secretary of State. A copy of the Certificate to that effect issued by New Mexico's Secretary of State is attached. The Certificate was accepted in evidence in these cases as Mesa's Exhibit No. 16.

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 it 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 Western could not transact business in New Mexico and could not, therefore, operate and drill on the said quarter-section, Western had no standing to apply for compulsory pooling under the said Section 70-2-17(C). Also, under the said Section 54-3-6, Western could not maintain its action before the Oil Conservation Division. The only legally sufficient way for Western to go forth with such compulsory pooling requests pursuant to the compulsory pooling statutes of the State of New Mexico is to fully comply with all of New Mexico's statutes. It is in the best interests of New Mexico to insist on strict compliance with all such statutes. Western's application in Case 7593 should be dismissed.

Mesa Petroleum Co. was the only owner of an interest in the said quarter-section with the right to drill thereon properly before you at the May 26, 1982 hearing. Mesa's application in Case 7564 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.

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 Western Reserves Oil Company has not been registered in the State of New Mexico as a Foreign Limited Partnership.

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 16
CASE NO. 7564

Given under my hand and the Great Seal of the State of New Mexico, in the City of Santa Fe, the Capital on this 26th *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.
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53-17-9. Registered office and registered agent of foreign corporation.
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53-17-11. Service of process on foreign corporation.
53-17-12. Amendment to articles of incorporation of foreign corporation.
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53-17-14. Amended certificate of authority.
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53-17-17. Revocation of certificate of authority.
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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.

MEMORANDUM OF LAW

CASES 7564 and 7593

Submitted by Mesa Petroleum Co.

OIL ... SANTA FE

Mesa Petroleum Co. ("Mesa") first filed an application in Case 7564 seeking compulsory pooling of all mineral interests from the surface down through the Abo formation underlying the NW/4 of Section 30, Township 6 South, Range 25 East, Chaves County, New Mexico. Over a month later Western Reserves Oil Company ("Western") filed its application in Case 7593 seeking compulsory pooling of that same quarter-section. A hearing in the two consolidated cases was had before New Mexico Oil Conservation Division Examiner Daniel S. Nutter on May 26, 1982. At that hearing evidence was presented showing that the working interests of both Mesa and Western in the proposed unit were effectively equal, that Mesa's leases were fee leases and that Western's lease was a federal lease.

At that hearing counsel for Western presented the Examiner with a copy of the unpublished 1982 slip opinion issued by the United States Court of Appeals, 10th Circuit, in Kirkpatrick Oil & Gas Company v. United States of America and Thomas S. Kleppe, Secretary of the Interior ("Kirkpatrick"). Western asserted that the Kirkpatrick case made new law. Western asserted that the holding of the Kirkpatrick case bars the New Mexico Oil Conservation Division from compulsory pooling of federal lands when a state or fee lessee is the applicant but does not bar the New Mexico Oil Conservation Division from compulsory pooling of state or fee lands when a federal lessee is the applicant. Counsel for Western asserted that in order for the lessee's of state or fee lands to apply for compulsory pooling affecting federal lands it would be necessary for them to obtain the prior approval of the United States Secretary of Interior. Obviously, if Western's assertions are supportable, the jurisdiction of New Mexico's Oil Conservation Division will be severly restricted with respect to the large federal landholdings in New Mexico. The assertions by Western's counsel are not supported by the facts, by the Kirkpatrick case or by the other case law which is applicable here. The Kirkpatrick case does not limit the jurisdiction of the New Mexico Oil Conservation Division.

The Kirkpatrick case does not make new law. It is merely the application of the same old laws to a new set of facts. The right of the States with respect to forced pooling and well spacing of federal mineral lessee operations has been upheld by the Supreme Court of the United States in Texas Oil & Gas Corp. v. Phillips Petroleum Co., 277 F. Supp. 366, aff'd per curiam 406 F. 2d 1303 (10th Cir.), cert. denied 396 U.S. 829 (1969). Copies of the opinions issued in that case by the United States District Court for the Western District of Oklahoma and the United States Court of Appeals for the 10th Circuit are attached to this Memorandum for your review. In the Texas Oil & Gas Corp. case federal lands were force pooled by the lessees of nonfederal lands over the objection of the federal lessees. The nonfederal lessees who prevailed in the force pooling proceeding then obtained administrative orders from the U.S. Bureau of Land Management and the U.S. Geological Survey approving the forced pooling order issued by Oklahoma's Corporation Commission. Testimony concerning the administrative proceedings necessary to obtain those approvals is set out in the opinion issued by the United States Court of Appeals for the 10th Circuit in 406 F. 2d at 1305. On that page the Director of the Bureau of Land Management states, "The right of the United States to receive royalty based on production of oil or gas from the leasehold has not been impaired or infringed. The Order affects only the activity of the lessee. Furthermore, the Geological Survey has indicated willingness to approve the communitization agreement proposed by Phillips for all Section 18, T. 17 N., R. 25 W., I.M., and has concurred in the drilling and spacing unit established by the Commission." In that same case in the opinion issued by the United States District Court for the Western District of Oklahoma in 277 F. Supp. at 371 the Court states, "Moreover, no threat can be seen to the royalty interest of the Federal Government in the lands involved by reason of the forced pooling order since its proportionate share will be received thereunder."

In the Texas Oil & Gas Corp. case it is clearly set out that the United States Congress has not undertaken to reserve unto itself exclusive control over federal lands leased for oil and gas development to the exclusion of the States. 277 F. Supp. at 369. This is restated in the Kirkpatrick case on the fourth page of the slip opinion where the Court says that, "Congress has prescribed limited, but not exclusive, controls over the leasing of federal lands for oil and gas production." What are those limited federal controls? To date, all that is required is federal

approval of assignments of its leases and communitization agreements involving federal lands with nonfederal lands. In Texas Oil & Gas Corp. the nonfederal land owner obtained those approvals after the forced pooling order was entered in its favor and obtained those approvals over the objections of the federal lessees.

So, what is different about the facts in the Kirkpatrick case when compared to the Texas Oil & Gas Corp. case? To help answer that question I have attached a copy of the Stipulation of Facts filed in the Kirkpatrick case. On May 28, 1968 the Oklahoma Corporation Commission force pooled the section in question as a 640 acre drilling and spacing unit for the production of gas and associated hydrocarbons from the Basal Cherokee (Red Fork), Mississippi and Hunton Formations. Both nonfederal and federal lands were in the force pooled section. In accordance with the force pooling statutes in Oklahoma, nonparticipating parties in the 640 acre unit had to convey their interests in the affected leases to those parties who intended to participate in the drilling of the proposed well. Assignments were made to Kirkpatrick Oil & Gas Company on April 1, 1969 of leases in the force pooled unit. The proposed well was originally drilled to a total depth of 8,100 feet, reaching total depth on or about July 6, 1970. The well was plugged back, perforating the Hunton Formation. On July 28, 1970, the well was completed as a producer in the Hunton Formation. Production was obtained out of that well from the Hunton Formation. On April 15, 1971 the Hunton Formation tested zero barrels fluid and 830 MCFGPD, but would not deliver into the sales line. Attempts were made to obtain further production from that formation but they failed. On June 16, 1971, a rig was moved in and the well was plugged back to the Mississippi Formation and production was obtained therefrom.

In paragraph 7 of the attached Stipulation of Facts it is stated that, "As required by the United States of America, on July 1, 1970, plaintiff (Kirkpatrick) executed Communitization Agreement MC359 (emphasis added)". As you can see all the federal government required was the execution of the Communitization Agreement after the forced pooling. Its execution was not required before the forced pooling. In fact, if you look at the Communitization Agreement attached to the said Stipulation of Facts as Exhibit "B", you will note in its description of the tracts which are made subject to the Communitization Agreement that under each Provision of Lease Authorizing Pooling it is stated, "Not applicable - see attached Oklahoma Corporation Commission Order No. 69148 (CD No. 28712) dated May 28, 1968 (Hunton 640 acre spacing)". Thus, the Communitization Agreement approved made express reference to the forced pooling as the basis for pooling under the Communitization Agreement. In that same paragraph 7 of the Stipulation of Facts it is stated, "Communitization Agreement was approved by the United States Geological Survey on October 22, 1970". The Communitization Agreement was approved by the federal government long after the state forced pooling hearing.

Unfortunately for Kirkpatrick the Communitization Agreement pertained to the production of gas and associated hydrocarbons from the Hunton Lime Formation underlying the section in question but did not cover the Mississippi Lime Formation. By the time that Kirkpatrick realized that he needed to amend the Communitization Agreement to cover the Mississippi Lime Formation, it was too late. The Communitization Agreement approved by the federal government had expired by its own terms and the federal leases it communitized were held to have expired due to the fact that they were not held by production beyond the primary term.

The true concern of the federal government in this matter was expressed in the legal brief they submitted to the United States Court of Appeals for the 10th Circuit in the Kirkpatrick case. On page 16 of that brief they state, "Kirkpatrick argues that no federal interest is served by the Secretary's actions in this case. This is plainly wrong. The 'federal policy and interests that * * * pooling or communitization of federal leases with non-federal leases must be approved by the Federal Government' has been recognized by the courts. Texas Oil & Gas Corp., supra, 277 F. Supp. at 371, aff'd, 406 F. 2d 1303. There is a federal interest in the 'orderly development of the oil and gas deposits in the publicly owned lands of the United States * * * (emphasis added)' Harvey v. Udall, supra, 384 F. 2d at 885. It hardly promotes orderly development for the United States to be unaware of the formation from which gas is being produced under federal leases, and to accept royalties under the mistaken impression that the gas is being produced from a certain formation. This was exactly the effect of Kirkpatrick's failure to follow the applicable regulation. This Court has recognized that 'the conduct of government business cannot be compelled to wait the pleasure or convenience of those persons who seek to deal with it'. Dawson v. Andrus, supra, slip op.5, quoting from Jack Koegel, 30 I.B.L.A. 143 (1977). This Court has also recognized that even where

'the result may seem harsh,' individuals must comply with the established procedure of the Interior Department. Dawson, supra, slip op.5. See also Moss v. Andrus No. 78-1050, 10th Cir. (Sept. 20, 1978), slip op. This Court has noted the importance of an orderly leasing scheme, 'in view of the magnitude of leasing operations conducted by the Secretary * * *.' Moss, supra, slip op.5". The concern of the federal government in the Kirkpatrick case was not the prior approval of state forced pooling proceedings affecting federal lands.

Kirkpatrick simply failed to obtain in a proper procedural fashion the necessary approval of the federal government. The holding of the Kirkpatrick case is in line with the holding of the Texas Oil & Gas Corp. case. It is necessary to obtain the approval of the federal government after you force pool federal lands. In the Texas Oil & Gas Corp. case the necessary approvals were obtained after the forced pooling through administrative orders. In the Kirkpatrick case the necessary approvals were originally obtained after the forced pooling via the approval of assignments and a Communitization Agreement. If Kirkpatrick were still producing from the Hunton Formation there would never have been a Kirkpatrick case. Unfortunately, he failed to properly amend his Communitization Agreement when he began producing from the Mississippi Formation, thus failing to obtain the continued approval of the federal government.

It is interesting to note that even the federal lessee must obtain the necessary approval of the federal government after compulsory pooling. Kirkpatrick, for example, was a federal lessee. Page 7 of the Kirkpatrick slip opinion states that, "...Congress must have intended that the Secretary have approval authority over any communitization of federal lands... (emphasis added)". Western is the federal lessee in cases 7564 and 7593.

On page 2 of the said legal brief submitted by the federal government to the United States Court of Appeals for the 10th Circuit in the Kirkpatrick case the federal government says the issue presented is, "Whether a drilling and spacing order of the Oklahoma Corporation Commission served to extend the term of federal oil and gas leases held by Kirkpatrick." On page 2 of the slip opinion issued by the United States Court of Appeals for the 10th Circuit in the Kirkpatrick case the Court says, "The controlling issue on appeal is whether, without the Secretary of Interior's approval, state-compelled communitization binds the federal government as landowner, so that production from other properties in the unit is attributed to the federal property, thereby extending the terms of the federal leases." Neither the brief nor the slip opinion were directed to the jurisidiction of the states with respect to compulsory pooling.

Neither the Kirkpatrick case or the Texas Oil & Gas Corp. case sets forth the proposition that you must somehow obtain the approval of the federal government prior to seeking a state compulsory pooling order related to federal lands. The facts of both cases clearly indicate that after the compulsory pooling, if you cannot obtain a voluntary communitization agreement from the other parties, you may proceed to seek administrative orders approving the compulsory pooling order or a communitization agreement based on the compulsory pooling order. On page 370 of the Texas Oil & Gas Corp. case the Court says, "No cases have been presented or found which hold that the federal government through the Congress has determined that it will deal exclusively with leasehold interests granted or created pursuant to the Federal Mining Leasing Act of 1920, as amended, and the case of Wallis v. Pan American Petroleum Corp., 384 U.S. 63, 86 S. Ct. 1301, 16 L.Ed.2d 369 (1966), holds that State law applies to such leaseholds where no significant threat to any identifiable federal policy or interest is shown."

Western may want to argue that compulsory pooling would effectively condemn their federal lease. They may also want to argue that only the federal lessee has the right to drill on a federal lease. These same arguments could be made by the owners of nonfederal lands and are easily dispensed with in the interests of conservation, the prevention of waste and the protection of correlative rights. Compulsory pooling allows the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense its just and fair share of the oil or gas, or both.

Does the New Mexico Oil Conservation Division have to limit its jurisdiction with respect to the significant amount of acreage owned by the federal government in New Mexico? The answer is no. The Oil Conservation Division should continue to hear such matters and enter orders in such matters in the interest of conservation,

the protection of correlative rights and the prevention of waste. The parties that have their applications granted should proceed as they have in the past to obtain communitization agreements or administrative orders from the federal government after the compulsory pooling order has been granted by the New Mexico Oil Conservation Division. Once such approval is obtained the compulsory pooling order will bind both the federal and nonfederal interests affected by the order.

The New Mexico Oil Conservation Division does have jurisidiction to grant Mesa Petroleum's Co.'s application in Case 7564.

Respectfully submitted,

Steven C. James

Steven C. James

Court of Appeals
Logan, Judge

PUBLISH

UNITED STATES COURT OF APPEALS

TENTH CIRCUIT

FILED
United States Court of Appeals
Tenth Circuit
APR 19 1982
HOWARD K. PHILLIPS
Clerk

KIRKPATRICK OIL & GAS COMPANY,

Plaintiff-Appellant,

v.

UNITED STATES OF AMERICA and THOMAS S. KLEPPE, Secretary of the Interior,

Defendant-Appellee.

No. 80-1117

Appeal from the United States District Court
For the Western District of Oklahoma
(D. C. No. 77-1247-E)

Charles Nesbitt, Oklahoma City, Oklahoma, for Plaintiff-Appellant.

Thomas H. Pacheco, Attorney, Department of Justice, Washington, D. C. (James W. Moorman, Assistant Attorney General, Washington, D. C.; Larry D. Patton, United States Attorney, Susie Pritchett, Assistant United States Attorney, Oklahoma City, Oklahoma; Anne S. Almy, Attorney, Department of Justice, Washington, D. C., with him on the briefs), for Defendants-Appellees.

Before DOYLE and LOGAN, Circuit Judges, and TEMPLAR, District Judge*.

LOGAN, Circuit Judge.

*Honorable George Templar, United States District Judge for the District of Kansas, sitting by designation.

Kirkpatrick Oil & Gas Company (Kirkpatrick) appeals from the district court's judgment affirming the Secretary of Interior's determination that Kirkpatrick's oil and gas leases on federally owned land had expired for failure to produce oil or gas in paying quantities. The controlling issue on appeal is whether, without the Secretary of Interior's approval, state-compelled communitization binds the federal government as landowner, so that production from other property in the "unit" is attributed to the federal property, thereby extending the terms of the federal leases. 1/

On April 1, 1969, Kirkpatrick acquired by assignment oil and gas leases on federally owned land in Oklahoma. By statute and their own provisions, the leases were to remain in effect beyond their initial ten-year terms only so long as they produced oil or gas in paying quantities. See 30 U.S.C. § 226(e). The initial terms had all expired by December 31, 1975. On November 26, 1976, the United States informed Kirkpatrick that its oil and gas leases were terminated for lack of paying production. Kirkpatrick appealed this decision

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1/ Kirkpatrick also argues the Secretary may not cancel its leases because (1) the communitization agreement the Secretary previously approved satisfies the requirement of production in paying quantities because a well drilled pursuant to that agreement remains capable of producing gas in paying quantities, even though the well has not done so for several years, and (2) the government did not give Kirkpatrick the requisite sixty-day notice of its intention to terminate the leases. These arguments were not made to the trial court. After reviewing the facts of this case, we see no manifest injustice that would cause us to depart from the normal rule that we do not determine issues presented for the first time on appeal. See Gomes v. Williams, 420 F.2d 1364, 1367 (10th Cir. 1970).

to the Secretary of Interior, which through the Interior Board of Land Appeals upheld the termination. Kirkpatrick then filed the instant action in federal district court seeking a declaration that its leases remain in effect and seeking to quiet title to them. The district court, hearing the case based on stipulated facts, held the leases had expired. Kirkpatrick appeals that decision. On appeal we must determine whether substantial evidence supports the Secretary's decision and whether the Secretary applied the proper legal standards. See Pan American Petroleum Corp. v. Udall, 352 F.2d 32, 35 (10th Cir. 1965).

Although within the ten-year terms Kirkpatrick drilled no well on the federal property, it contends that because an Oklahoma drilling and spacing order places in a single unit the federal lands and nearby nonfederal lands, oil and gas produced from Kirkpatrick's well on the nonfederal lands constitute production from the federal lands, and thereby extend the leases. The Secretary contends that federal leases are not subject to communitization unless approved by the Secretary and observes that the Secretary never approved the Oklahoma order. In response to the Secretary, Kirkpatrick reasons that Oklahoma oil and gas conservation laws apply to federal lands within Oklahoma unless and until superseded by Congress; on this issue Congress has not superseded those laws; therefore, the Oklahoma drilling and spacing order applies to the federal lands within the unit. The crucial question in this case is whether Congress intended to subject federal lands to state communitiza-

tion orders only when approved by the Secretary of Interior. If so, then the federal requirement prevails. U. S. Const. art. VI, cl.2.

Although the Constitution empowers Congress to regulate federal lands, U. S. Const. art. IV, § 3, cl. 2, Congress determines whether or not to exercise this power. Texas Oil & Gas Corp. v. Phillips Petroleum Co., 277 F.Supp. 366, 368 (W.D. Okla. 1967), aff'd per curiam, 406 F.2d 1303 (10th Cir.), cert. denied, 396 U.S. 829 (1969). Through the Mineral Lands Leasing Act of 1920, codified at 30 U.S.C. §§ 181-287, Congress has prescribed limited, but not exclusive, controls over the leasing of federal lands for oil and gas production. Wallis v. Pan American Petroleum Corp., 384 U.S. 63 (1966); Texas Oil & Gas, 277 F.Supp. at 369.

Kirkpatrick relies upon 30 U.S.C. §§ 187 and 189 as indicating that Congress intended to submit federal oil and gas lands to state-forced communitization. Section 187 lists certain provisions that must appear in federal mineral leases and declares, "None of such provisions shall be in conflict with the laws of the State in which the leased property is situated." But this section primarily focuses on various safeguards for workers on federal oil and gas lands and does not relate to land use controls. See Ventura County v. Gulf Oil Corp., 601 F.2d 1080, 1085 (9th Cir. 1979), aff'd mem., 445 U.S. 947 (1980). Section 189 states, in pertinent part, "Nothing in this chapter shall be construed or held to affect the rights of the States or other local authority to exercise

any rights which they may have, including the right to levy and collect taxes upon improvements, output of mines, or other rights, property, or assets of any lessee of the United States." This proviso gives the states no power they do not already possess. Ventura County, 601 F.2d at 1086. It does not answer the question whether the states can communitize federal lands without federal consent. This Court relied upon sections 187 and 189 in affirming enforcement of an Oklahoma communitization order entered over the objection of lessees of federal lands. Texas Oil & Gas, 406 F.2d 1303. But, as both the trial and circuit court opinions stressed, there the Secretary had approved the state order. The decision does not control the instant case, in which the federal lessee approved the state order but the Secretary did not.

Section 226(j) specifically treats communitization of federal leases. In its most pertinent paragraph it provides:

> "When separate tracts cannot be independently developed and operated in conformity with an established well-spacing or development program, any lease, or a portion thereof, may be pooled with other lands, whether or not owned by the United States, under a communitization or drilling agreement providing for an apportionment of production or royalties among the separate tracts of land comprising the drilling or spacing unit when determined by the Secretary of the Interior to be in the public interest, and operations or production pursuant to such an agreement shall be deemed to be operations or production as to each such lease committed thereto."

30 U.S.C. § 226(j) (emphasis added).

Kirkpatrick emphasizes the word "agreement" and argues that the Secretary's consent is required only for voluntary agreements, not for state-ordered communitization. The government argues for a broader construction. We agree with the government.

In a number of paragraphs section 226(j) delegates to the Secretary's discretion the power to approve, in order to promote conservation, modifications to federal mineral leases, unit or cooperative plans, and operating, drilling, or development contracts. 2/ To be consistent with the rest of section

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2/ 30 U.S.C. § 226(j) reads, in part, as follows:

"(j) For the purpose of more properly conserving the natural resources of any oil or gas pool, field, or like area, or any part thereof (whether or not any part of said oil or gas pool, field, or like area, is then subject to any cooperative or unit plan of development or operation), lessees thereof and their representatives may unite with each other, or jointly or separately with others, in collectively adopting and operating under a cooperative or unit plan of development or operation of such pool, field, or like area, or any part thereof, whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest. The Secretary is thereunto authorized, in his discretion, with the consent of the holders of leases involved, to establish, alter, change, or revoke drilling, producing, rental, minimum royalty, and royalty requirements of such leases and to make such regulations with reference to such leases, with like consent on the part of the lessees, in connection with the institution and operation of any such cooperative or unit plan as he may deem necessary or proper to secure the proper protection of the public interest. The Secretary may provide that oil and gas leases hereafter issued under this chapter shall contain a provision requiring the lessee to operate under such a reasonable cooperative or unit plan, and he may prescribe such a plan under which such lessee shall operate, which shall adequately protect the rights of all parties in interest, including the United States.

"Any plan authorized by the preceding paragraph which includes lands owned by the United States may, in the discretion of the Secretary, contain a provision whereby authority is vested in the Secretary of the Interior, or any such person, committee, or State or Federal officer or agency as may be designated in the plan, to alter or modify from time to time the rate of prospecting and development and the quantity and rate of production under such plan. All leases operated under any such plan approved or prescribed

226(j), Congress must have intended that the Secretary have approval authority over any communitization of federal lands,

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Footnote 2 continued.

by the Secretary shall be excepted in determining holdings or control under the provisions of any section of this chapter.

"When separate tracts cannot be independently developed and operated in conformity with an established well-spacing or development program, any lease, or a portion thereof, may be pooled with other lands, whether or not owned by the United States, under a communitization or drilling agreement providing for an apportionment of production or royalties among the separate tracts of land comprising the drilling or spacing unit when determined by the Secretary of the Interior to be in the public interest, and operations or production pursuant to such an agreement shall be deemed to be operations or production as to each such lease committed thereto.

"Any lease issued for a term of twenty years, or any renewal thereof, or any portion of such lease that has become the subject of a cooperative or unit plan of development or operation of a pool, field, or like area, which plan has the approval of the Secretary of the Interior, shall continue in force until the termination of such plan. . . .

"The Secretary of the Interior is hereby authorized, on such conditions as he may prescribe, to approve operating, drilling, or development contracts made by one or more lessees of oil or gas leases, with one or more persons, associations, or corporations whenever, in his discretion, the conservation of natural products or the public convenience or necessity may require it or the interests of the United States may be best subserved thereby. All leases operated under such approved operating, drilling, or development contracts, and interests thereunder, shall be excepted in determining holdings or control under the provisions of this chapter.

"The Secretary of the Interior, to avoid waste or to promote conservation of natural resources, may authorize the subsurface storage of oil or gas, whether or not produced from federally owned lands, in lands leased or subject to lease under this chapter. . . ."

(Emphasis added.)

and that no state-ordered forced pooling would bind the government without the Secretary's consent. 3/

This construction is supported by the Supreme Court's analytical approach that focuses on whether applying state law to an issue affecting a federal mineral lease poses a "significant threat to any identifiable federal policy or interest." Wallis v. Pan American Petroleum Corp., 384 U.S. 63, 68 (1966). If compulsory state pooling orders were applied to federally owned lands over the Secretary's objection, a state could impose acreage requirements and unit boundaries that conflict with the Secretary's judgment of the best standards for conservation purposes. 4/ If federal lessees are unable to secure the Secretary's approval for a voluntary communitization agreement, they should not be able to circumvent that requirement by obtaining a compulsory state pooling order. Cf. Samedan Oil Corp. v. Cotton Petrol. Corp., 466 F.Supp. 521 (W.D. Okla. 1978) (communitization of Indian lands ineffective without Secretary's approval); Assiniboine and Sioux Tribes v. Calvert Exploration Co., 223 F.Supp. 909, 913 (D. Mont. 1963) (same), rev'd on other grounds sub nom. Yoder v. Assiniboine and Sioux Tribes, 339 F.2d 360 (9th Cir. 1964). Also, because production extending a federal lease in a communitized unit may

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3/ The legislative history sheds no light. See S. Rep. No. 1549, 86th Cong., 2d Sess., reprinted in [1960] U.S. Code Cong. & Ad. News 3313, 3313; Cong. Rep. No. 2135, 86th Cong., 2d Sess., reprinted in [1960] U.S. Code Cong. & Ad. News 3313, 3335.

4/ 30 U.S.C. § 189 gives the Secretary express authority "to fix and determine the boundary lines of any structure, or oil or gas field, for purposes of this chapter."

come from a well drilled on nonfederal land, if state orders were to apply to federal lands without the Secretary's approval, it would interfere with the Secretary's control over its own lessees and lease provisions requiring, for example, the lessee to drill in different production zones or to produce at particular rates. 5/

We conclude that a fair interpretation of the Mineral Lands Leasing Act of 1920 requires us to hold that a state communitization order may not bind federally owned land, or extend leases of such land within the unit, without the consent of the Secretary of the Interior.

AFFIRMED.

5/ 30 U.S.C. § 188 permits the Secretary to cancel leases "whenever the lessee fails to comply with any of the provisions of this chapter, of the lease, or of the general regulations promulgated under this chapter."

TEXAS OIL AND GAS CORP., a corporation, and John H. Hill, an individual, Plaintiffs,

v.

PHILLIPS PETROLEUM COMPANY, a corporation, Defendant.

Civ. No. 66-241.

United States District Court
W. D. Oklahoma.

Dec. 18, 1967.

Owners of oil and gas leases on federal lands situated in Oklahoma brought action requesting that their title in said lands be quieted by declaring Oklahoma Corporation Commission forced pooling order to be null and void. The District Court, Daugherty, J., held that oil and gas conservation laws of Oklahoma, including the forced pooling order in question, applied to the federal lands in question, as neither constitutional provisions nor federal statutes and regulations contained specific prohibition against exercise of state police power over working interests of plaintiff oil and gas lessees in lands in question, as statutes and regulations did not evince congressional intent to exercise exclusive control over the same, and as the required federal approval of assignments of its leases and communitization agreements involving federal land with nonfederal lands had been granted.

Judgment dismissing action of plaintiffs and judgment for defendant on its counterclaim.

1. Courts ⇐282(1), 285

Where owners of oil and gas leases on federal lands in Oklahoma asserted that Oklahoma force pooling order was void because exclusive control over lands resided in federal government by virtue of federal constitutional provision giving Congress power to make rules and regulations respecting property belonging to the United States and by virtue of Federal Mineral Leasing Act and rules and regulations of Secretary of Interior, there existed such substantial controversy arising under Federal Constitution and laws as to give jurisdiction to District Court. U.S.C.A.Const. art. 4, § 3, cl. 2; Mineral Lands Leasing Act, §§ 1, 27, 30a, 31 as amended 30 U.S.C.A. §§ 181, 184, 187a, 188; 28 U.S.C.A. § 1331(a).

2. Public Lands ⇐7

Provision of United States Constitution that "Congress shall have power to dispose of and make all needful rules and regulations respecting the territory or other property belonging to the United States" does not place exclusive control of federal public domain in the United States, but only confers this power on Congress and leaves to Congress the determination of when and where and to what extent this power will be exercised. U.S.C.A.Const. art. 4, § 3, cl. 2.

3. States ⇐4.12

Federal Mineral Leasing Act leaves to the states the power to exercise state police power over federal oil and gas leases. Mineral Lands Leasing Act, § 32 as amended 30 U.S.C.A. § 189.

4. Public Lands ⇐7

State law and state police power extend over the federal public domain unless and until Congress has determined to deal exclusively with the subject. U.S.C.A. Const. art. 4, § 3, cl. 2.

5. States ⇐4.10

Congress in Federal Mineral Leasing Act has not undertaken to assume exclusive control of federal mineral lands under the Act but it has imposed two significant controls which must be satisfied before the state police power in area of conservation may ultimately attach; the first is that a federal mineral lessee may not assign his lease without the consent of federal government, and the second is that a pooling or communitization agreement involving federal and nonfederal lands must be approved by the federal government. Mineral Lands Leasing Act, §§ 17(j), 30 as amended 30 U.S.C.A. §§ 226(j), 187.

6. Mines and Minerals ⇐5

Since Congress has said that the pertinent sections of the Federal Mineral Leasing Act shall not be construed to affect the rights of the states or other local authority to exercise any rights which they may have, this must likewise be a limitation on Secretary of the Interior as to his regulation-making authority set out in same section. Mineral Lands Leasing Act, § 32 as amended 30 U.S.C.A. § 189.

7. Mines and Minerals ⇐5

Under regulation of Secretary of Interior providing that supervisor is authorized to require compliance with the regulations but that the regulations are general and detailed procedure thereunder in any particular area is subject to any areal plan of development that may be adopted pursuant to law, forced pooling order based on a spacing order of the Oklahoma Corporation Commission would be an "areal plan of development adopted pursuant to law". Mineral Lands Leasing Act, § 32 as amended 30 U.S.C.A. § 189.

See publication Words and Phrases for other judicial constructions and definitions.

8. Mines and Minerals ⇐92.2

Oil and gas conservation laws of Oklahoma, including forced pooling order in question, applied to federal lands which were located in Oklahoma and with respect to which plaintiff, owned oil and gas leases, as neither constitutional provisions nor federal statutes and regulations contained specific prohibition against exercise of state police power over working interests of plaintiffs in lands in question, as statutes and regulations did not evince congressional intent to exercise exclusive control over the same, and as the required federal approval of assignments of its leases and communitization agreement involving federal land with nonfederal lands had been granted. U.S.C.A.Const. art. 4, § 3, cl. 2; Mineral Lands Leasing Act, §§ 1, 27, 30a, 31 as amended 20 U.S.C.A. §§ 181, 184, 187a, 188.

George L. Verity, Brown, Verity & Brown, Oklahoma City, Okl., for plaintiffs.

Edward J. Fauss, Don Jemison, Oklahoma City, Okl., for defendant.

MEMORANDUM OPINION

DAUGHERTY, District Judge.

Plaintiffs own oil and gas leases on federal lands situated in Oklahoma. The Federal Government executed these oil and gas leases pursuant to the Federal Mineral Leasing Act of 1920, as amended, Title 30, United States Code, Section 181 et seq.

The Corporation Commission of the State of Oklahoma issued its Order by which the Tonkawa formation underlying said oil and gas leases was forced pooled and pursuant thereto the working interests under said leases as to said formation are now owned by the defendant Phillips Petroleum Company.[1] The force pooling statutes of Oklahoma have been held a constitutional exercise of the police power of the State in the interest of oil and gas conservation and prevention of waste. Anderson v. Corporation Commission, 327 P.2d 699, cert. denied 358 U.S. 642, 79 S.Ct. 536, 3 L.Ed.2d 567 (1959).

The Plaintiffs assert herein that said forced pooling Order of the Oklahoma Corporation Commission is void as to their working interests in the Tonkawa formation because the lands involved to

1. Under Oklahoma law any lessee in a drilling and spacing unit can initiate a force pooling request before the Oklahoma Corporation Commission. If a lessee elects not to participate in the cost of drilling the well he is compensated by a monetary bonus determined by the value of his interest in the formation involved and his working interest therein is transferred by operation of law to the one initiating the forced pooling proceeding. Royalty interests are not affected by this proceeding.

which their oil and gas leases pertain belong to the United States and that by virtue of Article IV, Section 3, Clause 2 of the United States Constitution, Title 30, United States Code, Sections 181, 184, 187a and 188 (Federal Mineral Leasing Act of 1920, as amended), and certain rules and regulations promulgated by the Secretary of the Interior (Title 30, Chap. II, Code of Federal Regulations (Revised as of January 1, 1967), Section 221), exclusive control over said lands resides in the United States Government to the exclusion of the State of Oklahoma. Plaintiffs request that their title in said lands be quieted by declaring said Oklahoma Corporation Commission Order to be null and void.

[1] Jurisdiction is present in this Court by reason of a substantial controversy between the parties which arises under the above mentioned clause of the United States Constitution, the above enumerated statutes of the Federal Mineral Leasing Act of 1920, as amended, and said rules and regulations of the Secretary of the Interior. 28 U.S.C. § 1331 (a). The Court finds the required jurisdictional amount to be involved.

The Defendant by way of defense herein asserts that this identical matter in controversy has been decided in favor of the Defendant in a decision by the Chief, Branch of Minerals Adjudication, Bureau of Land Management, Department of the Interior, United States of America; that if this action is an attempt to accomplish a judicial review of the above decision the same is improper as all administrative remedies were not exhausted by the Plaintiffs; that said administrative proceedings undertaken by Plaintiffs constituted an election of remedies and is a bar to this proceeding; that the Secretary of the Interior as the appropriate representative of the United States is an indispensable party and has not been joined herein; that the Plaintiff John H. Hill, an individual, is not a real party in interest; that the owner of the leasehold estates involved herein failed to appeal from the forced pooling Order of the Oklahoma Corporation Commission, and Plaintiffs, as successors in interest, are now estopped to proceed in this Court to attack said Order; that the Plaintiffs have acquired their interests at such time as to condemn them as not proceeding herein with clean hands; that the United States of America has approved the communitization of the leases involved and the Plaintiffs are bound thereby; that the Oklahoma Corporation Commission had jurisdiction to space federal lands and force pool the interest of federal lessees therein; that if the Federal Government by action of the Congress has exercised any controls in this regard, the same have been fully satisfied in this case; that in either of the foregoing events the forced pooling Order of the Oklahoma Corporation Commission herein is valid; that the Plaintiffs have no standing to assert or utilize any of the powers or prerogatives of the Federal Government and collaterally attack herein said forced pooling Order; that Plaintiffs' action for one or all of the above reasons should be dismissed and by counterclaim filed herein the Defendant asks that its title and interest in the lands involved be quieted against both Plaintiffs.

Article IV, Section 3, Clause 2 of the United States Constitution provides:

> "Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States; * * *."

[2] This clause does not place the exclusive control of the federal public domain in the United States Government. It only confers this power on Congress and leaves to Congress the determination of when and where and to what extent this power will be exercised. United States v. Hatahley, (10 Cir. 1955), 220 F. 2d 666, reversed on other grounds, 351 U. S. 173, 76 S.Ct. 745, 100 L.Ed. 1065 (1956). Therefore, we must look to the acts of Congress and specifically those relied upon by the Plaintiffs as above set out to ascertain if the Congress has undertaken to exercise exclusive control over federal lands which have been leased

by the Government for oil and gas mining purposes.

Nothing in these cited statutes (nor the entire Act itself) specifically indicates that Congress has undertaken to reserve unto itself exclusive control over federal lands leased for oil and gas development to the exclusion of the States.

[3] Section 187 does provide that no lease issued under the said Act shall be assigned or sublet except with the consent of the Secretary of the Interior, and authorizes the Secretary of the Interior to promulgate rules for the prevention of undue waste and that the lease shall contain a provision that such shall be observed. However, said Section further provides at the end thereof that: "None of such provisions shall be in conflict with the laws of the State in which the leased property is situated." This language is not aimed at putting the lands under the exclusive control of the Federal Government to the exclusion of the States. Contrary to the position of the Plaintiffs, the Federal Mineral Leasing Act of 1920, as amended, seems to leave to the States the power to exercise State police power over Federal oil and gas leases. For instance, Title 30, United States Code, Section 189 of said Act provides:

"Nothing in said sections shall be construed or held to affect the rights of the States or other local authority to exercise any rights which they may have, including the right to levy and collect taxes upon improvements, output of mines, or other rights, property, or assets of any lessee of the United States."

[4] Furthermore, the authorities treating with the matter of exclusive control of federal lands by the Federal Government clearly and definitely hold that State law and the State police power extends over the federal public domain unless and until Congress has determined to deal exclusively with the subject. State of Colorado v. Toll, 268 U.S. 228, 45 S.Ct. 505, 69 L.Ed. 927 (1925); McKelvey v. United States, 260 U.S. 353, 43 S.Ct. 132, 67 L.Ed. 301 (1922); International Bridge Company v. People of the State of New York, 254 U.S. 126, 41 S.Ct. 56, 65 L.Ed. 176 (1920); Omachevarria v. State of Idaho, 246 U.S. 343, 38 S.Ct. 323, 62 L.Ed. 763 (1918); United States v. Hatahley, supra.

[5] But whereas the Congress may not desire to assume exclusive control over the federal lands it may desire to prescribe certain limited controls. From an examination of the said Federal Mineral Leasing Act the Court concludes that the Congress has not undertaken to assume exclusive control of federal mineral lands under the Act but it has imposed two significant controls which must be satisfied before the State police power in the area of conservation may ultimately attach. One is that a federal mineral lessee may not assign his lease without the consent of the Federal Government. 30 U.S.C. § 187. Another is that a pooling or communitization agreement involving federal and non-federal lands must be approved by the Federal Government. 30 U.S.C. § 226(j). The forced pooling Order involved herein, with no election being made by the federal lessee to participate in the cost of drilling the well, did effect the transfer or assignment of the working interests involved herein to the Defendant by operation of law for the prescribed monetary bonus and did bring about a communitization or pooling of the leaseholds in the spacing unit as to the Tonkawa formation. However, the evidence herein reveals without dispute that the federal government approved the transfer of the working interests involved herein to the Defendant by the forced pooling Order of the Oklahoma Corporation Commission and approved the communitization of the leases in the spacing unit prescribed by the Oklahoma Corporation Commission. Thus, these limited controls established by Congress have been fully satisfied in this case.

[6] Plaintiffs have pointed to a number of regulations [2] promulgated by the Secretary of the Interior which pertain in a general way and to a certain extent to matters of conservation in the production of oil and gas. Plaintiffs assert that these regulations supplement the Federal Mineral Leasing Act of 1920 and support and justify their position that the Federal Government has undertaken to assume exclusive control over federal mineral lands. But the regulation making power of the Secretary of the Interior, in so far as the Federal Mineral Leasing Act is concerned, is contained in Section 189 of Title 30, United States Code, which section, as above stated, provides that nothing in the sections referred to and to which the Secretary of the Interior may promulgate regulations shall be construed or held to effect the rights of the States or other local authority to exercise any rights which they may have. This limitation on the construction of the sections must also apply to any regulations made by the Secretary of the Interior to do any and all things necessary to carry out and accomplish the purposes of said sections. This is to say that since Congress has said that the pertinent sections of the Federal Mineral Leasing Act which it passed shall not be construed to affect the rights of the States or other local authority to exercise any rights which they may have, this must likewise be a limitation on the Secretary of the Interior as to his regulation making authority set out in the same section. It is also significant to note that said regulations were not promulgated exclusively on the authority of the Federal Mineral Leasing Act. They are also founded on authority of 25 U.S.C. §§ 356, 397, 398, 396d dealing with the leasing of Indian lands for oil and gas purposes, 30 U.S.C. § 306 dealing with the leasing of oil and gas deposits under railroads and other right of way, and 30 U.S.C. § 359 dealing with the leasing of mineral deposits within acquired lands of the United States (lands to which the Mineral Leasing laws have not been extended).

[7] Moreover, these regulations provide in section 221.4 that the supervisor [3] is authorized to require compliance with the regulations but that inasmuch as conditions in one area may vary widely from conditions in another area, the regulations are general, and detailed procedure thereunder in any particular area is subject to the judgment and discretion of the supervisor, and to any areal plan of development that may be adopted pursuant to law. A forced pooling order based on a spacing order of the Oklahoma Corporation Commission would be an areal plan of development adopted pursuant to law. Therefore, any detailed procedure under the regulations is subject thereto. Any doubt in this connection is completely dispelled by the approval of the forced pooling order by the Federal Government.

The Court, therefore, concludes that the cited regulations do not apply in this case so as to affect the rights of the State of Oklahoma which cover the same subject matters. These regulations might apply in those States which do not have acceptable conservation laws, perhaps to off-shore drilling and other situations. But by the provisions of the Federal Mineral Leasing Act and the limitation therein that the pertinent sections may not affect State rights, by provisions in the regulations themselves, and the act of the Federal Government in approving the spacing and forced pooling orders of the Oklahoma Corporation Commission in this case, it is concluded that the cited regulations must be so treated.

No cases have been presented or found which hold that the Federal Government through the Congress has determined

2. These are C.F.R. Title 30, Chapter II, Sections 221.1, 221.2(n) (1) & (2), 221.5, 221.35, 221.4, 221.20, 221.21, 221.58(a) (c), 221.59, 221.22, 221.26, 221.15, 221.36, 221.27, 221.23, 221.34, 221.61 and 221.32.

3. The supervisor is a representative of the Secretary of the Interior authorized and empowered *to supervise and direct* oil and gas operations and to perform other duties prescribed in the regulations.

that it will deal exclusively with leasehold interests granted or created pursuant to the Federal Mining Leasing Act of 1920, as amended, and the case of Wallis v. Pan American Petroleum Corp., 384 U.S. 63, 86 S.Ct. 1301, 16 L.Ed.2d 369 (1966), holds that State law applies to such leaseholds where no significant threat to any identifiable federal policy or interest is shown. No such threat can be seen herein in view of the aforementioned approvals granted by the Federal Government which satisfy the federal policy and interest that assignments of federal leases and pooling or communitization of federal leases with non-federal leases must be approved by the Federal Government. Moreover, no threat can be seen to the royalty interest of the Federal Government in the lands involved by reason of the forced pooling order since its proportionate share will be received thereunder.

The cases relied upon by Plaintiffs,[4] which deal with attempted State taxation of federal land and interference with the interests of the Federal Government in its lands, are not in point.

[8] The clause of the Constitution and the Federal Statutes and Regulations relied upon by the Plaintiffs contain no specific prohibition against the exercise of the State police power over the working interests of the Plaintiffs in the lands involved. Nor do they evince a Congressional intent to exercise exclusive control over the same. Congress has required federal approval of assignments of its leases and communitization agreements involving its lands with non-federal lands. In this case this approval has been granted.

The Oil and Gas Conservation laws of Oklahoma, including the forced pooling Order involved herein, therefore, apply to the federal lands dealt with herein. In view of this determination, it is unnecessary to treat with the other defenses raised herein.

Therefore, judgment should be entered dismissing the action of the Plaintiffs for failure to assert a claim upon which relief may be granted. Judgment should also be entered on the Counterclaim of the Defendant quieting its title and interest in the lands involved against the Plaintiffs. Counsel for Defendant will prepare an appropriate judgment for signature by the Court.



UNITED STATES of America, Plaintiff,

v.

Pasquale A. MASSI, Defendant.

Crim. A. No. 925.

United States District Court
W. D. Arkansas,
Hot Springs Division.

Jan. 5, 1968.

Sodomy prosecution. On defendant's motion for order to take deposition of physician on oral interrogatories, the District Court, John E. Miller, Senior District Judge, held that allegations of motion for order to take deposition of Pennsylvania physician on oral interrogatories that physician was busily engaged in practice of profession and could not take time to travel to Arkansas to give testimony and that to compel attendance by subpoena would work hardship on defendant financially, without allegations of facts establishing materiality of testimony or inability of physician to attend and showing necessity of testimony to prevent failure of justice, were insufficient to warrant issuance of order.

Motion denied.

4. These cases are:
Van Brocklin v. Anderson, 117 U.S. 151, 6 S.Ct. 670, 29 L.Ed. 845 (1886);
Utah Power and Light Co. v. United States, 243 U.S. 389, 37 S.Ct. 387, 61 L.Ed. 791 (1917).

Petition for cert. filed 396 U.S. 829

TEXAS OIL & GAS CORP., a corporation, and John H. Hill, an individual, Appellants,

v.

PHILLIPS PETROLEUM COMPANY, a corporation, Appellee.

No. 10059.

United States Court of Appeals
Tenth Circuit.

Feb. 24, 1969.

Rehearing Denied April 2, 1969.

Suit by owners of oil and gas leases on federal lands in Oklahoma requesting that their title in lands be quieted by declaring forced pooling order of Oklahoma Corporation Commission to be void. The United States District Court for the Western District of Oklahoma, Daugherty, J., 277 F.Supp. 366, entered judgment dismissing action and judgment for defendant on counterclaim and the owners appealed. The Court of Appeals held that complaint in Oklahoma attacking well spacing and forced pooling orders of Oklahoma Corporation Commission insofar as orders undertook to space and pool federal leases and to transfer title of plaintiffs' leases to petroleum company on their election not to participate in drilling of permitted well on ground that federal jurisdiction had been effectively asserted and was exclusive was insufficient to state a claim upon which relief could be granted.

Affirmed.

1. Public Lands ⇐7

Federal government has paramount constitutional power and authority over public lands but Constitution has left to Congress determination of when and where and to what extent this power will be exercised. Mineral Lands Leasing Act, §§ 1 et seq., 30, 32, 30 U.S.C.A. §§ 181 et seq., 187, 189.

2. Mines and Minerals ⇐5

Evidence in suit by owners of oil and gas leases on federal lands established that the federal government by reason of administrative proceedings before Bureau of Land Management had approved the transfer of working interest as affected by pooling orders of Oklahoma Corporation Commission and had approved communitization of leases in spacing unit. Mineral Lands Leasing Act, §§ 1 et seq., 30, 32, 30 U.S.C.A. §§ 181 et seq., 187, 189.

3. Mines and Minerals ⇐92.34, 92.79

Complaint of oil and gas lessees of federal lands in Oklahoma attacking well spacing and forced pooling orders of Oklahoma Corporation Commission insofar as orders undertook to space and pool federal leases and to transfer title of plaintiffs' leases to petroleum company on their election not to participate in drilling of permitted well on ground that federal jurisdiction had been effectively asserted and was exclusive was insufficient to state a claim upon which relief could be granted. Mineral Lands Leasing Act, §§ 1 et seq., 30, 32, 30 U.S.C.A. §§ 181 et seq., 187, 189.

George L. Verity, Brown, Verity & Brown, Oklahoma City, Okl., for appellants.

Edward J. Fauss and Don L. Jemison, Oklahoma City, Okl. (Wm. J. Zeman and Lloyd Minter, Bartlesville, Okl., with them on the brief), for appellee.

Before MURRAH, Chief Judge, BREITENSTEIN and HILL, Circuit Judges.

PER CURIAM.

In this federal question suit, wholly between private parties, the appellants, oil and gas lessees of federal lands in Oklahoma, collaterally attack well spacing and forced pooling orders of the Oklahoma Corporation Commission insofar as they undertake to space and pool their federal leases. The effect of the spacing order is to establish a 640 acre spacing unit for the drilling and production of gas and gas condensates from a common source of supply. The spacing

unit includes the federal oil and gas leases in question, along with privately owned and leased lands, a part of which is owned by the appellee Phillips Petroleum Company. The forced pooling order had the effect of pooling the spaced unit for the drilling of a permitted well by the lessee Phillips, the cost to be borne proportionately by the lessees in the unit. Any lessee electing not to participate in the permitted well was to be paid a lease bonus determined by the Oklahoma Corporation Commission to be $40.00 per acre. The assignors of the appellants elected not to participate and the title to their leases was transferred by operation of law to Phillips upon the payment of the prescribed lease bonus.

The appellants here succeeded to the rights of their predecessor after the election and transfer of title. They do not seek a review of the orders of the Corporation Commission nor of the administrative orders of the Bureau of Land Management which approved the transfer; rather, they collaterally attack only that portion of the Oklahoma Corporation's well spacing and pooling orders which purport to space the federal leases within the unit and to transfer the title of their leases to Phillips Petroleum Company upon their election not to participate in the drilling of the permitted well. They deny that either the Secretary of the Interior or any of his subordinates are necessary or proper parties to the litigation and say that the judgment sought will merely determine the rights of the parties to the suit. They agree that state law governs matters which concern only individuals but insist that the spacing order directly affects the interest of the United States and that as federal lessees they have standing to assert the federal interest, and that the federal court is empowered to grant the relief sought.

They concede the police power of a state over federal lands within its boundaries unless and until the federal government has asserted its constitutionally paramount power by appropriate statute and regulation. The contention here is simply that by statutes and regulations the federal government has effectively asserted its jurisdiction to regulate the exploration, development, and conservation of these federal lands for oil and gas; that federal jurisdiction having been asserted is exclusive, and consequently only the federal government has jurisdiction over these leases to space or communitize them for oil and gas; and that the state spacing and forced pooling orders are therefore void and invalid insofar as these leases are involved.

[1] In an exhaustive opinion, the trial court recognized the paramount constitutional power and authority of the federal government over public lands, but took the view that the Constitution left to the Congress the determination of when and where and to what extent this power would be exercised.

Turning to the applicable Leasing Act of 1920 (41 Statute 437, 30 U.S.C. § 181 et seq.), and particularly to § 187, the court could find nothing in the statutes indicating a Congressional intent to assert exclusive control of federal lands leased for oil and gas development. Specific reference was made to that part of § 187 which provides that "none of such provisions shall be in conflict with the laws of the State in which the leased property is situated." Reference was also made to that part of § 189 of the Leasing Act, which provides:

> Nothing in said section shall be construed or held to affect the rights of the States or other local authority to exercise any rights which they may have, including the right to levy and collect taxes upon improvements, output of mines, or other rights, property, or assets of any lessee of the United States.

[2] Reference was then made to applicable federal case law to the effect that State law and the State police power extends over the federal public domain within its boundaries until preempted, and only to the extent preempted, by federal law. Thus in determining the

extent to which its exclusive federal control is extended over public lands within a State, the court noted that while the Congress may not elect to assume exclusive control, it may in its discretion prescribe certain limited controls, and that Congress had not undertaken to assume exclusive control but has imposed two significant conditions which must be satisfied before the State police power in the field of conservation may be ultimately effected. The court then noted that one of the conditions of federal control is that a federal mineral lessee may not assign his lease without the consent of the Secretary of Interior. See § 187. And that a pooling or communitization agreement involving federal and non-federal lands must also be approved by the Secretary or his designee. See Title 30 C.F.R. 221. The court recognized that the challenged pooling order did effect the transfer or assignment of the working interest involved to Phillips for the prescribed bonus and effected a communitization or a pooling of the leases in the spacing unit. But the court was of the opinion that the evidence showed without dispute that the federal government approved the transfer of the working interest as effected by the pooling order of the Oklahoma Corporation Commission, and had approved the communitization of the leases in the spacing unit, thus satisfying the asserted limited federal controls.[1]

1. Pursuant to administrative proceedings before the Bureau of Land Management, Chief of the Branch of Mineral Adjudication recognized the effect of the Oklahoma Corporation Commission's orders, and the following quote from his decision is pertinent:

"Accordingly, Corporation Commission Order No. 51093 [actually referring to Order No. 54373 (R. 833)] is hereby recognized as effecting a transfer by operation of Oklahoma law, of the working interest of Mr. Connell to Phillips Petroleum Company in Lots 1, 4, 5, 8 and 9, Sec. 18, T. 17 N., R. 25 W., I.M. Oklahoma in the production of gas and gas condensate from the Tonkawa Sands formation, restricted to the existing well drilled under the authorization of order 51093. Record title will remain in the name of Thomas Connell."

An appeal to the Director of the Bureau of Land Management resulted in the following order, quoted in part:

"By its Corporation Commission, the State of Oklahoma has acted in a matter normally within its competence in dealing with conservation of oil and gas. The effects of its actions are not inconsistent with any Federal law or regulation. The right of the United States to receive royalty based on production of oil or gas from the leasehold has not been impaired or infringed. The Order affects only the activity of the lessee. Furthermore, the Geological Survey has indicated willingness to approve the communitization agreement proposed by Phillips for all section 18, T. 17 N., R. 25 W., I.M., and has concurred in the drilling and spacing unit established by the Commission. The assertion that Federal authority over federal leases has been abdicated is unfounded.

"The Order No. 54373 of the Oklahoma Corporation Commission was certified to the land office as being final in all respects. Accordingly, recognition by the land office of the transfer of the working interest set forth in the said Order from Thomas Connell to Phillips Petroleum Company was proper."

The testimony of the Supervisor of the local office of the United States Geological Survey is also pertinent. He was asked whether applicable regulations required a federal oil and gas lessee to comply with applicable state law:

"Q. Taking the situation involved in this present lawsuit where the Oklahoma Corporation Commission had entered a spacing order, 646 acres for the Tonkawa formation and as was in this case, the Oklahoma Corporation Commission designated the well location and the well was drilled, and, as you know, the federal lessee did not choose to cooperate or participate, is it your position that the federal lessee is under an obligation pursuant to the terms of his lease and the regulations to cooperate and to abide by the applicable state law, which we have just defined as including the spacing laws, and that if he failed to do so, you would recommend cancellation of the lease? A. With qualifications, provided he took no alternative action which may have been available to him.

. . .

Q. Yes. And you would not have required or permitted him to have

[3] The court was finally of the opinion that the action of the federal authorities was consonant with the applicable regulation, and could find "no significant threat to any identifiable federal policy or interest." Judgment was entered dismissing the action for failure to state a claim upon which relief could be granted.

Our examination of the applicable law leads us to an affirmance of the judgment for the reasons stated in the trial court's opinion, D.C., 277 F.Supp. 366.

NATIONAL LABOR RELATIONS BOARD, Petitioner,

v.

GOTHAM INDUSTRIES, INC., and Crawford Plastics Corp., Respondents.

No. 7160.

United States Court of Appeals
First Circuit.

Jan. 14, 1969.

Petition for enforcement of an order of the National Labor Relations Board. The Court of Appeals, Aldrich, Chief Judge, held that record established that employer's promise of wage increase prior to representation election was for substantial business purpose and was not improperly motivated.

Order set aside.

1. Labor Relations ⇐393

Before employer's grant of wage increase to employees would be an unfair labor practice, National Labor Relations Board must show increase was motivated for express purpose of impinging upon employees' freedom of choice in forthcoming representation election. National Labor Relations Act, § 8(a) (1) as amended 29 U.S.C.A. § 158(a) (1).

2. Labor Relations ⇐539

Where employer came forward with affirmative evidence of proper business justification for promise of wage increase shortly before representation election, ultimate burden was upon National Labor Relations Board to show that the promise was primarily motivated by an antiunion purpose. National Labor Relations Act, § 8(a) (1) as amended 29 U.S.C.A. § 158(a) (1).

3. Labor Relations ⇐539

To establish improper motivation for wage increase requires a showing that employer knows or has knowledge of facts reasonably indicating that a union is actively seeking to organize, or else that a representation election is impending. National Labor Relations Act, § 8(a) (1) as amended 29 U.S.C.A. § 158(a) (1).

4. Labor Relations ⇐576

Record in unfair labor practice proceeding did not support trial examiner's finding that employer's promise of wage increase at time when representation election was pending was motivated by antiunion purpose. National Labor Relations Act, § 8(a) (1) as amended 29 U.S.C.A. § 158(a) (1).

5. Labor Relations ⇐537

Issue in unfair labor practice proceedings involving alleged wrongful motivation by employers is what the em-

> drilled a well which would be in violation of the applicable state law, to-wit, the spacing? A. Not in this case we didn't consider that it would be proper to do so, no.
>
> Q. And where there is valid spacing, or where there is spacing as the Oklahoma Corporation Commission did in this case and there is an existing well but not on federal lands, you would not permit a federal lessee to drill in violation of that law for that spacing order? A. For oil and gas in the Tonkawa sand, 640 acres we recognize as the spacing.
>
> Q. Yes. And you recognize this as the spacing prior to the execution of the communitization agreement? A. Yes, we recognized it as proper spacing prior to the communitization agreement."

IN THE UNITED STATES DISTRICT COURT FOR THE

WESTERN DISTRICT OF OKLAHOMA

KIRKPATRICK OIL & GAS COMPANY, Plaintiff	)	
-vs-	)	CIVIL NO. 77-1247-E
THE UNITED STATES OF AMERICA and THOMAS S. KLEPPE, Secretary of the Interior, Defendants	)	

FILED

JUN 12 1979

HERBERT T. HOPE
CLERK, U. S. DISTRICT COURT
BY _____ DEPUTY

STIPULATION OF FACTS

Plaintiff and Defendants, through their undersigned counsel, stipulate to the existence of the following facts:

1. Effective July 1, 1961, Cabot Corporation, Pampa, Texas, entered into an oil and gas lease agreement with the United States of America. Said lease was assigned to plaintiff effective April 1, 1969. Said lease bears serial number NM0141125-A (Okla.) and covers among other lands the N/2 NW/4 of Section 34 and the NE/4 SE/4 of Section 27, Township 23 North, Range 14 West, Woods County, Oklahoma.

2. Effective January 1, 1966, Philadelphia Oil Company of California entered into an oil and gas lease agreement, NM0558693-C (Okla.), with the United States of America. Said lease was assigned to plaintiff effective April 1, 1969, as respects Lot 1; and the SW/4 NW/4 and the NW/4 SW/4 of Section 34, Township 23 North, Range 14 West, Woods County, Oklahoma.

3. There is a dispute between plaintiff and defendants whether the leases described in paragraphs 1 and 2 of this Stipulation remain in effect. Plaintiff contends that they are in effect and defendants contend that they have terminated by their own terms.

4. Plaintiff is producing gas and associated hydrocarbons from two wells located in Section 34 which are operated by the plaintiff. The Hepner No. 1-34 Well located in the center of the SW/4 of Section 34 is producing from the Mississippi Lime Formation. The Hepner No. 3-34 Well located in the approximate center of the SW/4 NE/4 of Section 34 is producing from the Basal Cherokee (Red Fork) Formation. There is also a well located in Section 27 (which is producing gas and associated hydrocarbons from the Basal Cherokee [Red Fork] Formation).

5. By Order No. 69148, dated May 28, 1968, the Corporation Commission for the State of Oklahoma in Cause CD No. 28712 designated Sections 27 and 34 as 640-acre drilling and spacing units for the production of gas and associated hydrocarbons from the Basal Cherokee (Red Fork), Mississippi and Hunton Formations. A copy of said Order is attached for the Court's reference, marked Exhibit "A".

6. The Hepner No. 1-34 Well was originally drilled to a total depth of 8100', reaching total depth on or about July 6, 1970. The well was plugged back, perforating the Hunton Formation. On July 28, 1970, the well was completed in the Hunton Formation for a calculated open flow of 11,748 MCFGPD. From January 3, 1971 to June 1, 1971, a total of 32,985 MCFG and 615 BO was produced and sold from the Hunton Formation. On April 15, 1971 the Hunton Formation tested zero barrels fluid and 830 MCFGPD, but would not deliver into the sales line. On June 12, 1971 the Hunton zone was acidized without positive results. On June 16, 1971, a rig was moved in and the well was plugged back to the Mississippi Formation. Commencing on June 19, 1971, the well was perforated in the Mississippi Formation and was completed on July 7, 1971 in the Mississippi Formation for 12 BOPD and 530 MCFGPD. On August 31, 1976, the well was producing approximately 1-1/2 BOPD and 88 MCFGPD. At this date the well is still producing oil and gas from the Mississippi Formation.

7. As required by the United States of America, on July 1, 1970, plaintiff executed Communitization Agreement MC359.

This Agreement pertained to the production of gas and associated hydrocarbons from the Hunton Lime Formation underlying Section 34, but did not cover the Mississippi Lime. The Communitization Agreement was approved by the United States Geological Survey on October 22, 1970. Copy of said Agreement is attached hereto marked Exhibit "B".

8. All royalties attributable to the interest of the United States of America respecting its mineral interests were paid to and accepted by the Geological Survey under the mistaken belief that they represented production from the Hunton Lime Formation pursuant to Division Orders issued to Bigheart Pipe Line Corporation and Transok Pipe Line Company, approved in connection with the Communitization Agreement No. MC359 which provided for production from the Hunton Formation only. Said Division Orders are attached hereto marked Exhibits "C" and "D".

9. By letter dated August 9, 1976, plaintiff requested approval of an Amendment to Communitization Agreement MC359 to include the Mississippi Formation. Copy of said letter is attached marked Exhibit "E".

10. By letter dated August 25, 1976, defendants informed plaintiff that its request to amend Communitization Agreement MC359 was refused since its failure to timely request an amendment caused said Communitization Agreement MC359 to be expired by its own terms. No appeal was taken of this decision of refusal. A copy of said letter is attached hereto marked Exhibit "F".

11. By letter dated November 26, 1976, the United States informed plaintiff that the oil and gas leases referred to in paragraphs 1 and 2 herein had terminated by their own terms. Copy of that letter is attached marked Exhibit "G".

12. Plaintiff appealed the decision dated November 26, 1976, of lease termination to the Secretary of Interior, who, by decision of the Interior Board of Land Appeals, dated October 11, 1977, upheld the prior ruling of the Government that the leases had terminated. The decision is reported in 32 IBLA 329 (1977), and a copy of that decision is attached to plaintiff's Complaint and is incorporated herein by reference.

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405/231-5281

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF OKLAHOMA

AUG 28 1970

IN THE MATTER OF PROPER DRILLING AND SPACING UNITS FOR THE TONKAWA, COTTAGE GROVE, OSWEGO, CHESTER, MISSISSIPPI, RED FORK (CHEROKEE) AND HUNTON COMMON SOURCES OF SUPPLY BY AMENDING RESPECTIVELY ORDER NO. 52227, AS AMENDED, ORDER NO. 39425, AS AMENDED AND ORDER NO. 50887, AS AMENDED, UNDERLYING SECTIONS 20 THRU 23, 27, 28, 29, 32, 33, 34, T23N, R14W, MAJOR AND WOODS COUNTY, OKLAHOMA	Cause CD No. 28712 Order No. 63148
APPLICANT: CALVERT FUNDS, INC.	

REPORT OF THE COMMISSION

This cause came on for hearing before a Trial Examiner for the Corporation Commission of Oklahoma, on the 28th day of May, 1968, at 10:00 a.m., in the Commission's Courtroom, Jim Thorpe Building, Oklahoma City, Oklahoma, pursuant to notice given as required by law and the rules of the Commission, for the purpose of taking testimony and reporting to the Commission.

Barth P. Walker, Attorney, appeared for the Applicant; William N. Christian, Conservation Attorney, and Nathan S. Sherman, Assistant Conservation Attorney, appeared for the Commission;

The Trial Examiner heard the cause and has filed his report recommending that the application be granted, which report and recommendation are hereby adopted and the Commission therefore finds as follows:

FINDINGS

1. That this is the Application of Calvert Funds, Inc., for the proper drilling and spacing units for the Tonkawa, Cottage Grove, Oswego, Chester, Mississippi, Basal Cherokee (Red Fork) & Hunton by amending respectively Order No. 52227, as amended, Order No. 39425, as amended and Order No. 50887, as amended, underlying Sections 20 thru 23, 27, 28, 29, 32, 33, 34, T23N, R14W, Major and Woods County, Oklahoma; the Application was amended to correctly reflect Order No. 50894 (Source 3162) as amended in lieu of Order No. 50877, as amended.

2. That the Commission has jurisdiction over the subject matter herein; that notice has been given in all respects as required by law and by the rules of the Commission.

3. That Applicant is the Owner of oil and gas interests within the lands described in Paragraph 1 above underlying which there are actual or prospective common sources of supply of fluid hydrocarbons which are expected to be encountered and which should be classified with drilling and spacing units and well locations established as follows:

Common Source of Supply	Classification	Depth	Drilling and Spacing Unit Size	Well Location
Tonkawa	Gas	5300'	640-acre	1000' of center of un
Cottage Grove	Gas	5800'	640-acre	1000' of center of un
Oswego	Gas	6200'	640-acre	1000' of center of un
Chester	Gas	6600'	640-acre	1000' of center of un
Mississippi	Gas	6900'	640-acre	1000' of center of un
Basal Cherokee (Red Fork)	Gas	6331' to 6350'	640-acre	1000' of center of un
Hunton	Gas	7750' to 7766'	640-acre	1000' of center of un

EXHIBIT "A"

4. That, from the evidence, it appears that the common sources of supply named in Paragraph 3, above, will underlie all of the lands described in Paragraph 1, above; that one well will adequately, economically and efficiently drain at least an area of the size of the drilling and spacing units as set out in Paragraph 3, above; that the size of the drilling and spacing units set out in said Paragraph 3 is the minimum which should be established for the common sources of supply named in said Paragraph 3.

5. That, to prevent, or assist in preventing, the various types of waste prohibited by statute, or any said wastes, or to protect, or assist in protecting, the correlative rights of interested parties, the Commission shall establish drilling and spacing units as set out under "Order" below.

ORDER

IT IS THEREFORE ORDERED by the Corporation Commission of Oklahoma;

1. That drilling and spacing units be and the same are hereby established as follows:

Common Source of Supply	Classification	Drilling and Spacing Unit Size
Tonkawa Sand	Gas	640 Acres
Cottage Grove	Gas	640 Acres
Oswego Lime	Gas	640 Acres
Chester Lime	Gas	640 Acres
Mississippi Lime	Gas	640 Acres
Basal Cherokee (Red Fork)	Gas	640 Acres
Hunton Lime	Gas	640 Acres

underlying Sections 20, 21, 22, 23, 27, 28, 29, 32, 33, 34, Township 23 North, Range 14 West, Major and Woods Counties, Oklahoma, by including same, except for Section 32, Township 23 North, Range 14 West, as to the Oswego (already in Source No. 4580) within Order No. 52227, as amended, for Tonkawa, Cottage Grove, Oswego, Chester and Mississippi; within Order No. 39425, as amended for the Basal Cherokee (Red Fork); and within Order No. 50894, as amended, for the Hunton Lime.

2. That the drilling and spacing units shall consist of governmental sections.

3. That the permitted well on each such drilling and spacing unit must be drilled within 1000' of center.

4. That all royalty interests within any drilling and spacing unit are pooled and unitized and each royalty owner within any unit shall participate in the royalty from the well drilled thereon in the relation that the acreage owned by him bears to the total acreage in the unit.

5. That when there are two (2) or more separately owned tracts or undivided interests separately owned within any drilling and spacing unit established hereby, the owners thereof may validly pool their interests and

developing an spacing unit as a unit; that wh. e, however, such owners agreed to so pool their interests and to develop the drilling and spacing unit, their rights and equities shall be pooled and adjusted as provided in subsection d, Section 87.1, Title 52, O.S.

DONE AND PERFORMED this 28th day of May, 1968.

CORPORATION COMMISSION OF OKLAHOMA

Chairman

Vice-Chairman

Member

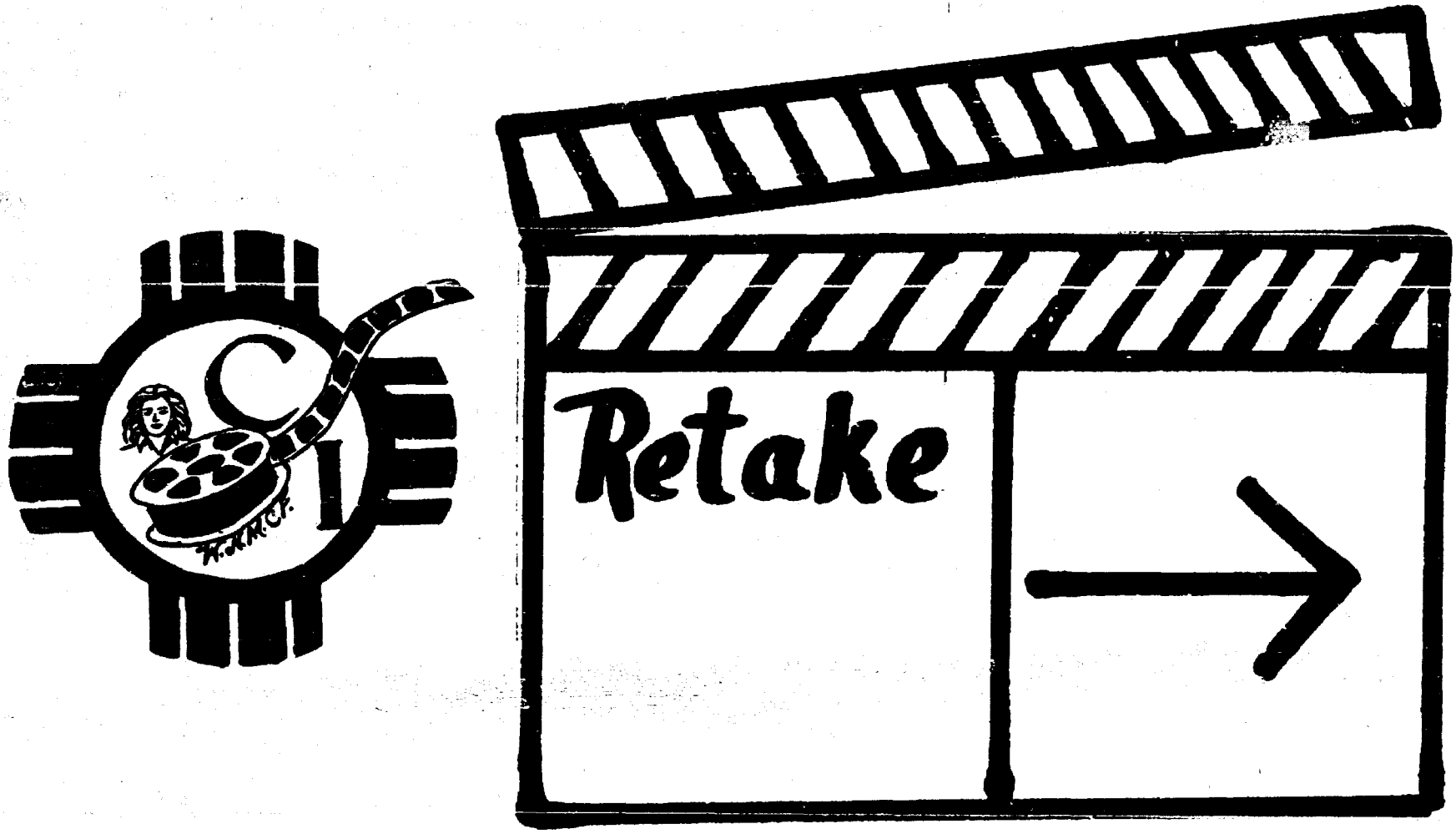
ATTEST:

Secretary

"A"
3

THE PRECEDING DOCUMENTS WERE REFILMED DUE TO:

A MALFUNCTION IN FILMING



developing an spacing unit as a unit; that wh. .e, however, such owners agreed to so pool their interests and to develop the drilling and spacing unit, their rights and equities shall be pooled and adjudicated as provided in subsection d, Section 87.1, Title 52, O.S.

DONE AND PERFORMED this 28th day of May, 1968.

CORPORATION COMMISSION OF OKLAHOMA

Chairman

Vice-Chairman

Member

ATTEST:

Secretary

"A"
3

COMMUNITIZATION AGREEMENT

Contract No. COM. AGR. - MC - 359

THIS AGREEMENT, entered into as of the 1st day of July, 1970, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto",

WITNESSETH:

WHEREAS, the parties hereto own working, royalty or other leasehold interests under the oil and gas leases and lands subject to this agreement which can not be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purposes of developing and producing communitized substances in accordance with the terms and conditions of this agreement.

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "Communitized Area") are described as follows:

Woods County, Oklahoma

Township 23 North, Range 14 West

Section 34: All

containing 640 acres, more or less, and this agreement shall include only the Hunton Lime formation underlying said lands, and the natural gas and associated hydrocarbons, hereinafter referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes is Exhibit A, designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a designation of successor operator shall be filed with the Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

EXHIBIT "B"

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis provided for in each of the individual leases. Payment of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

(b) It is agreed that for any Federal lease bearing a sliding or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided , however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement shall be effective July 1 (Month) 1970 (Year) upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect for a period of one (1) year and so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities; provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representatives, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

11. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative , shall

"B2"

have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

12. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interests until this agreement terminates and any grant, transfer or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

13. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of section 202(1) to (7) inclusive, of Executive Order 11246 (30 F.R.12319), which are hereby incorporated by reference in this agreement.

14. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

15. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

DATE: Sept 30, 1970

KIRKPATRICK OIL AND GAS COMPANY,
a Partnership

By _____
John E. Kirkpatrick, Partner

OPERATOR

DATE: OCTOBER 2nd, 1970

SENECA OIL COMPANY

By _____
KARL F. MARTIN, JR. President

ATTEST:

_____
Asst. Secretary

STATE OF OKLAHOMA)
COUNTY OF OKLAHOMA) ss.

Before me, the undersigned, a Notary Public in and for said county and state, on this 30 day of September, 1970, personally appeared John E. Kirkpatrick, a member of the partnership of Kirkpatrick Oil and Gas Company, to me known to be the identical person who executed the foregoing instrument on behalf of said partnership, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth, and in the capacity stated.

My Commission Expires:

May 12, 1972

_____
FRANCES D. DUNCUM Notary Public

"B"

STATE OF OKLAHOMA)
) ss.
COUNTY OF OKLAHOMA)

Before me, the undersigned, a Notary Public in and for said County and State, on this 2nd day of OCTOBER, 1970, personally appeared KARL F. MARTIN, JR., to me known to be the identical person who subscribed the name of Seneca Oil Company to the foregoing instrument as its President, and acknowledged to me that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

My Commission Expires:

JULY, 21st 1974

Judy A. Crawford
Notary Public

"B4"

E X H I B I T "A"

To Communitization Agreement dated

July 1, 1970

covering all of Section 34, Township 23 North, Range 14 West, Woods County, Oklahoma.

Operator of Communitized Area: Kirkpatrick Oil and Gas Company

DESCRIPTION OF LEASES COMMITTED

TRACT NO. 1

1162

Lessor:	South Shore National Bank, Trustee
Lessee:	John V. Melton
Present Lessee:	Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease:	February 4, 1970
Term of Lease:	5 years
Interest covered:	.03/40

Lessor:	Irene Burgess
Lessee:	John V. Melton
Present lessee:	Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease:	January 21, 1970
Term of Lease:	3 years
Interest covered:	10/40

Lessor:	W. P. Wood
Lessee:	John V. Melton
Present Lessee:	Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease:	May 23, 1967
Term of Lease:	5 years
Interest covered:	5/40

Lessor:	Jess Hepner et ux.
Lessee:	John V. Melton
Present Lessee:	Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease:	May 15, 1967
Term of Lease:	5 years
Interest covered:	7.50/40

Lessor:	Mary Kelley
Lessee:	John V. Melton
Present Lessee:	Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease:	July 5, 1967
Term of Lease:	5 years
Interest covered:	.63/40

Lessor:	T. K. Quillin, Executor; & Roy M. Smith
Lessee:	John V. Melton
Present Lessee:	Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease:	July 5, 1967
Term of Lease:	5 years
Interest covered:	1.75/40

Lessor:	Elmer H. Wahl et ux.
Lessee:	John V. Melton
Present Lessee:	Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease:	August 28, 1967
Term of Lease:	5 years from date
Interest covered:	10/40

"B"

Lessor: Willard A. Darrow
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 6, 1967
Term of Lease: 5 years from date
Interest covered: .04/40

Lessor: Florence Deputy
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: October 15, 1968
Term of Lease: 5 years
Interest covered: .02/40

Lessor: Mittelman Associates
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: October 31, 1968
Term of Lease: 5 years from date
Interest covered: .03/40

Note: The following interest is participating as a working interest owner and as a royalty interest owner:

Owner: Seneca Oil Company
Interest covered: 5/40

For All of Above Leases or Interests in Tract 1:

Description of land committed:

Township 23 North, Range 14 West

Section 34: NE/4 NE/4

Number of Acres: 40

Name & Percentage of each leasehold working interest owner:

Kirkpatrick Oil and Gas Company	87.50%
Seneca Oil Company	12.50%

Provision of Lease Authorizing Pooling:

Not applicable - see attached Oklahoma Corporation Commission Order No. 69148 (CD No. 28712) dated May 28, 1968 (Hunton 640 acre spacing)

TRACT NO. 2

1163 Lessor: South Shore National Bank, Trustee
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: February 4, 1970
Term of Lease: 5 years
Interest covered: .07/80

Lessor: T. K. Quillin, Executor; & Roy M. Smith
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 5, 1967
Term of Lease: 5 years
Interest covered: 3.50/80

Lessor: Jess Hepner et ux.
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: May 15, 1967
Term of Lease: 5 years
Interest covered: 55/80

"B-6"

Lessor: Norvell Royalty Co., Inc.
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: September 18, 1967
Term of Lease: 5years
Interest covered: 5/80

Lessor: Haulsee Royalty Company, Inc.
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: September 18, 1967
Term of Lease: 5 years from date
Interest covered: 5/80

Lessor: Howard Davis
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: September 28, 1967
Term of Lease: 5 years from date
Interest covered: 10/80

Lessor: Willard A. Darrow
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 6, 1967
Term of Lease: 5 years from date
Interest covered: ,08/80

Lessor: Mary Kelley
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 5, 1967
Term of Lease: 5 years
Interest covered: 1.25/80

Lessor: Florence Deputy
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: October 15, 1968
Term of Lease: 5 years
Interest covered: .03/80

Lessor: Mittelman Associates
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: October 31, 1968
Term of Lease: 5 years from date
Interest covered: .07/80

For All of Above Leases or Interests in Tract 2:

Description of land committed:

Township 23 North, Range 14 West

Section 34: SE/4 NE/4 & NE/4 SE/4

Number of Acres: 80

Name & Percentage of each leasehold working interest owner:

Kirkpatrick Oil and Gas Company 100%

Provision of Lease Authorizing Pooling:

Not applicable - see attached Oklahoma Corporation Commission Order No. 69148 (CD No. 28712) dated May 28, 1968 (Hunton 640 acre spacing)

"B"

1077

Lessor: Margaret Lillibridge, a widow
Lessee: Viersen & Cochran
Present Lessee: Kirkpatrick Oil and Gas Company, (by assign)
Date of Lease: November 2, 1967
Term of Lease: 5 years
Interest covered: 15/160

Lessor: Ethel L. Poovey
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: February 4, 1970
Term of Lease: 3 years
Interest covered: 3.34/160

Lessor: Elizabeth Sweeney
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: February 4, 1970
Term of Lease: 3 years from date
Interest covered: 3.34/160

Lessor: Bertha Alice Peebles
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: February 4, 1970
Term of Lease: 3 years
Interest covered: 3.34/160

Lessor: South Shore National Bank, Trustee
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: February 4, 1970
Term of Lease: 5 years
Interest covered: .13/160

Lessor: Jess Hepner et ux.
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: May 15, 1967
Term of Lease: 5 years from date
Interest covered: 30/160

Lessor: Mary Kelley
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 5, 1967
Term of Lease: 5 years from date
Interest covered: 2.50/160

Lessor: T. K. Quillin, Executor; & Roy M. Smith
Lessee: John V. Melton
Present Lesseee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 5, 1967
Term of Lease: 5 years
Interest covered: 7/160

Lessor: John L. Arrington, Jr.
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: August 10, 1967
Term of Lease: 5 years from date
Interest covered: 15/160

Lessor: Onie Copeland
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: August 14, 1967
Term of Lease: 5 years from date
Interest covered: 5/160

"B"

Lessor: Floy E. Green
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: August 14, 1967
Term of Lease: 5 years from date
Interest covered: 10/160

Lessor: Elmer H. Wahl et ux.
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: August 28, 1967
Term of Lease: 5 years from date
Interest covered: 40/160

Lessor: Willard A. Darrow
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 6, 1967
Term of Lease: 5 years from date
Interest covered: .17/160

Lessor: Harvey O. Youts
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: February 16, 1968
Term of Lease: 5 years from date
Interest covered: 5/160

Lessor: Florence Deputy
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: October 15, 1968
Term of Lease: 5 years from date
Interest covered: .07/160

Lessor: Mittelman Associates
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: October 31, 1968
Term of Lease: 5 years
Interest covered: .13/160

Note: The following interest is participating as a working interest owner and as a royalty interest owner:

Owner: Seneca Oil Company
Interest covered: 20/160

For All of Above Leases or Interests in Tract 3:

Description of land committed:

Township 23 North, Range 14 West

Section 34: W/2 NE/4 & SE/4 NW/4 & NW/4 SE/4

Number of Acres: 160

Name & Percentage of each leasehold working interest owner:

Kirkpatrick Oil and Gas Company	87.50%
Seneca Oil Company	12.50%

Provision of Lease Authorizing Pooling:

Not applicable - see attached Oklahoma Corporation Commission Order No. 69148 (CD No. 28712) dated May 28, 1968 (Hunton 640 acre spacing)

"B9"

TRACT NO. 4

791

Lessor: South Shore National Bank, Trustee
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: February 4, 1970
Term of Lease: 5 years
Interest covered: .13/160

Lessor: Jess Hepner et ux.
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: May 15, 1967
Term of Lease: 5 years
Interest covered: 30/160

Lessor: Mary Kelley
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 5, 1967
Term of Lease: 5 years fromdate
Interest covered: 2.50/160

Lessor: Lottie J. Brown
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: August 14, 1967
Term of Lease: 5 years
Interest covered: 15/160

Lessor: T. K. Quillin, Executor; & Roy M. Smith
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 5, 1967
Term of Lease: 5 years from date
Interest covered: 7/160

Lessor: Willard A. Darrow
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 6, 1967
Term of Lease: 5 years from date
Interest covered: .17/160

Lessor: Florence Deputy
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: October 15, 1968
Term of Lease: 5 years from date
Interest covered: .07/160

Lessor: Mittelman Associates
Lessee: John V. Melton
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: October 31, 1968
Term of Lease: 5 years from date
Interest covered: .13/160

Lessor: F. O. Prunty et ux.
Lessee: Viersen & Cochran
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: August 21, 1967
Term of Lease: 5 years
Interest covered: 40/160

Lessor: Eli D. Bernstein et ux.
Lessee: Viersen & Cochran
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: August 23, 1967
Term of Lease: 5 years from date
Interest covered: 15/160

"B10"

TRACT NO. 4 (cont'd)

Lessor: Donald Lawrence Raffety et al., Trustees
Lessee: Viersen & Cochran
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: September 1, 1967
Term of Lease: 5 years from date
Interest covered: 40/160

Note: The following interest is "leased" by virtue of Oklahoma Corporation Commission Order No. 81433, attached hereto.

Owner: Potomac Trading Company
Interest covered: 10/160

For all of above leases or interests in Tract 4:

Description of Land Committed:

Township 23 North, Range 14 West

Section 34: S/2 SE/4 & E/2 SW/4

Number of Acres: 160

Name & Percentage of each Leasehold Working Interest Owner:

Kirkpatrick Oil and Gas Company	99.75198%
Seneca Oil Company	.24802%

Provision of Lease Authorizing Pooling:

Not applicable - see attached Oklahoma Corporation Commission Order No. 69148 (CD No. 28712) dated May 28, 1968 (Hunton 640 acre spacing) and Corporation Commission Order No. 81433 (CD No. 32613) attached hereto.

TRACT NO. 5

1164

Lessor: United States of America
Lessee: G. F. Grove
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: December 1, 1964
Term of Lease: 10 years
Interest covered: 1.45/1.45
Serial No. of Lse: NM 0397673-Okla.

Description of Land Committed:

Township 23 North, Range 14 West

Section 34: An unsurveyed tract of land lying in the bed of the Cimarron River riparian to Lot 1 Section 34-23N-14W described by metes & bounds (only as to that portion lying within the geographical boundary of said Section 34-23N-14W I.M.)

Number of acres: 1.45

Name & Percentage of each leasehold working interest owner:

Kirkpatrick Oil and Gas Company 100%

"B"

TRACT NO. 6

1165

Lessor: United States of America
Lessee: Philadelphia Oil Company of California
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: January 1, 1966
Term of Lease: 10 years
Interest covered: 118.55/118.55
Serial No. of Lse: NM 0558693-C (Okla.)

Description of Land Committed:

Township 23 North, Range 14 West

Section 34: Lot 1, SW/4 NW/4, NW/4 SW/4

Number of Acres: 118.55

Name & Percentage of each leasehold working interest owner:

Kirkpatrick Oil and Gas Company 100%

TRACT NO. 7

1166

Lessor: United States of America
Lessee: Cabot Corporation
Present Lessee: Kirkpatrick Oil and Gas Company (by assign.)
Date of Lease: July 1, 1961
Term of Lease: 10 years
Interest covered: 80/80
Serial No. of Lse: NM 0141125-A (Okla.)

Description of Land Committed:

Township 23 North, Range 14 West

Section 34: N/2 NW/4

Number of Acres: 80

Name & Percentage of each leasehold working interest owner:

Kirkpatrick Oil and Gas Company 100%

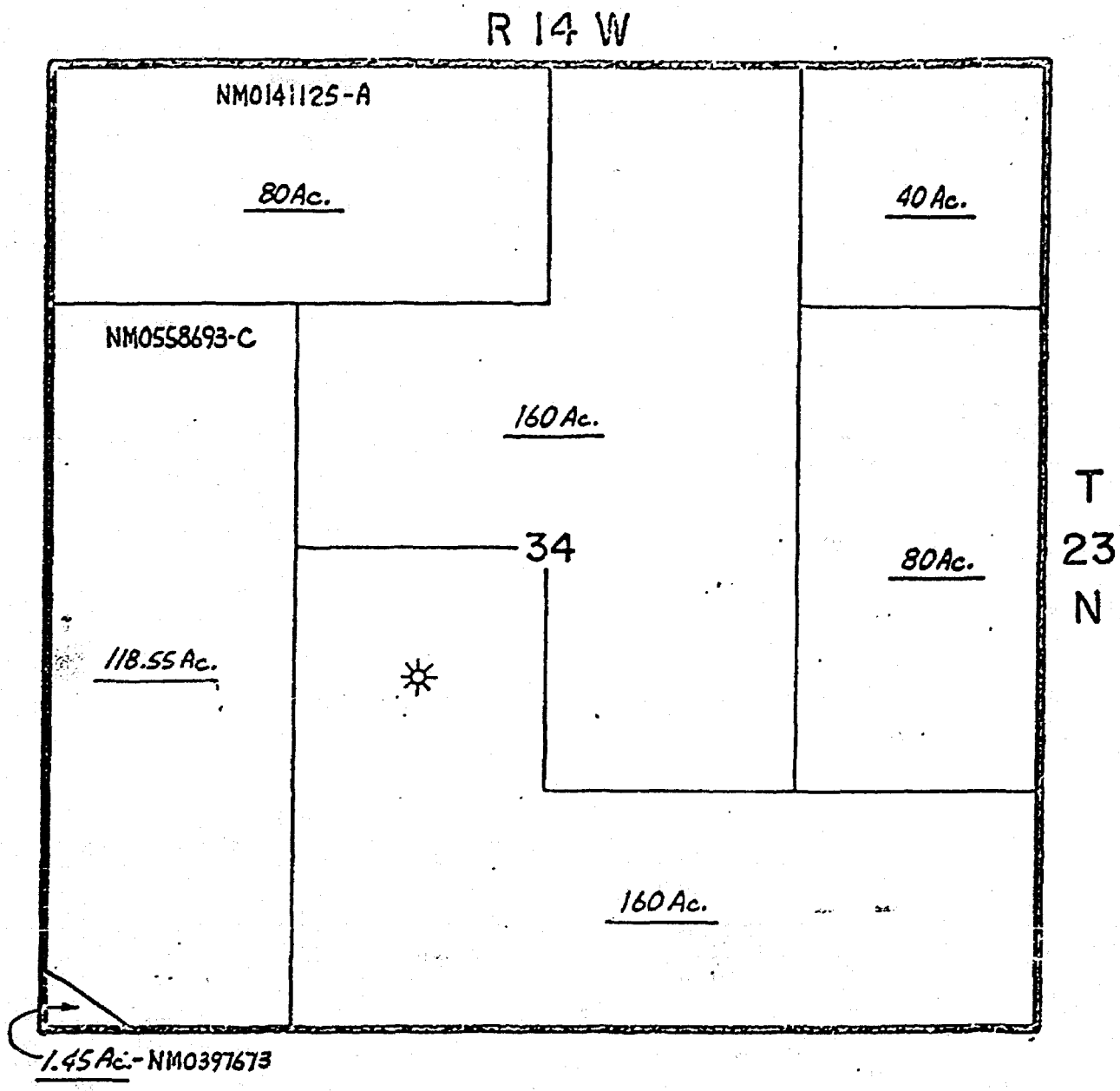
RECAPITULATION

Tract No.	No. of Acres Committed	Percentage of Interest in Communitized Area
1	40.00	6.2500%
2	80.00	12.5000%
3	160.00	25.0000%
4	160.00	25.0000%
5	1.45	.2266%
6	80.00	12.5000%
7	118.55	18.5234%
	640.00	100.0000%

END OF EXHIBIT

MICROGRAPHICS

ILABLE COPY



KIRKPATRICK OIL & GAS COMPANY

HEPNER UNIT NO. 1-34

WOODS COUNTY, OKLAHOMA

SEC. 34-23N-14W

"B-13"

DIVISION ORDER
D/O #12167

March 12, 19 71
(Date)

Box 376 74101

SIGNEART PIPE LINE CORPORATION Tulsa, Oklahoma

Each of the signers hereof guarantees and warrants that the interest set opposite his name below is his correct ownership in the oil (which, for purposes hereof, includes all liquid hydrocarbons purchased hereunder) produced from the

HEPNER #1-34 lease described as

Limited to cover production obtained from the Hunton formation underlying all of Section 34-23N-14W

LEASES NM-0141125-A, NM-0397673, and NM-0558693-C (OKLA.)

(C... NO-350 - HEPNER UNIT NO. 1-34

Rcvd.USGS-NC REG

MAR 18 1971

located in WOODS County, State of OKLAHOMA, and commencing Your first purchase 7:00 a.m. and until further written notice either from you or from us, you are authorized to receive oil therefrom, purchase it and pay therefor as follows:

OWNERS' SOCIAL SECURITY OR TAX ACCOUNT NO	CREDIT TO	DIVISION OF INTEREST	ADDRESS
	SEE ATTACHED LIST PLEASE DO NOT DETACH		

(Continued on Reverse Side)

The covenants appearing on the reverse side hereof are a part of this division order and shall be binding upon each of the signers hereof, and respective successors, legal representatives and assigns.

WITNESSES SIGN BELOW

OWNERS SIGN BELOW

This order is approved subject to the condition that nothing herein shall be construed as affecting any of the relations between the lessee and the Secretary of the Interior. The volume of oil or gas shipped or sold shall be computed in accordance with the Oil and Gas Operating Regulations.

E. A. Hefner
Supervisor, U.S. Geological Survey
Tulsa, Oklahoma

IMPORTANT: TO AVOID DELAY IN PAYMENT — YOUR CORRECT ADDRESS AND YOUR SOCIAL SECURITY NUMBER OR TAX ACCOUNT NUMBER MUST BE SHOWN.

EXHIBIT "C"

MICROGRAPHICS

AILABLE COPY

MICROGRAPHICS

LABLE COPY

The following covenants are a part of this division order:

FIRST: The oil run hereunder shall become your property upon delivery thereof into your custody or into the custody of any other purchaser upon which you may resell such oil, or that of any carrier designated by you or such other purchaser.

Should the oil produced from any formation in and under the herein described land be commingled with other oil prior to the time it becomes your property, whether such other oil be produced from one or more formations having different ownership in and under the herein described lands or in and under any other lands, the commingled oil sold hereunder shall be deemed to be the interest of the undersigned in that portion of the total commingled oil delivered which is allocated to the herein described land on the basis of the formula prescribed by the operators of the leases covering the formations or tracts of land involved and the data supplied to you with respect thereto, and you are authorized to accept such information upon the same and make settlement hereunder on the basis of the quality and gravity of such commingled oil so allocated without liability to the undersigned.

Should the interest of the undersigned in the oil produced from the herein described land be unitized with oil produced from one or more other tracts of land, this division order shall thereafter be deemed to be modified to the extent necessary to conform with the applicable unitization agreement or plan, and all provisions or amendments thereto, but otherwise to remain in full force and effect as to all other provisions. In such event, the interest of the undersigned in said oil sold hereunder shall be the interest of the undersigned in that portion of the total unitized oil which is allocated to the herein described land and shall be deemed for all purposes to have been actually produced from said land.

SECOND: The oil received and purchased hereunder shall be delivered F.O.B. to any carrier which gathers and receives said oil. Such carrier shall be designated by you or by any other purchaser to whom you may resell such oil. You agree to pay for such oil at the price posted by you for oil of the same gravity, kind and quality from the field in which the herein described property is located on the date said oil is received by the designated carrier, less any trucking or pipe line gathering charges (including transportation taxes) deemed necessary by you. Accurate pipe line gauges and measurements shall govern and control in all settlements. You shall correct the volume and gravity to a temperature of sixty degrees (60°) Fahrenheit and you shall deduct from such corrected volume the full percentages of basic sediment, water and other impurities as shown by your tests. You may refuse to receive any oil not considered merchantable by you.

The proceeds of said oil, after deducting any severance, occupation or other tax imposed thereon by law and required to be deducted by you as purchaser (until such time as any law so requiring it declared invalid by final judgment) and any transportation charges as hereinabove set out, shall be paid monthly for oil received and purchased during the preceding month, according to the division of interests set out herein by check or draft of Tidehead Pipe Line Corporation therefor mailed to each party at the address herein designated.

Should the oil be resold by you to another purchaser accepting delivery thereof at the point at which you take title, settlements to us therefor shall be the proceeds received by you for such oil as based upon the price, grades, measurements, volume computations and deductions of such purchaser.

THIRD: Without impairment of any warranty herein contained, it is agreed that abstracts or other evidence of title satisfactory to you will be furnished at any time on demand. In the event of a failure so to furnish such abstracts or other evidence of title, or in the event of any adverse claim, question or dispute at any time which in the opinion of your attorney affects the title to such oil or any part thereof or to the land from which such oil is produced, you may hold the proceeds of all oil received, to the extent of the interest involved in such adverse claim, question or dispute, without interest, until indemnity satisfactory to you has been furnished or until said claim, question or dispute as to ownership has been finally settled or finally determined to your satisfaction. In the event any action or suit is filed in any court affecting the title either to the real property herein described or to the oil produced therefrom in which any of the signers hereof are parties, written notice of the filing of said action shall be immediately furnished you by the affected party stating the court in which the same is filed and the title of such action or suit. You and/or any carrier transporting for your account shall be held harmless by each party to this division order to the extent of his interest, as set forth in this division order, from any and all loss, damage, charge, tax or expense of any kind whatsoever which you and it, or either, may suffer or incur by or on account of receiving, purchasing, paying for or transporting the oil credited to such party's interest.

FOURTH: You will not be responsible for any change of ownership in the absence of actual notice and satisfactory proof thereof. Each signer hereof agrees to notify you in writing of any change in his ownership and agrees that any transfer, assignment, or conveyance of any of his interest hereunder shall be made subject to this division order and effective at seven o'clock a.m. on the first day of the calendar month following the receipt of said notice by you. Without regard to whether any contingency is expressly stated in this division order, you are hereby relieved of any responsibility for determining when any of the interests herein shall increase, diminish, be extinguished or revert to other parties as a result of the completion or discharge of money or other payments from said interest, or as a result of the expiration of any time or term limitation (either definite or indefinite), or as a result of the increase or decrease in production, or as a result of a change in the depth, the method or the means of production, or as a result of a change in the allocation of production affecting the above tract or any portion thereof under any agreement or by order of governmental authority, or resulting from any other contingency, and until you receive notice in writing to the contrary, you are hereby authorized to continue to remit pursuant to the above division of interest. In the event said written notice is not received by you, you shall be held harmless for any or resulting in over or under payment, or a wrong payment of any such sum or sums.

FIFTH: In consideration of the purchase of oil hereunder, consent is hereby given to you and/or any pipe line company which you may cause to connect with the wells and/or tanks on said land to disconnect and remove such pipe line in case of termination by either you or us of purchases under this division order.

SIXTH: All parties hereto who are connected with the operation of the lease herein described severally warrant that all oil sold under this division order has been and will be produced and handled in compliance with the provisions of the Federal Fair Labor Standards Act of 1938 as heretofore or hereafter amended, and all other applicable Federal, State and Municipal laws, rules and regulations.

SEVENTH: If the proceeds accruing to any interest hereunder should amount to less than Five Dollars ($5.00) for any month, you are hereby authorized to accumulate the monthly accruals to any such interest and make payment of such accumulations when such accumulations amount to Five Dollars ($5.00).

EIGHTH: This division order shall become valid and binding on each owner herein named as soon as signed by such owner, regardless of whether or not any of the other owners have so signed. Masculine gender where used shall include feminine and neuter gender.

NINTH: All written notices provided for herein shall be given to the party to receive the same, at the address of such party stated herein. All of the provisions herein contained shall apply to each signer hereof separately and not jointly.

TENTH: With respect to any gas condensate purchased and sold under the terms and provisions hereof, the owners of interest in the royalty shown herein for the purpose only of making the provisions hereof applicable to the proceeds of the sale of such gas condensate.

(CONTINUED)

OWNERS' SOCIAL SECURITY & TAX ACCOUNT NO.	CREDIT TO	DIVISION OF INTEREST	ADDRESS

OWNER NAME	DECIMAL OF INTEREST
Jess Hepner and Frances Hepner, Joint Tenants	.0239258 R.I.
T. K. Quillin, Executor of the Estate of E. A. Fariss, Deceased	.0001776 R.I.
Willard A. Darrow	.0000898 R.I.
Florence Deputy	.0000372 R.I.
Frances W. Adams	.0013437 R.I.
The South Shore National Bank, Quincy, Massachusetts, as Trustee under terms and conditions of Trust Indenture between Gladys F. Morse and South Short National Bank of Quincy, Massachusetts dated September 5, 1968	.0000703 R.I.
Mittleman Associates, a co-partnership	.0000704 R.I.
Roy M. Smith	.0035820 R.I.
Marian Wahl	.0048828 R.I.
Elmer H. Wahl	.0048828 R.I.
Floy E. Green	.0019531 R.I.
Elizabeth Sweeney	.0004883 R.I.
Ethel L. Poovey	.0004883 R.I.
Ethel L. Poovey, Trustee for Robert D. Green	.0004883 R.I.
Bertha Alice Peebles Graham	.0004883 R.I.
Seneca Oil Company	.0048828 R.I.
Margaret E. Lillibridge	.0029297 R.I.
John L. Arrington, Jr.	.0029297 R.I.
Onie Copeland	.0009766 R.I.
Harvey Youts	.0009766 R.I.
Donald Lawrence Raffety and George Kerby, Trustees for the Estate of Jane Godshalk, deceased	.0078125 R.I.
Peggy Coffman, Attorney-in-fact for Ada M. Prunty, Helen Peppard, Adaline Rogers, Maudine Prunty	.0078125 R.I.
Eli D. Bernstein	.0019531 R.I.
Richard E. Linehan	.0009766 R.I.
Lottie J. Brown	.0029297 R.I.
Potomac Trading Corporation	.0019531 R.I.
W. P. Wood	.0009766 R.I.
Irene Burgess	.0019531 R.I.

RCVD-USGS-MC R&G
MAR 18 1971

C3

OWNER NAME	DECIMAL OF INTEREST
Haulsee Royalty Company, Inc.	.0009765 R.I.
Norvell Royalty Company, Inc.	.0009766 R.I.
U.S. GEOLOGICAL SURVEY ~~The United States of America~~ 4562 Federal Bldg., 333 W. 4th St. Tulsa, Oklahoma 74103	* .0390625 R.I. (Tax Free)
Viersen & Cochran	.0085936 O.R.R.I
Cabot Corporation	.0037500 O.R.R.I
Charles E. Brown	.0025000 O.R.R.I
Philadelphia Oil Company of California	.0092617 O.R.R.I
Kirkpatrick Oil and Gas Company	.8161682 W.I.
Seneca Oil Company	.0347265 W.I.

RCVD-USGS-MC REG
MAR 18 1971

* LEASE NM-0141125-A = .0156250 R.I.
LEASE NM-0397673 = .0002832 R.I.
* LEASE NM-0558693-C = .0231543 R.I.
.0390625 R.I.

HEPNER UNIT NO. 34 - C.A. MC-3594

...U.S.G.S.-MC REC

JUN 18 1971

GAS DIVISION ORDER

TRANSOK PIPE LINE COMPANY:

The undersigned certify and guarantee that they are the legal owners of all wells, Nos. 1 and up, and on the Hepner No. 1-34, in Woods County, State of Oklahoma, described as follows:

All of Section Thirty-four (34), Township Twenty-three North (T23N), Range Fourteen West (R14W), for production of gas from the Hunton Formation;

including both royalty and working interests therein; and, until further notice, you will give credit for gas received from said wells as follows:

CREDIT TO:	DIVISION OF INTEREST:
ROYALTY INTEREST:	
Jess Hepner and Frances Hepner, joint tenants	.0239630 R.I.
T. K. Quillin, Executor of the Estate of E. A. Fariss, deceased	.0001776 R.I.
Willard A. Darrow	.0000898 R.I.
Frances W. Adams	.0013437 R.I.
The South Shore National Bank, Quincy, Massachusetts, as Trustee under terms and conditions of Trust Indenture between Gladys F. Morse and South Shore National Bank of Quincy, Massachusetts dated September 5, 1968	.0000703 R.I.
Mittleman Associates, a co-partnership	.0000704 R.I.
Roy M. Smith	.0035920 R.I.
Marian Wahl	.0048828 R.I.
Elmer H. Wahl	.0048828 R.I.
Floy E. Green	.0019531 R.I.
Elizabeth Sweeney	.0006511 R.I.
Ethel L. Poovey	.0006511 R.I.
Bertha Alice Peebles Graham	.0006510 R.I.
Seneca Oil Company	.0048828 R.I.
Margaret E. Lillibridge	.0029297 R.I.
John L. Arrington, Jr.	.0029297 R.I.
Onic Copeland	.0009766 R.I.
Harvey Youts	.0009766 R.I.
Donald Lawrence Raffety and George Kerby, Trustees for the Estate of Jane Godshalk, deceased	.0078125 R.I.
Peggy Coffman, Attorney in Fact for Ada M. Prunty, Helen Peppard, Adaline Rogers and Maudine Prunty	.0078125 R.I.
Eli D. Bernstein	.0019531 R.I.
Richard E. Linehan	.0009766 R.I.
Lottie J. Brown	.0029297 R.I.
Potomac Trading Corporation	.0019531 R.I.
W. P. Wood	.0009766 R.I.
Irene Burgess	.0019531 R.I.
Howard Davis	.0019531 R.I.
Haulsee Royalty Company, Inc.	.0009765 R.I.
Norvell Royalty Company, Inc.	.0009766 R.I.
~~The United States of America~~ TAX EXEMPT INTEREST	.0390625 R.I.

U.S. GEOLOGICAL SURVEY, 4562 FEDERAL BLDG.,
333 WEST 4th STREET, TULSA, OKLAHOMA 74103

WORKING INTEREST:	
Kirkpatrick Oil and Gas Company	.8161682 W.I.
Seneca Oil Company	.0347265 W.I.

LEASES NOS:

NM-0141125-A	=	.0156250
NM-0397673	=	.0002832
NM-0558693-C	=	.0231543
		.0390625

EXHIBIT "D"

. MICROGRAPHICS

AILABLE COPY

OVERRIDING ROYALTY INTEREST:

Viersen & Cochran	.0085936
Cabot Corporation	.0037500
Charles E. Brown	.0025000
Philadelphia Oil Company of California	.0092617

Transok Pipe Line Company is hereby authorized, during the term of a certain contract between said Company and KIRKPATRICK OIL AND GAS COMPANY, dated November 19, 1970, to receive gas from said wells for purchase from said parties, severally, in the proportions above named, covering both royalty and working interests held by them, subject to the following conditions:

1. All gas produced from said wells shall be delivered into your pipe line and shall thereupon become your property, to be metered or measured and paid for at the rate and in the manner provided in said contract, less gross production taxes and other taxes required by the laws of the State of Oklahoma to be calculated and paid direct by you.

2. Payment for the respective royalty and working interests to the above-named parties, their respective heirs, assigns or legal representatives, in the proportions or percentages above shown, shall be made by bank check or draft mailed to each of said parties on or before the 20th day of each calendar month, covering all gas so purchased during the last preceding calendar month, except when the amount so payable to any one of said parties shall be less than the sum of Five Dollars ($5.00), payment of sums due such party may be withheld, without interest, until request for payment is made or the amount due such party equals or exceeds Twenty-five Dollars ($25.00), whereupon full payment to such party will be made on the next regular payment date, but in any event full payment will be made to each party in December of each year.

3. The undersigned respectively warrant and guarantee their titles to the gas sold by them hereunder, and by execution hereof ratify and accept the terms and conditions of Gas Purchase Contract hereinbefore referred to and agree that in case of adverse claim of title to such gas or the land from which same is produced, you may retain the purchase price of such gas, without interest, until such adverse claim is fully settled and determined, or until the party or parties claiming to be owner thereof shall furnish satisfactory indemnity; and hereby release Transok Pipe Line Company from any and all damages and claims by reason of its purchase or handling of gas, or by reason of its making payment therefor under the terms of this Division Order.

4. This Division Order may be executed in several counterparts with the same effect as if all parties in interest had executed this counterpart thereof.

Dated this _____ day of _____, 1971.

SIGNATURE: SOCIAL SECURITY NO. ADDRESS:

53 0196958 I

This order is approved subject to the condition that ~~nothing herein shall be construed as affecting~~ any of the relations between the lessee and the Secretary of the Interior. The volume of oil or ~~gas shipped or~~ sold shall be computed in accordance with the Oil and Gas Operating Regulations.

Acting Supervisor, U.S. Geological Survey
Tulsa, Oklahoma JUN 18 1971

D2

.F. MICROGRAPHICS

VAILABLE COPY

IKPATRICK
NORTH BROADWAY – OKLAHOMA CITY, OKLAHOMA 73103 – TELEPHONE 235-5621

AUG 10

August 9, 1976

Mr. F. L. Stelzer
Regional Oil and Gas Supervisor
U. S. Geological Survey
6136 East 32nd Place
Tulsa, Oklahoma 74135

Re: Communitization Agreement MC-359
Section 34-23N-14W
Woods County, Oklahoma

Dear Mr. Stelzer:

Under date of July 1, 1970, your office approved Communitization Agreement MC-359 covering the Hunton formation in the above noted well. The well was drilled to a total depth of 8100 feet, plugged back to 7851 feet and completed in the Hunton formation in the zone from 7833 to 7845 feet. The well failed to produce from the Hunton formation and was plugged back to 7720 feet, and completed in the Mississippi formation. Perforations: 7016 to 7212 and 7364 to 7668 feet.

This office apparently failed to submit to you an Amendment to Communitization Agreement MC-359 to include the Mississippi formation. The enclosed Amendment to Communitization Agreement MC-359 covering the Mississippi formation is being submitted to you for approval. A revised Corporation Commission Form 1002A is being submitted to the Corporation Commission, and a copy will be furnished to you. Your approval of the enclosed Amendment to Communitization Agreement MC-359 will be appreciated.

Yours truly,

KIRKPATRICK OIL AND GAS COMPANY

Sherril Williams
Land Department

SW:dr

Encl.

NOTED
AUG 10 1976
MINYARD

NOTED
AUG 10 1976
STELZER

EXHIBIT "F"

United States Department of the Interior

GEOLOGICAL SURVEY

6136 East 32nd Place
Tulsa, Oklahoma 74135

'76 AUG 30 PM 3:

STATE OFFICE
SANTA FE, NEW MEX

August 25, 1976

Kirkpatrick Oil and Gas Company
Attention: Mr. Sherril Williams
1300 North Broadway
Oklahoma City, Oklahoma 73103

Gentlemen:

Subject: Communitization Agreement MC-359, involving leases NM-0141125-A (Okla.), NM-0397673 (Okla.), and NM-0558693-C (Okla.), sec. 34, T. 23 N., R. 14 W., I. M., Woods County, Oklahoma

With a letter dated August 9, 1976, you submitted for approval an amendment to approved Communitization Agreement MC-359 which would add the Mississippi Formation. It is stated in your letter that the formation originally communitized (Hunton) failed to produce and the well was plugged back to the Mississippi Formation. It is stated further in your letter that a revised Corporation Commission Form 1002A was being submitted to the State and that a copy would be furnished to us.

Your revised well completion report, a copy of which was received in this office today, shows that the workover was accomplished in 1971, when the Hunton was plugged off by a cast iron bridge plug, set at 7,720 feet, and the well was recompleted in the Mississippi Formation on June 20, 1971.

Approved Communitization Agreement MC-359 became effective on July 1, 1970, and was conditioned to remain in force and effect for a period of one year and so long thereafter as communitized substances (Hunton natural gas and associated hydrocarbons) were, or could be, produced. Inasmuch as the Hunton was plugged off and the well recompleted in the Mississippi on June 20, 1971, it is the determination of this office that Communitization Agreement MC-359 expired at the end of its one-year term on June 30, 1971. For this reason, your proposed amendment cannot now be approved, and we are returning same to you without action.

Sincerely yours,

(Orig. Sgd.) F. L. STELZER

F. L. Stelzer
Area Oil and Gas Supervisor

Enclosure

Close case when GS Transfers acct. back to N.A. Rgn.

EXHIBIT "E"

NM 0141125-A
(Okla)
NM 0558693-C
(Okla)
3100(943b-6)

STATE OFFICE
P. O. Box 1449
Santa Fe, New Mexico 87501

November 26, 1976

Kirkpatrick Oil and Gas Company
1300 North Broadway
Oklahoma City, Oklahoma 73103

Gentlemen:

Oil and gas leases NM 0141125-A(Okla) and NM 0558693-C(Okla) were held by production allocated by commitment to Communitization Agreement No. MC-359 effective July 28, 1970. A field report indicates that this communitization agreement expired at the end of its one-year term on June 30, 1971.

Accordingly, these leases are considered to have expired at the end of their respective terms: NM 0141125-A(Okla) on June 30, 1971; NM 0558693-C(Okla) on December 31, 1975.

Sincerely yours,

/s/ Raul E. Martinez

Raul E. Martinez
Chief, Minerals Section

cc:
GS, Tulsa (23N-14W-IM)
Accounts

943b-6:TRAnchondo:jam:11/24/76:x239

EXHIBIT "G"

MEMORANDUM OF LAW

CASES 7564 and 7593

Submitted by Mesa Petroleum Co.

The application filed by Western Reserves Oil Company ("Western") in Case 7593 should be dismissed because Western does not have the right to drill on the said NW/4 of Section 30, Township 6 South, Range 25 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.

Western Reserves Oil Company is a Texas limited partnership. As such it is a foreign limited partnership 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 Western must register with New Mexico's Secretary of State. Western has not so registered with New Mexico's Secretary of State.

Since Western cannot transact business in New Mexico and cannot therefore drill on the said quarter-section, Western has no standing to apply for compulsory pooling under the said Section 70-2-17(C) and its application in Case 7593 should be dismissed.

Mesa Petroleum Co. is the only owner of an interest in the said quarter-section with the right to drill thereon properly before you today. Mesa's application in Case 7564 should be granted.

Respectfully submitted,

Steven C. James

Steven C. James
Attorney for Mesa Petroleum Co.

F. MICROGRAPHICS



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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.

F. MICROGRAPHICS



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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.

Steven C. James
attorney at law
permian basin division

MESA
PETROLEUM CO.

May 28, 1982

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

Attention Mr. Daniel S. Nutter

Dear Mr. Nutter:

Subject: Case 7564

Enclosed please find a third copy of Exhibit Nos. 1-16 submitted by Mesa Petroleum Co. in Case 7564 heard before you on May 26, 1982 in consolidation with Case 7593. Western Reserves Oil Company was the applicant in Case 7593.

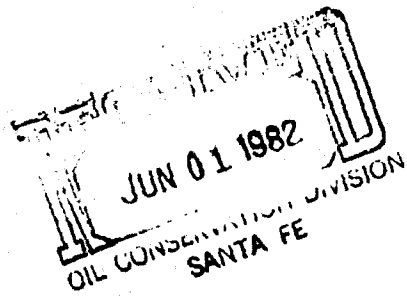
Very truly yours,

Steven C. James

Steven C. James

ld

Enclosure



C.F. MICROGRAPHICS

AVAILABLE COPY

INDEX MAP

PORTION OF CHAVES COUNTY, NEW MEXICO

SCALE: 1" = 4000'

IPCAOF — POTENTAIL TEST OF WELL

+390-ABO — ABO COMPLETION DATUM

LOCATION

MESA OPERATED ACREAGE

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 1
CASE NO. 7564

SCHEDULE

NAME	WORKING INTEREST BEFORE PAYOUT	WORKING INTEREST AFTER PAYOUT
Mesa Petroleum Co.	49.99025%	24.99513%
Corona Oil Company	0	24.99512%
Western Reserves Oil Company, a Texas limited partnership	50.00975%	50.00975%

unit size: 153.19

Mesa: 7688 acres

Mesa owns only ½ of this
Corona still owns its half
And has a long-term non-consent
agreement w/ Mesa (200% penalty
as carried interest & reverting
to Corona after payout)

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 2
CASE NO. 7564

MESA
PETROLEUM CO.

May 3, 1982

Corona Oil Company
4835 LBJ Freeway, Suite 635
Dallas TX 75234

Attention Mr. Paul Creson

Gentlemen:

Subject: #1 Donna Federal Com
1980' FNL & 1904' FWL
Section 30: NW/4
T-6-S, R-25-E, N.M.P.M.
Chaves County, New Mexico
Pecos Slope Prospect
Mesa OP 05-NM-0138

As you know, on March 18, 1982, pursuant to that certain Agreement and Operating Agreement dated July 20, 1979, by and between Mesa Petroleum Co. and Public Lands Exploration, Inc., Mesa, as Operator, proposed the drilling of the captioned well. A copy of that proposal letter is attached for your information. Effective April 1, 1982 Mesa Petroleum Co. and Corona Oil Company (formerly Public Lands Exploration, Inc.,) executed that certain Amendment to Agreements which amended the said Agreement and Operating Agreement. The enclosed Operating Agreement applicable to the above referenced well reflects the execution of the said Amendment to Agreements. Please sign and return two (2) copies of the signature page.

Very truly yours,

Mark A. Hannifin

ld

Enclosure

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 3
CASE NO. 7564

.F. MICROGRAPHICS

VAILABLE COPY

MESA
PETROLEUM CO.

March 18, 1982

Mr. Paul Creson
Corona Oil Company
4836 LBJ Freeway, Suite 635
Dallas, TX 75234

Dear Mr. Creson:

Subject: Well Proposal
Mesa #1 Donna Federal Com.
Pecos Slope Prospect
Chaves County, New Mexico
Mesa OP 05-NM-0138-146

Pursuant to that certain Letter Agreement and Operating Agreement dated July 20, 1979, by and between Mesa Petroleum Co., and Public Lands Exploration, Inc., Mesa as Operator hereby proposes the drilling of the captioned well to test the Abo Formation anticipated at 4,150'. The anticipated costs are $250,000 DHC and $388,000 Completed. Please indicate your intentions to join or go non-consent under the terms of the Operating Agreement by executing and returning a copy of this letter at your earliest possible convenience. A detailed AFE is enclosed for your execution. Please return one executed copy.

Yours very truly,

Kevin Dentzer

cs

Mesa #1 Donna Federal Com. _____Join _____Go Non-Consent

[illegible] OIL COMPANY

By: _____

MICROGRAPHICS

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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

ATTEST:

MESA PETROLEUM CO.

By: Loretta G. Porter
Assistant Secretary

By: Marion E. Causey
Marion E. Causey, Vice President

NON-OPERATORS

CORONA OIL COMPANY

_____

By: _____

WESTERN RESERVES OIL COMPANY

_____

By: _____

Signature page for that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company as Non-Operators.
#1 Donna Federal Com.

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

ATTEST:

MESA PETROLEUM CO.

By: Loretta G. Porter
Assistant Secretary

By: Marion E. Causey
Marion E. Causey, Vice President

NON-OPERATORS

CORONA OIL COMPANY

_____

By: _____

WESTERN RESERVES OIL COMPANY

_____

By: _____

Signature page for that certain
Operating Agreement dated March 18, 1982 by
and between Mesa Petroleum Co., as Operator,
and Corona Oil Company and Western Reserves
Oil Company as Non-Operators,
#1 Donna Federal Com.

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

MODEL FORM OPERATING AGREEMENT

Mesa Petroleum Co., as Operator,
Corona Oil Company and Western
Reserves Oil Company as Non-Operators

MESA #1 DONNA FEDERAL COM.

OPERATING AGREEMENT

DATED

March 18, 1982,

OPERATOR MESA PETROLEUM CO.

CONTRACT AREA NW/4 Section 30, T-6-S, R-25-E, 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

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. MICROGRAPHICS

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Mesa Petroleum Co., 1000 Vaughn Building Midland, Texas 79701-4493, 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.

A.C.F. MICROGRAPHICS



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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.

C.F. MICROGRAPHICS

AVAILABLE COPY

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 August, 19 82, Operator shall commence the drilling of a well for oil and gas at the following location:

NW/4 Section 30, T-6-S, R-25-E, N.M.P.M.
Chaves County, New Mexico

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

a depth of 4,150' or 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.

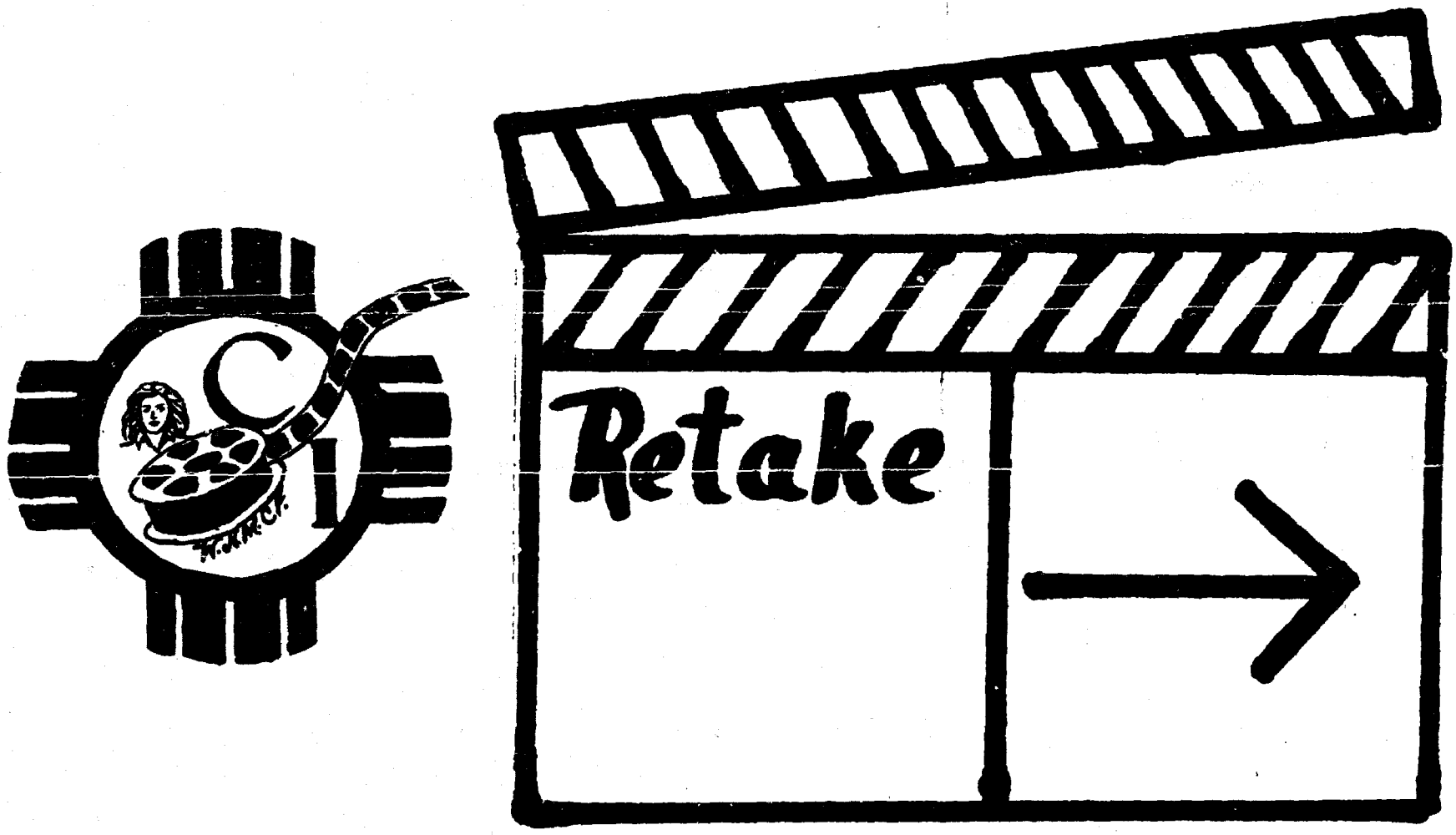
C. Payments and Accounting:

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.

THE PRECEDING DOCUMENTS WERE REFILMED DUE TO:

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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 20% 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 120 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling 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-Operators agree 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-Operators 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 statues, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

Notwithstanding anything herein to the contrary, if any Non-Operator neglects or fails to pay sums due and owing Operator hereunder for a period of thirty (30) days after receipt of invoice therefor, Operator may notify Non-Operator of its election to regard such non-operating party as a non-consenting party hereunder as to said costs, if such costs would normally be costs subject to the provisions concerning operations by less than all parties under this operating agreement. If Non-operator fails to pay such amount within ten days after receipt of such notice, Operator's election shall be automatically effective. Non-Operator shall retroactively be subject to the non-consent provisions of Article VI hereof, the same as if such party had elected to be a non-consenting party at the inception of operation, but only with respect to the sums remaining unpaid, and any future sums to be paid by such Non-Operator. This provision shall not be applicable to any sums invoiced by Operator which Non-Operator contests in good faith.

Upon request, Operator shall furnish Non-Operators with copies of all filings made with any regulatory agency, including those made pursuant to the Natural Gas Policy Act of 1978, as the same may be amended or superseded.

The interest of Corona Oil Company herein is expressly made subject to that certain Amendment to Agreements made effective April 1, 1982 by and between Mesa Petroleum Co., MTS Limited Partnership, Corona Oil Company, Pecos Slope Royalty Trust and Newkirk Royalty Trust.

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

ATTEST:

MESA PETROLEUM CO.

By: Loretta G. Porter
Assistant Secretary

By: Marion E. Causey
Marion E. Causey, Vice President

NON-OPERATORS

CORONA OIL COMPANY

_____

By: _____

WESTERN RESERVES OIL COMPANY

_____

By: _____

Signature page for that certain
Operating Agreement dated March 18, 1982 by
and between Mesa Petroleum Co., as Operator,
and Corona Oil Company and Western Reserves
Oil Company as Non-Operators.
#1 Donna Federal Com.

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company, as Non-Operators.

PART I. The Contract Area is defined as:
The NW/4 Section 30, T-6-S, R-25-E, N.M.P.M.
Chaves County, New Mexico

PART II. Working Interest Ownership:

	Before Payout	After Payout
Mesa Petroleum Co.	49.99025%	24.99513%
Corona Oil Company	0.00	24.99512%
Western Reserves Oil Company	50.00975%	50.00975%

PART III. Leases included in Contract Area subject to this Agreement:

A. Oil and Gas Lease
Book 180, page 595, Deed Records, Chaves County, New Mexico
Mesa OP 05-NM-0138-0108-001
Lessor: H. G. Bedford and Louis Bedford, et al
Lessee: Public Lands Exploration, Inc.
Description: Insofar and only insofar as it covers the NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

B. Oil and Gas Lease
Book 180, page 563, Deed Records, Chaves County, New Mexico
Mesa OP 05-NM-0138-0108-002
Lessor: Royalty Investment Company
Lessee: Public Lands Exploration, Inc.
Description: Insofar and only insofar as it covers the NW/4 of Section 30, T-6-S, -25-E, N.M.P.M. Chaves County, New Mexico

C. Oil and Gas Lease
Book 180, page 589, Deed Records, Chaves County, New Mexico
Mesa OP 05-NM-0138-0108-003
Lessor: Ludie Bedford
Lessee: Public Lands Exploration, Inc.
Description: Insofar and only insofar as it covers the NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

D. Oil and Gas Lease
Book 181, page 334, Deed Records, Chaves County, New Mexico
Mesa OP 05-NM-0138-0116-000
Lessor: Fred McDermett and Roxy McDermett
Lessee: Carl A. Schellinger
Description: Insofar and only insofar as it covers the NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

E. USA NM-12438
Lessor: United States of America
Lessee: Western Reserves Oil Company
Description: Insofar and only insofar as it covers the S/2 NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

EXHIBIT "A"
Page Two

ADDRESS LIST:

Mesa Petroleum Co.
1000 Vaughn Building
Midland, Texas 79701-4493

Corona Oil Company
4835 LBJ Freeway
Suite 635
Dallas, Texas 75234

Western Reserves Oil Company
P. O. Box 993
Midland, Texas 79702

#1 DONNA FEDERAL COM.

EXHIBIT "B"

There is no Exhibit "B" to this Agreement.

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company 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

shall charge the Joint Account with the following items:

tals and Royalties

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

or

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.

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.

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.

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

ployee Benefits

rator's current costs of established plans for employees' group life insurance, hospitalization, pension, rement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual not to exceed twenty-six percent (26%) or percent most recently recommended by the ncil of Petroleum Accountants Societies of North America.

terial

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

nsportation

nsportation of employees and Material necessary for the Joint Operations but subject to the following limitas:

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.

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.

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.

vices

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

uipment and Facilities Furnished by Operator

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.

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.

mages and Losses to Joint Property

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

gal Expense

sts and expense of handling, investigating and settling litigation or claims, disarging of liens, payment of judgments and amounts paid for settlement of claims curred in or resulting from operations under the agreement or necessary to protect recover the Joint Property, and the costs and expenses incurred in connection with arings and other matter before governmental bodies and agencies and costs and exnses incurred in examining and curing title, except that no charge for services of erator's legal staff shall be made.

F. MICROGRAPHICS



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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.

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. (See Exhibit " " attached.)

L. 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 (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 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.

C.F. MICROGRAPHICS



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(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.

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.

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

perator 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 Joint Account, the construction overhead charge on projects in excess of $25,000 shall be 1½ of total cost.

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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 [illegible] cost (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 (15c) 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.

SCHEDULE I

Attached to and made a part of Exhibit "C" attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company 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.

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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

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EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company, 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 _____, 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 that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company, as Non-Operators.

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.

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 Under-produced 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:

.F. MICROGRAPHICS



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(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 3 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 Percentage Ownership share of gas production, 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; provided that if any Under-produced Party is taking less than its full share of the gas production made available by the Over-produced Parties, than each of the other Under-produced Parties shall be entitled to share, pro rata, in such available gas production.

(2) For the purpose of balancing production accounts as provided in Section 3 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 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 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 by an Over-produced Party for any 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.

4. STATEMENTS:

During the term hereof, each party selling gas from a well within the Unit Area in any month will furnish or cause to be furnished to the Operator 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.

5. PRODUCTION TAXES:

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

6. 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.

7. 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.

8. 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.

9. 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.

10. OPERATOR'S LIABILITY:

The Operator under the Operating Agrement 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 that certain Operating Agreement dated March 12, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company, 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)

CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into this contract, certifies that it does not maintain or provide for its employees any segregated ...ies at any of its establishments, and that it does not permit its employees to perform their services at any location, under ...control, where segregated facilities are maintained. It certifies further that it will not maintain or provide for its employees ... segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any ...tion, 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 ...his certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, restrooms and ...shrooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, ...nking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are ...gregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, ...al custom, or otherwise. It further agrees that (except where it has obtained identical certifications from proposed subcon...ctors for specific time periods), it will obtain identical certifications from proposed subcontractors prior to the award of ...ubcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain ...ch certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the ...oposed 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.

CORONA OIL COMPANY

4835 LBJ Freeway, Suite 635 Dallas, Texas 75234 214/385-3070

May 20, 1982

Mr. Steve James
Mesa Petroleum Co.
Vaughn Building
Suite 1000
Midland, Texas 79701

Re: #1 Donna Federal Com.
Operating Agreement

Dear Mr. James:

Enclosed please find executed signature pages for the above-referenced operating agreement.

Very truly yours,

Sandy Parks

Sandy Parks
Secretary for Don E. Williams

Encl.

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 4
CASE NO. 7564

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

ATTEST:

By: Loretta G. Porter
Assistant Secretary

MESA PETROLEUM CO.

By: Marion E. Causey
Marion E. Causey, Vice President

NON-OPERATORS

_____

CORONA OIL COMPANY

By: _____

_____

WESTERN RESERVES OIL COMPANY

By: _____

Signature page for that certain
Operating Agreement dated March 18, 1982 by
and between Mesa Petroleum Co., as Operator,
and Corona Oil Company and Western Reserves
Oil Company as Non-Operators.
#1 Donna Federal Com.

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

ATTEST:

MESA PETROLEUM CO.

By: Loretta G. Porter
Assistant Secretary

By: Marion E. Causey
Marion E. Causey, Vice President

NON-OPERATORS

CORONA OIL COMPANY

_____

By: _____

WESTERN RESERVES OIL COMPANY

_____

By: _____

Signature page for that certain
Operating Agreement dated March 18, 1982 by
and between Mesa Petroleum Co., as Operator,
and Corona Oil Company and Western Reserves
Oil Company as Non-Operators,
#1 Donna Federal Com.

MESA
PETROLEUM CO.

March 9, 1982

Western Reserves Oil Co.
301 Blanks Building
Midland TX 79701

Attention: Dick Beveridge

Gentlemen:

Subject: Opinion of Title
NM-12438
Covering: S/2 NW/4 Sec. 30
T-6-S, R-25-E
Chaves County, New Mexico
#1 Donna Federal Com.
Mesa OP 05-NM-0138

Mesa Petroleum Co. is currently preparing to drill the #1 Donna Federal Com. well 1980' FNL and 1980' FWL, Section 30, T-6-S, R-25-E, Chaves County, New Mexico.

The S/2 of the NW/4 of Section 30 is your Federal Lease NM-12438 which according to our records is HBP. This office would appreciate being furnished any Opinion of Title and/or Drilling Opinion which you have covering this lease.

Very truly yours,

Kevin Dentzer

cs

Western Reserves Oil Co.
MAR 17 1982
HOUSTON

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EX. NO. 5
CASE NO. 7564

WELLFILE
MK 32



ST AVAILABLE COPY

MESA
PETROLEUM CO.

March 10, 1982

RECEIVED
MAR 18 1982
MES

Mr. Bronson M. Corn
Dunlap Star Route
Roswell, New Mexico 88201

Re: Well Activity
Donna #1 Fed
Section 30, T-6-S, R-25-E
1980 FNL, 1980 FWL
Chaves County, New Mexico

Dear Mr. Corn:

As the surface owner of portions of Section 30, T-6-S, R-25-E, Mesa Petroleum Co. wishes to give you written notice of their intent to survey the above captioned well in the near future.

If you should have any questions, please contact us.

Yours very truly,

Kim A. Hanks

KAH/tjr

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 6
CASE NO. 7564

Form 9-331 C
(May 1963)

SUBMIT IN [illegible]LICATE*
(Other instructions on reverse side)

Form approved.
Budget Bureau No. 42-R1425.

UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK: DRILL [X] DEEPEN [ ] PLUG BACK [ ]

b. TYPE OF WELL: OIL WELL [ ] GAS WELL [X] OTHER — SINGLE ZONE [X] MULTIPLE ZONE [ ]

2. NAME OF OPERATOR: Mesa Petroleum Co.

3. ADDRESS OF OPERATOR: 1000 Vaughn Building / Midland, Texas 79701

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*)
At surface: 1980' FNL & 1904' FWL
At proposed prod. zone: same

5. LEASE DESIGNATION AND SERIAL NO.: NM-12438

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

7. UNIT AGREEMENT NAME:

8. FARM OR LEASE NAME: Donna Fed Com

9. WELL NO.: 1

10. FIELD AND POOL, OR WILDCAT: Pecos Slope ABO

11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA: Sec 30, T6S, R25E

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE*: 30 miles north/northeast from Roswell, New Mexico

12. COUNTY OR PARISH: Chaves

13. STATE: New Mexic

15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any): 660'/660'

16. NO. OF ACRES IN LEASE: 160

17. NO. OF ACRES ASSIGNED TO THIS WELL: 160

18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.: N/A

19. PROPOSED DEPTH: 4150'

20. ROTARY OR CABLE TOOLS: Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.): 3770'

22. APPROX. DATE WORK WILL START*: April 23, 1982

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8"	48#	900'	SURFACE
11" or 12¼"	8 5/8"	24#	1600'	ISOLATE WATER, OIL & GAS
7 7/8"	4 1/2"	10.5#	4150'	COVER ALL PAY

Propose to drill 17 1/2" hole to approximately 900' to set 13 3/8" surface casing and cement to surface. Will reduce hole to 11" or 12¼" and drill to approximately 1600' to set 8 5/8" casing. Will nipple up RAM type BOPs, reduce hole to 7 7/8" and drill to total depth. Drilling medium will be air, foam, or mud as required.

Operator's Gas Sales Are Dedicated.

xc: MMS (6), TLS, CEN RCDS, ACCGT, MEC, LAND, PARTNERS, FILE, REM, ROSWELL

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24.

SIGNED R. E. Mathis TITLE REGULATORY COORDINATOR DATE 3-11-82

(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

APPROVED BY _____ TITLE _____ DATE _____

CONDITIONS OF APPROVAL, IF ANY:

*See Instructions On Reverse Side

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 7
CASE NO. 7564

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION
P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

Form C-102
Revised 10-1-7

All distances must be from the outer boundaries of the Section.

Operator	Lease	Well No.
Mesa Petroleum Co.	Donna Fed Com	1

Unit Letter	Section	Township	Range	County
F	30	6 South	25 East	Chaves

Actual Footage Location of Well:
1980 feet from the North line and 1904 feet from the West line

Ground Level Elev.	Producing Formation	Pool	Dedicated Acreage:
3771	ABO	Pecos Slope ABO	NW/4 160 Acres

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.

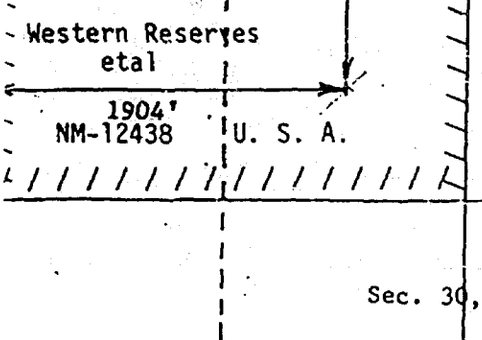
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).

3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation Communitization in Progress

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

R. E. Mathis

Name: R. E. MATHIS
Position: REGULATORY COORDINATOR
Company: MESA PETROLEUM CO.
Date: MARCH 11, 1982

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed: March 8, 1982
Registered Professional Engineer and/or Land Surveyor: John D. Jaques R.L.S.
Certificate No. 6290

JOHN D. JAQUES
NEW MEXICO
6290
REGISTERED PROFESSIONAL ENGINEER

APPLICATION FOR PERMIT TO DRILL

MESA PETROLEUM CO.
DONNA FED COM #1
1980' FNL & 1904' FWL, SEC 30, T6S, R25E
CHAVES COUNTY, NEW MEXICO

LEASE NO. NM-12438

In conjunction with Form 9331-C, Application For Permit to Drill subject well, the following additional information is provided:

1. Applicable portions of the GENERAL REQUIREMENTS FOR OIL AND GAS OPERATIONS ON FEDERAL LEASES, Roswell District, Geological Survey of September 1, 1980 will be adhered to.

2. Geological markers are estimated as follows:

SEVEN RIVERS	Surface
SAN ANDRES	345
GLORIETA	1341
TUBB	2798
ABO	3440

3. Hydrocarbon bearing strata may occur in the Abo formation(s). No fresh water is expected to be encountered below 900'.

4. The Casing and Blowout Preventer Program will be determined by hole conditions as encountered. See Exhibit VI. Anticipate drilling with air or foam using ram type preventer and rotating head for well control. The 13 3/8" casing will be set at approximately 900' to protect any fresh water zones and cemented to the surface. The 8 5/8" casing will be set at approximately 1600' if water zones have been encountered or omitted if not and ram type preventers installed. Sufficient amounts and kinds of cement would be used to ensure any water, gas, or oil zones encountered are isolated and shut off down to the casing point if run. The 4 1/2" production casing will be set at total depth or shallower depending upon the depth of the deepest commercial hydrocarbon bearing strata encountered.

5. No drill stem test or coring program is planned. The logging program may consist of a GR-CNL from surface total depth and FDC from casing point to total depth.

6. Anticipated drilling time is ten days with completion operations to follow as soon as a completion unit is available.

MULTI-POINT SURFACE USE AND OPERATION PLAN

MESA PETROLEUM CO.
DONNA FED COM #1
1980' FNL & 1904' FWL, SEC 30, T6S, R25E
CHAVES COUNTY, NEW MEXICO

LEASE NO: NM-12438

This plan is submitted with the Application for Permit to Drill the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operational plan in both the actual and post drilling completion operations.

1. Existing Roads:

A. Exhibit I is a portion of a highway map showing the location of the proposed well as staked. The proposed well is approximately 30 miles North from Roswell, New Mexico.

B. Directions: Travel North from Roswell on U.S. Highway 285 for approximately 25 miles to Mile Marker 137 and turn East on county road (Cottonwood Ranch) for 5 miles then turn Southeast at Ric #3 on lease road 1½ miles to the location.

2. Planned Access Road:

A. Length and width: The new access road will be 12' wide (20' ROW) and approximately 200' of new lease road.

(See Exhibit II)

B. Construction: The new road will be constructed by grading and topping with compacted caliche. The surface will be crowned, with drainage on both sides. (See Exhibit III)

C. Culverts, Gates and Cattleguards: None.

D. Cut and Fill: In order for the location to be level, only minor leveling will be required.

3. Location of Existing Wells:

Existing wells within a one-mile radius are depicted by Exhibit IV.

4. Location of Existing and/or Proposed Facilities:

If the well proves to be commercial, the necessary production facilities, gas separation process equipment and tank battery, will be installed on the drilling pad.

5. Location and Type of Water Supply:

It is planned to drill the proposed well with air. If needed, water will be obtained from commercial sources and will be trucked to the wellsite over the exiting roads and proposed access road shown on Exhibits I and II.

6. Source of Construction Materials:

Caliche if used for surfacing the road and wellsite pad will be obtained by the dirt contractor from an approved pit.

7. Methods of Handling Waste Disposal:

A. Drill cuttings will be disposed of in the reserve pits.

B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.

C. All pits will be fenced with normal fencing material to prevent livestock from entering the area.

D. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or separate disposal application will be submitted to the USGS for approval.

E. Current laws and regulations pertaining to the disposal of human waste will be complied with.

F. Trash, waste paper, garbage and junk will be buried in a separate trash pit and covered with a minimum of 24 inches of dirt. All waste material will be contained to prevent scattering by the wind.

G. All trash and debris will be buried or removed from the wellsite within 30 days after finished and/or completion operations.

8. Ancillary Facilites: None required.

9. Wellsite Layout:

A. Exhibit V shows the relative location and dimensions of the well pad, reserve pits, and major rig components. The pad and pit area has been staked and flagged.

B. Some leveling of the wellsite may be required. See Exhibit III for additional details.

C. The reserve pit will not be plastic lined.

10. Plans for Restoration of the Surface:

A. After completion of drilling and/or completion operations all equipment and other material not needed for operations will be removed. Pits will be filled and location cleaned of all trash and junk to leave the wellsite in an aesthetically pleasing a condition as possible.

B. Any unguarded pits containing fluids will be fenced until they are filled.

C. If the proposed well is non-productive, all rehabilitation and/or vegatation requirements of the Bureau of Land Management and the United States Geological Survey will be complied with and will be accomplished as expeditiously as possible. (Subject only to Surface Owner/Operator Rehabilitation Agreement if executed.) All pits will be filled and leveled within 90 days after abandonment, if drying conditions permit.

11. Other Information:

A. Topography: See NMAS, Inc. Report

B. Soil: The topsoil at the wellsite is sandy loam.

C. Flora and Fauna: See NMAS, Inc. Archaeological Report for vegetative types.

D. Ponds and Streams: Shannon Draw is just North of the location.

E. Residences and Other Structures: None.

F. Land Use: Grazing.

G. Surface Ownership: The wellsite is on private surface (Brunson Corn).

H. NMAS, Inc. has conducted an archaeological study of this site and provides this report to interested parties.

12. Operator's Representatives:

A. The field representatives repsonsible for assuring compliance with the approved surface use and operations plan are as follows:

J. James
P. O. Box 298
Roswell, New Mexico 88201
(505-622-0992) - Office
(505-622-0234) - Home

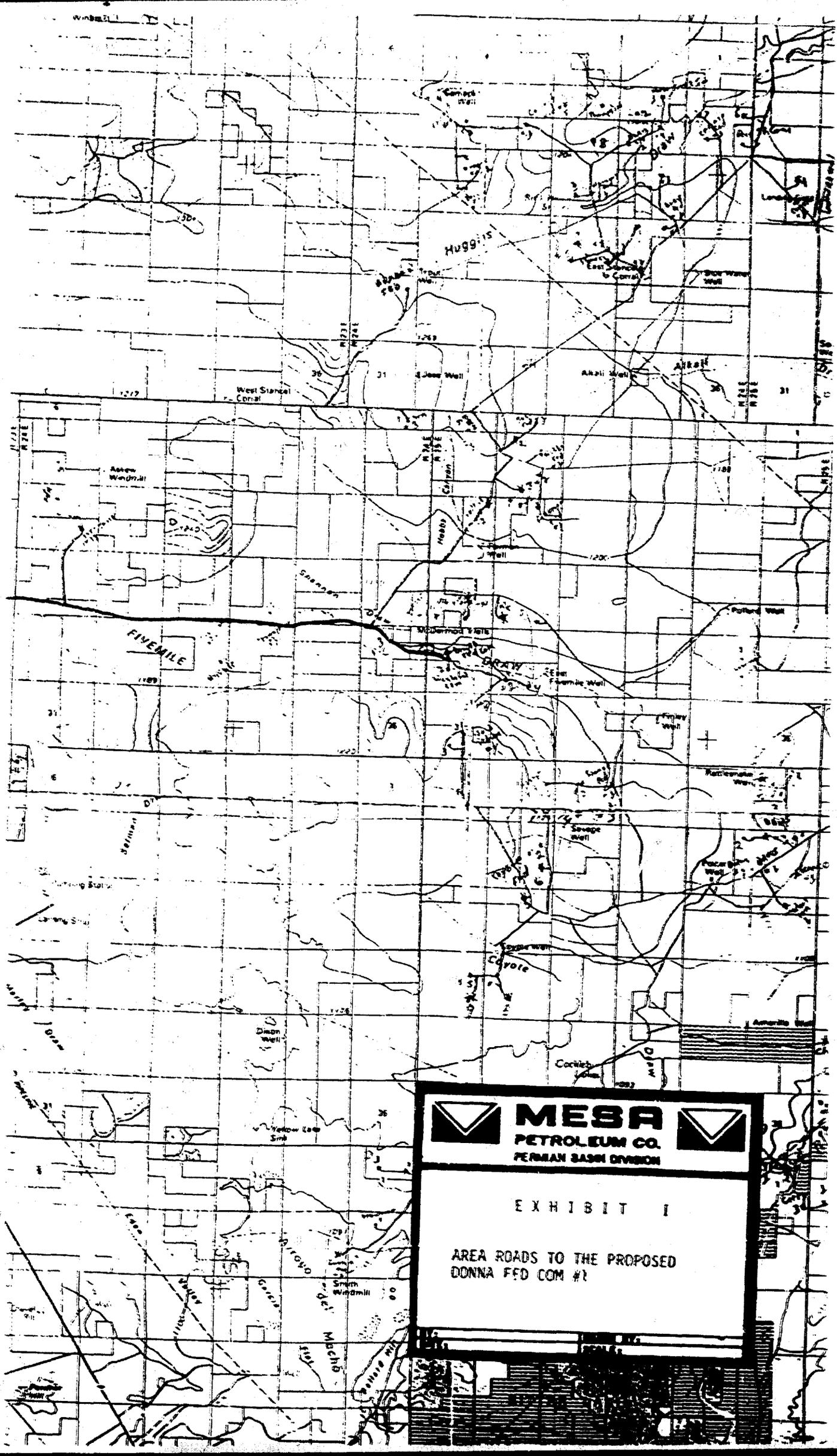
W. R. Miertschin
1000 Vaughn Building
Midland, Texas 79701
(915-683-5391) - Office
(915-682-6535) - Home

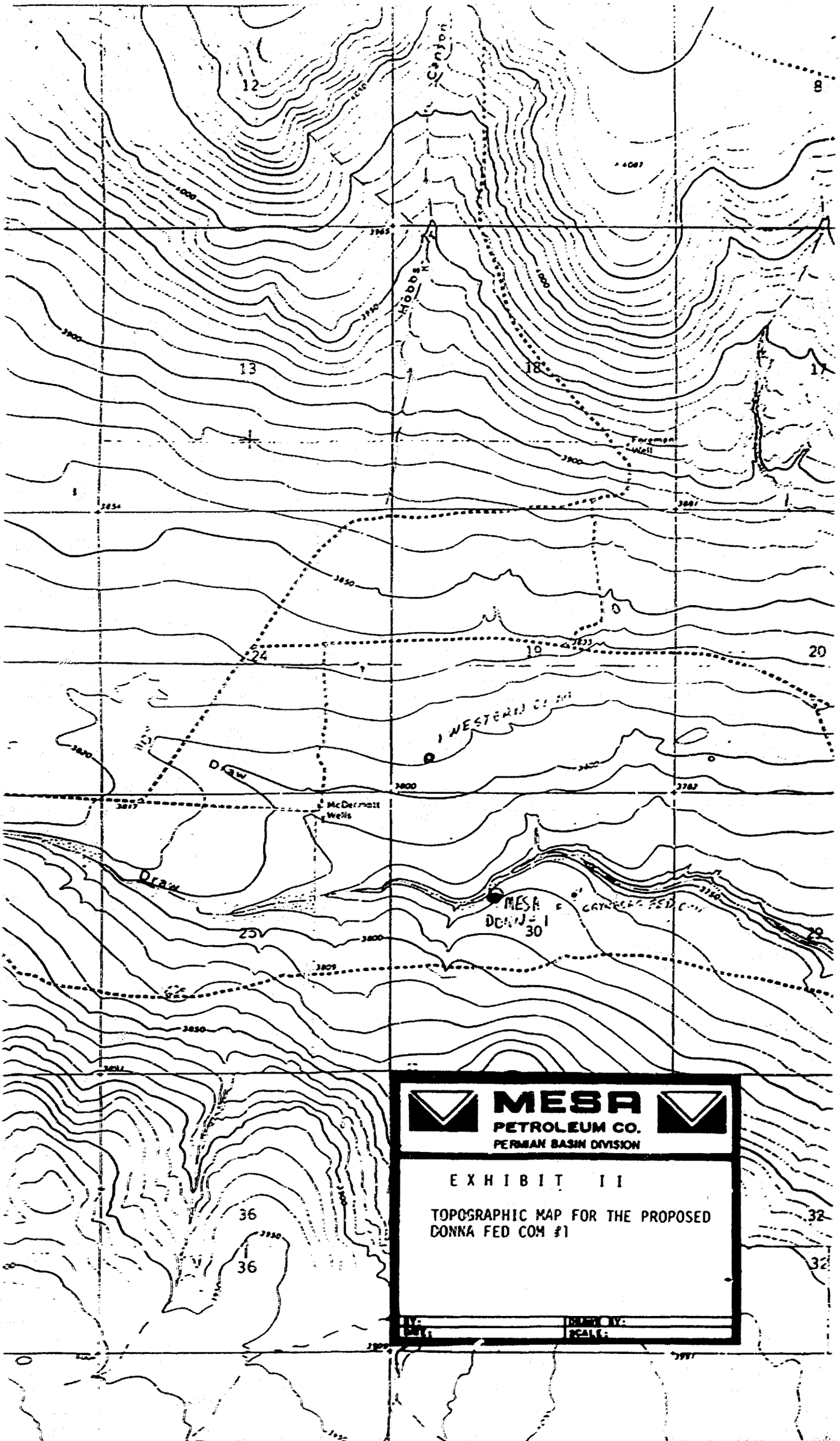
13. Certification:

I hereby certify that I, or person under my direct supervision, have inspected the proposed drillsite and access route; that I am familiar with the conditions which presently exist; that the statements made in this plan are, to the best of my knowledge true and correct; and, that the work assoicated with the operations proposed herein will be performed by Mesa Petroleum Co. and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved.

3-12-87
DATE

Michael P. Houston
MICHAEL P. HOUSTON
OPERATIONS MANAGER

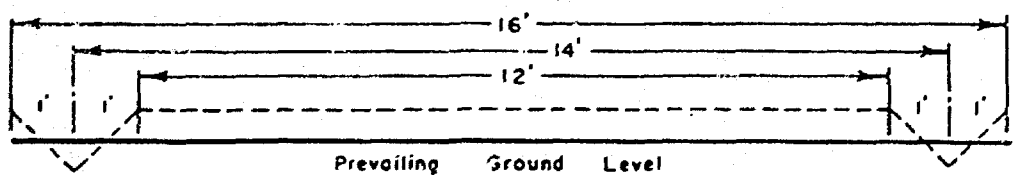

Huggins
West Stanolind Canal
Akaii
FIVEMILE
Coyote
MESA
PETROLEUM CO.
PERMIAN BASIN DIVISION
EXHIBIT I
AREA ROADS TO THE PROPOSED
DONNA FED COM #1


MESA
PETROLEUM CO.
PERMIAN BASIN DIVISION
EXHIBIT II
TOPOGRAPHIC MAP FOR THE PROPOSED
DONNA FED COM #1
BY:
DRN BY:
DATE:
SCALE:

I.M.C.F. MICROGRAPHICS

EST AVAILABLE COPY

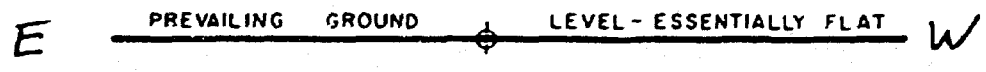
R - O - W 16'



ROADWAY CROSS SECTION

Horizontal Scale 1" = 3'





LOCATION CROSS SECTION

Horizontal Scale 1" = 50'

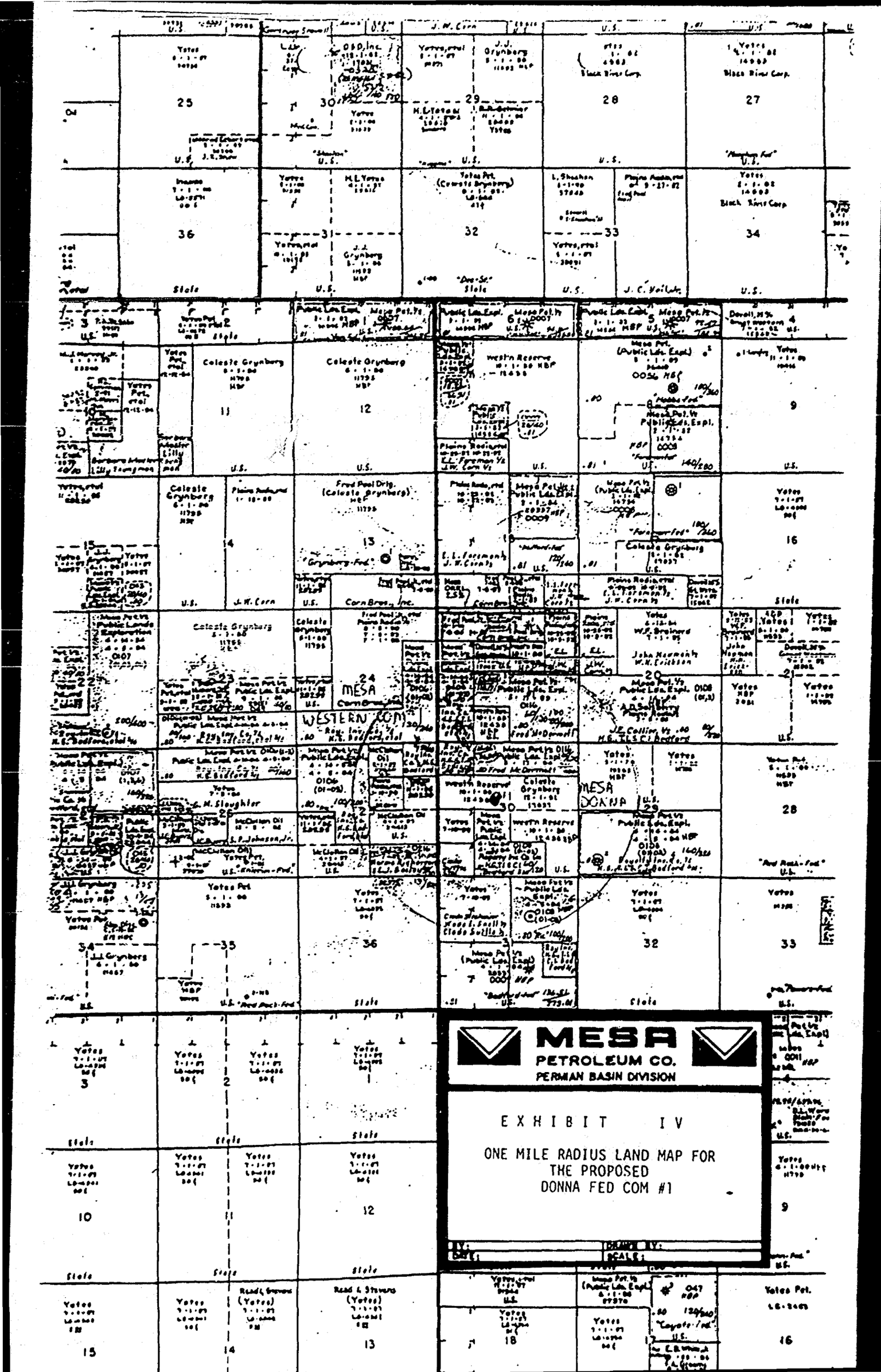
MESA PETROLEUM CO.
PERMIAN BASIN DIVISION

EXHIBIT III

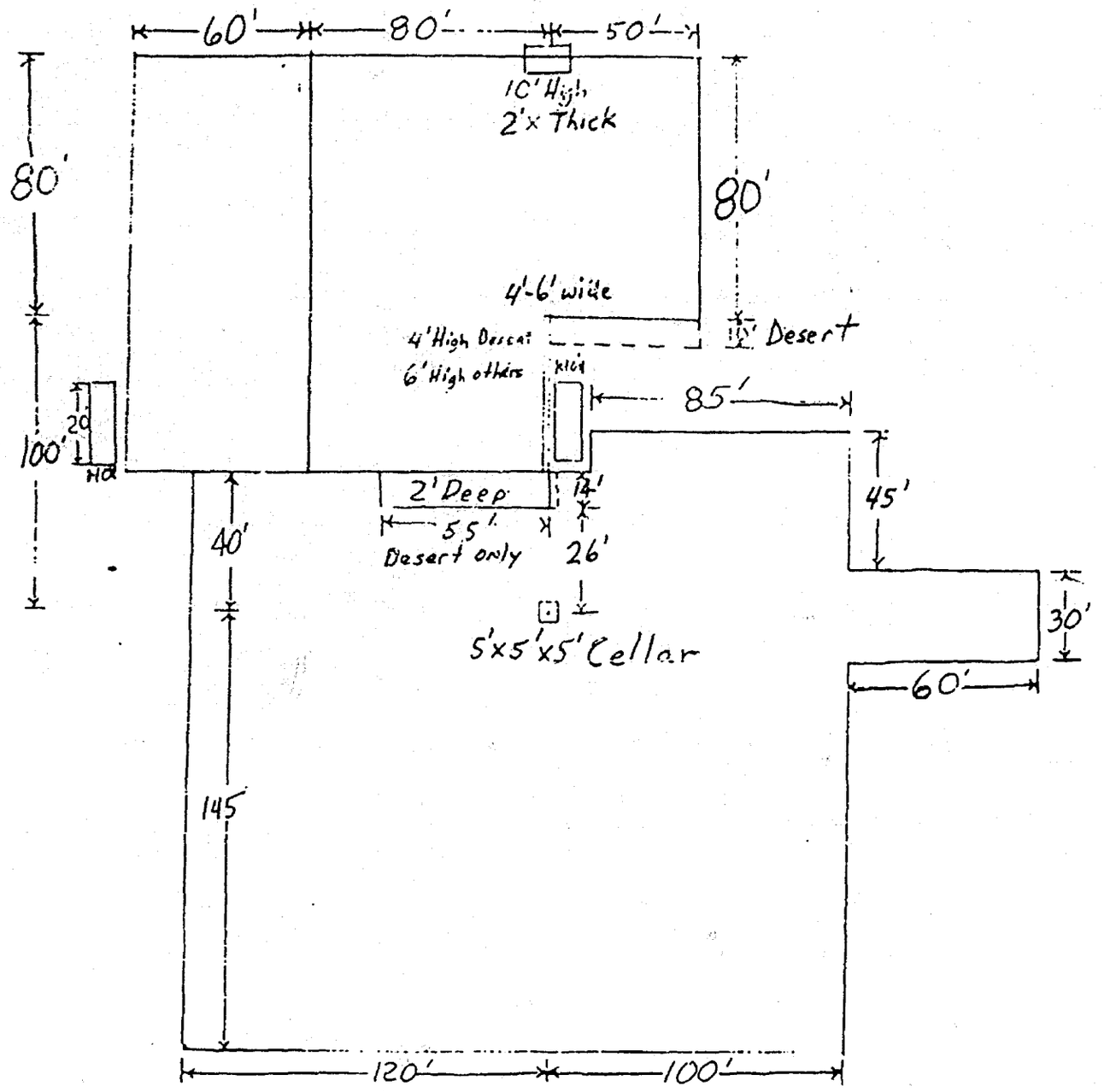
LOCATION CONSTRUCTION

BY A.G.H.
DATE 3-5-80

DRAWN BY: M.L.P.
SCALE: AS NOTED


MESA
PETROLEUM CO.
PERMIAN BASIN DIVISION
EXHIBIT IV
ONE MILE RADIUS LAND MAP FOR
THE PROPOSED
DONNA FED COM #1
DRAWN BY:
SCALE:
DATE:
MESA
DONNA
WESTERN COM
Celeste Grynberg
Yates
Yates Pet.
Yates Drlg.
Mesa Pet.
Public Lands Exploration
Fred Pool Drlg.
Corn Bros., Inc.
Western Reserve
Plains Radiocarbon
Read & Stevens (Yates)
Yates Pet.
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MESA
PETROLEUM CO.



6"-8" Watered & Compacted Caliche
ON PAD & ROAD IF NEEDED

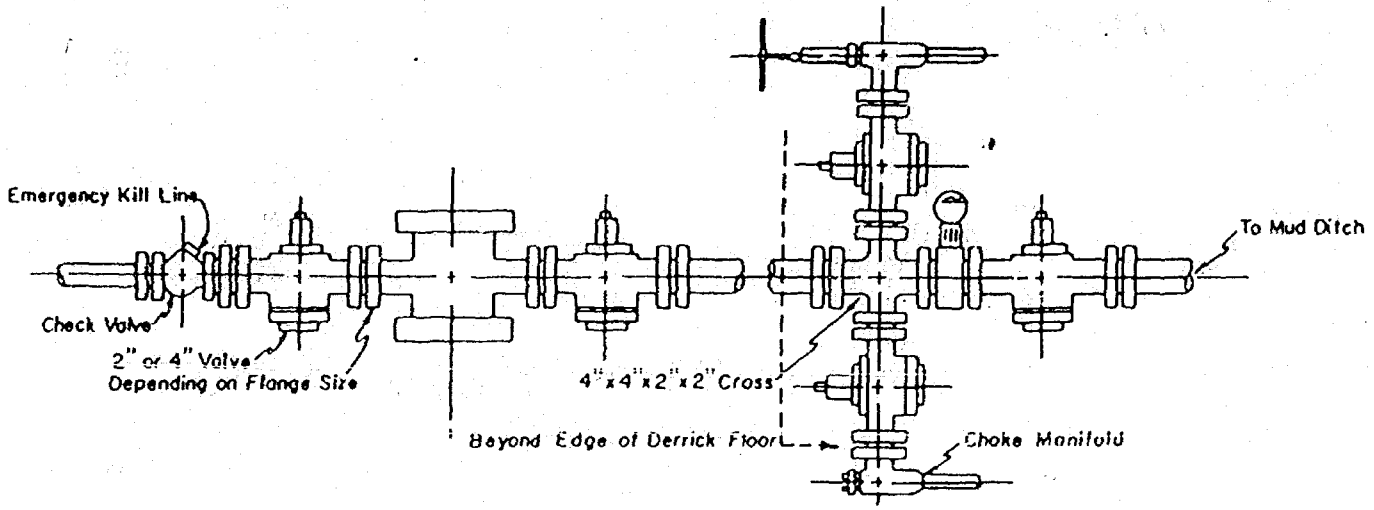
MESA
PETROLEUM CO.
PERMIAN BASIN DIVISION

EXHIBIT V

LOCATION PAD AND ACCESS ROAD

FOR THE DONNA FED COM #1

Blow-out Preventers hydril and choke manifold are all 900 Series

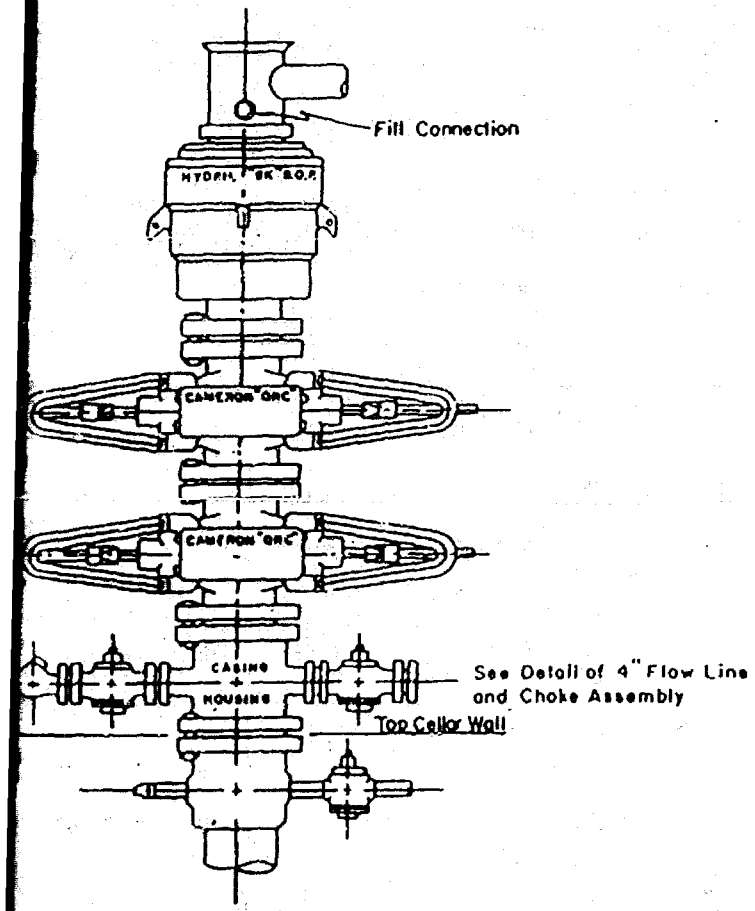


3,000 PSI WORKING PRESSURE
KILL, CHOKE, AND FILL CONNECTIONS

DETAIL OF 4" FLOW LINE CHOKE ASSEMBLY

Minimum assembly for 3,000 PSI working pressure will consist of three preventers. The bottom and middle preventers may be Cameron.

NOTE: HYDRIL not installed on shallow-low pressure wells. RAM type BOPs are API 10" X 3000 PSI



,000 PSI WORKING PRESSURE
LOW-OUT PREVENTER HOOK-UP

MESA PETROLEUM CO.
PERMIAN BASIN DIVISION

E X H I B I T

V I

.M.C.F. MICROGRAPHICS

EST AVAILABLE COPY

NMAS
New Mexico Archaeological Services, Inc.
P. O. Box 1341
Carlsbad, New Mexico 88220
(505) 887-7646

Reconnaissance
Excavation
Analysis
Explanation
Curation

13 March 1982

Original on File in Braden Fed # 1

Mr. R.E. Mathis
Regulatory Coordinator
MESA PETROLEUM CO.
1000 Vaughn Building
Midland, Texas 79701

Dear Mr. Mathis:

Enclosed please find NMAS' Archaeological Clearance Report for MESA PETROLEUM CO.'s proposed Braden Federal Well No. 1, Bitter Lake Federal Well No. 7, Lodewick Federal Com. Well No. 6, Donna Federal Com. Well No. 1, and their associated access roads in Chaves County, New Mexico. Four instances of isolated cultural resources (CR) and one instance of burned limestone (BC) were recorded during this reconnaissance. These remains are attributed to en passant activities, and hence NMAS is suggesting clearance for these projects.

If you have any questions pertaining to this report, please call my office. Thank you for asking NMAS to do this reconnaissance.

Yours sincerely,

J. Loring Haskell

Dr. J. Loring Haskell
Principal Investigator

Enclosure

cc: Mr. Lloyd Reed, Agent MESA PETROLEUM CO., Roswell
Ms. Ann Ramage, BLM, Roswell
Mr. George Stewart, USGS, Roswell
Mr. Curtis Schaafsma, Laboratory of Anthropology, Santa Fe
Mr. Thomas W. Merlan, SHPO, Santa Fe

as

RECEIVED
MAR 15 1982
MESA--PBD

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 8
CASE NO. 7564

M.C.F. MICROGRAPHICS



ST AVAILABLE COPY

ABSTRACT

New Mexico Archaeological Services, Inc., representing MESA PETROLEUM CO., Midland, undertook an archaeological reconnaissance of Bureau of Land Management lands scheduled to be impacted by the construction of four drill locations and their associated access roads. The investigated areas are situated in Section 30, T5S, R24E; Section 4, T9S, R25E; Section 8, T5S, R25E, and Section 30, T6S, R25E, NMPM, Chaves County, New Mexico. Four instances of isolated cultural resources (CR), and one instance of burned limestone (BC) were recorded during the course of this reconnaissance. NMAS is suggesting clearance for all MESA projects.

Archaeological Clearance Report

for

MESA PETROLEUM CO.

Braden Federal Well No. 1
Bitter Lake Federal Well No. 7
Lodewick Federal Com. Well No. 6
Donna Federal Com. Well No. 1

Prepared

By

Dr. J. Loring Haskell

Submitted

By

Dr. J. Loring Haskell
Principal Investigator
New Mexico Archaeological Services, Inc.
Carlsbad, New Mexico

13 March 1982

Permit No. 81-NM-306

Introduction

On 9, 10, and 11, March 1982, New Mexico Archaeological Services, Inc., (NMAS), Carlsbad, undertook for MESA PETROLEUM CO., Midland, an archaeological reconnaissance of federal lands administered by the Bureau of Land Management in Chaves County, New Mexico. Reconnoitered areas will be impacted by the construction of four drill locations and their associated access roads. This project was advanced by Mr. Lloyd Reed, Regulatory Agent, MESA PETROLEUM CO., and administered by Dr. J. Loring Haskell, Principal Investigator, NMAS, Inc. This reconnaissance was undertaken by Dr. Haskell and Mr. John C. Haight.

Survey Technique

For this investigation, MESA PETROLEUM CO.'s proposed locations were reconnoitered for evidence of man's past activities by walking them in a series of 25 ft wide, close interval (15° or less), zigzag trqnsects. In addition, an added zone embracing to 20 ft on each side of the staked 400 X 400 ft locations, and hence lying outside the bounds of the proposed work areas, were reconnoitered by a similar means. As for the access roads, they were walked in two 25 ft wide transects. Methodologically, this procedure served to promote optimal conditions for the visual examination of areas to be impacted by construction-related activities.

Braden Federal Well No. 1

Location

The proposed location will measure 400 X 400 ft on federal lands and will be situated 660 ft from the north line and 660 ft from the east line of:

Section 30, T5S, R24E, NMPM, Chaves County, NM

Thus it will be situated in the:

NE¼NE¼, Section 30, T5S, R24E, NMPM, Chaves County, NM .

The associated access road will measure approximately 20 X 3640 ft and will be situated in the:

NE¼NE¼, Section 30, T5S, R24E, NMPM, Chaves County, NM
SE¼NE¼, Section 30, T5S, R24E, NMPM, Chaves County, NM
NE¼SE¼, Section 30, T5S, R24E, NMPM, Chaves County, NM
NW¼SE¼, Section 30, T5S, R24E, NMPM, Chaves County, NM
SW¼SE¼, Section 30, T5S, R24E, NMPM, Chaves County, NM

Map Reference: USGS SHANNOND DRAW QUADRANGLE, 7.5 Minute Series, 1967.

Terrain

MESA PETROLEUM CO.'s proposed Braden Federal Well No. 1 will be situated on the northeast facing slope of a broadly based-based ridge system overlooking Huggins Draw. Drainage is northeast via heavy sheetwash into a series of minor draws tributary to the aforementioned drainage. Soils are composed of moderately compacted clay loams and silty clay loams. Pedons are classified as belonging to the Calic Gypsiorthid subgroup and its intergrades.

Floristics

Areal soils host a sparse overstory of Prosopis juliflora and Yucca glauca. Attendant forbs include Gutierrezia sarothrae, Perezia nana, and Coldenia canescens. The Gramineae is represented by Tridens pulchellus, Bouteloua sp., Scleropogon brevifolius and Hilaria mutica.

Cultural Resources

No cultural resources were noted during this reconnaissance. This locality's lack of knappable lithic resources may be cited as the primary factor contributing to the absence of cultural resources. Prehistoric land usage focused on hunting pursuits with most usage occurring during Late Archaic (A.D. 750-950) and Jornada Mogollon (A.D. 950-1350) times.

Recommendations

NMAS recommends clearance for MESA PETROLEUM CO.'s proposed Braden Federal Well No. 1 and its access road and suggests that work-related activities proceed in accordance with company plans. Clearance, of course, is granted by the Bureau of Land Management. If cultural resources are encountered during construction, the BLM and NMAS should be notified immediately.

Bitter Lake Federal Well No. 7

Location

The proposed location will measure 400 X 400 ft on federal lands and will be situated 1980 ft from the north line and 660 ft from the west line of:

Section 4, T9S, R25E, NMPM, Chaves County, NM

Thus it will be situated in the:

SW¼NW¼, Section 4, T9S, R25E, NMPM, Chaves County, NM

The associated access road will measure approximately 20 X 4600 ft and will be situated in the:

SW¼NW¼, Section 4, T9S, R25E, NMPM, Chaves County, NM
NW¼SW¼, Section 4, T9S, R25E, NMPM, Chaves County, NM
NE¼SW¼, Section 4, T9S, R25E, NMPM, Chaves County, NM
NW¼SE¼, Section 4, T9S, R25E, NMPM, Chaves County, NM
SW¼SE¼, Section 4, T9S, R25E, NMPM, Chaves County, NM
SE¼SE¼, Section 4, T9S, R25E, NMPM, Chaves County, NM

Map Reference: USGS MELENA QUADRANGLE, 7.5 Minute Series, 1962.

Terrain

MESA PETROLEUM CO.'s proposed loaction will be situated north of the Dunnahoo Hills on a gently trending plain overlain by a veneer of aeolian deposits. Drainage is toward the east via sheetwash. Soils consist of silty clay loams and sandy clay loams hosting limestone, quartzite, and chert gravel-sized inclusions. Pedons belong to the Typic

Paleorthid subgroup, its intergrades, and the Typic Torripsamment subgroup.

Floristics

The floral overstory of this area consists of a low overstory of Prosopis juliflora, and Yucca glauca. Attendant forbs include Gutierrezia sarothrae and Perezia nana. The Gramineae is represented by low-growing Bouteloua sp., Hilaria mutica, and Tridens pulchellus. The Cactaceae is represented by Echinocactus sp.

Cultural Resources

No cultural resources were noted during this reconnaissance. The paucity of potable water, lack of knappable lithic resources, and open nature of the landform may be cited as reasons for their absence at this locality. Hunting and gathering social units seasonally utilized the area while exploiting its food resources. Occupancies were ephemeral probably measurable in terms of less than a day.

Recommendations

NMAS recommends clearance for MESA PETROLEUM's proposed Bitter Lake Federal Well No. 7 and its access road and suggests that work-related activities proceed in accordance with company plans. Clearance, of course, is granted by the Bureau of Land Management. If cultural resources are encountered during construction, the BLM and NMAS should be notified immediately.

Lodewick Federal Com. Well No. 6

Location

The proposed location will measure 400 X 400 ft on federal lands and will be situated 1980 ft from the south line and 1650 ft from the west line of:

Section 8, T5S, R25E, NMPM, Chaves County, NM.

Thus it will be situated in the:

NE¼SW¼, Section 8, T5S, R25E, NMPM, Chaves County, NM

The associated access road will measure approximately 20 X 1700 ft and will be situated in the:

NE¼SW¼, Section 8, T5S, R25E, NMPM, Chaves County, NM
NW¼SE¼, Section 8, T5S, R25E, NMPM, Chaves County, NM

Map Reference: USGS DEERING PLACE QUADRANGLE, 7.5 Minute Series, 1967.

Terrain

MESA PETROLEUM's proposed location will be situated on a gently sloping plain whose surface is broken by the occurrence of small knoll-like eminences. Subject to sheetwash, areal drainage is tributary to Huggins Draw and hence the Pecos. Surficial deposits consist of slightly compacted sandy clay loams which host gravel- and cobble-sized chert, quartzite, and limestone inclusions.

Floristics

Principal plants of this landform are Prosopis juliflora, Yucca glauca, and Atriplex canescens. Associated forbs include Gutierrezia sarothrae, Mentzelia sp., Circium sp., and Perezia nana. Most commonly occurring grasses are Bouteloua spp., Muhlenbergia porterii, Hilaria mutica, Scleropogon brevifolius, and Tridens pulchellus.

Cultural Resources

During the course of this reconnaissance, one isolated cultural resource (CR) was recorded. This CR, consisting of one quartzite primary decortication, is situated at a point 150 ft south-southwest of the center stake. It is located in the:

NW¼SW¼NE¼SW¼, Section 8, T5S, R25E, NMPM, Chaves County, NM

UTM: Zone 13, N3,749,280; E560,710

Map Reference: USGS DEERING PLACE QUADRANGLE, 7.5 Minute Series, 1967.

Recommendations

NMAS recommends clearance for MESA PETROLEUM's proposed Lodewick Federal Com. Well No. 6 and its access road and suggests that work-related activities proceed in accordance with company plans. Clearance, of course, is granted by the Bureau of Land Management. If additonal cultural resources are encountered during construction, the BLM and NMAS should be notified immediately.

Donna Federal Com. Well No. 1

Location

The proposed location will measure 400 X 400 ft on federal lands and will be situated 1980 ft from the north line and 1904 ft from the west line of:

Section 30, T6S, R25E, NMPM, Chaves County, NM

Thus it will be situated in the:

SE¼NW¼, Section 30, T6S, R25E, NMPM, Chaves County, NM

The associated access road will measure approximately 20 X 1000 ft and will be situated in the:

SE¼NW¼, Section 30, T6S, R25E, NMPM, Chaves County, NM
NE¼SW¼, Section 30, T6S, R25E, NMPM, Chaves County, NM

Map Reference: USGS SHANNON DRAW QUADRANGLE, 7.5 Minute Series, 1967.

Terrain

The investigated location will be situated immediately north of Fivemile Draw on a generally gently trending landform whose surface is marked by a discontinuous system of minor hummocks. Overall, this locality is subject to sheetwash with a tendency for it to coalesce prior to its discharge into the Fivemile Draw catchment. Lithic material occurring on local soils tends to be of gravel size; however, occasional quartzite cobbles, generally of small size, are present as well. Pedons are dominated

by the fine separates being composed of clay, loams and silty clay loams. Soils occurring in Fivemile Draw are alluvial in character.

Floristics

Local soils are supportive of an overstory of Prosopis juliflora, and Yucca glauca. Attendant forbs include Circium sp., Gutierrezia sarothrae, Mentzelia sp., and Perezia nana. The Gramineae is represented by Hilaria mutica, Scleropogon brevifolius, Sporobolus airoides, and Tridens pulchellus. The Cactaceae is represented by occasional Opuntia macrocentra.

Cultural Resources

During the course of this reconnaissance, three isolated cultural resources (CR) and one instance of burned limestone (BC) were recorded.

CR 1, consisting of one quartzite primary decortication flake is situated on the proposed access road at a point 300 ft north of the existing lease road. It is located in the:

SW ¼NW¼NE¼SW¼, Section 30, T5S, R25E, NMPM, Chaves County, NM

UTM: Zone 13, N 3,736,090; E551,460

Map Reference: USGS SHANNON DRAW QUADRANGLE, 7.5 Minute Series, 1967.

CR 2, consisting of one quartzite primary decortication flake is situated at a point 80 ft east-northeast of the center stake. It is located in the:

SW ¼NE¼SE¼NW¼, Section 30, T6S, R25E, NMPM, Chaves County, NM

UTM: Zone 13, N 3,736,390; E551,570

Map Reference: USGS SHANNON DRAW QUADRANGLE, 7.5 Minute Series, 1967.

CR 3, consisting of one jasper biface, is located at a point 200 ft south-southeast of the center stake. It is located in the:

NE ¼SW¼SE¼NW¼, Section 30, T6S, R25E, NMPM, Chaves County, NM

UTM: Zone 13, N 3,736,320; E551,560

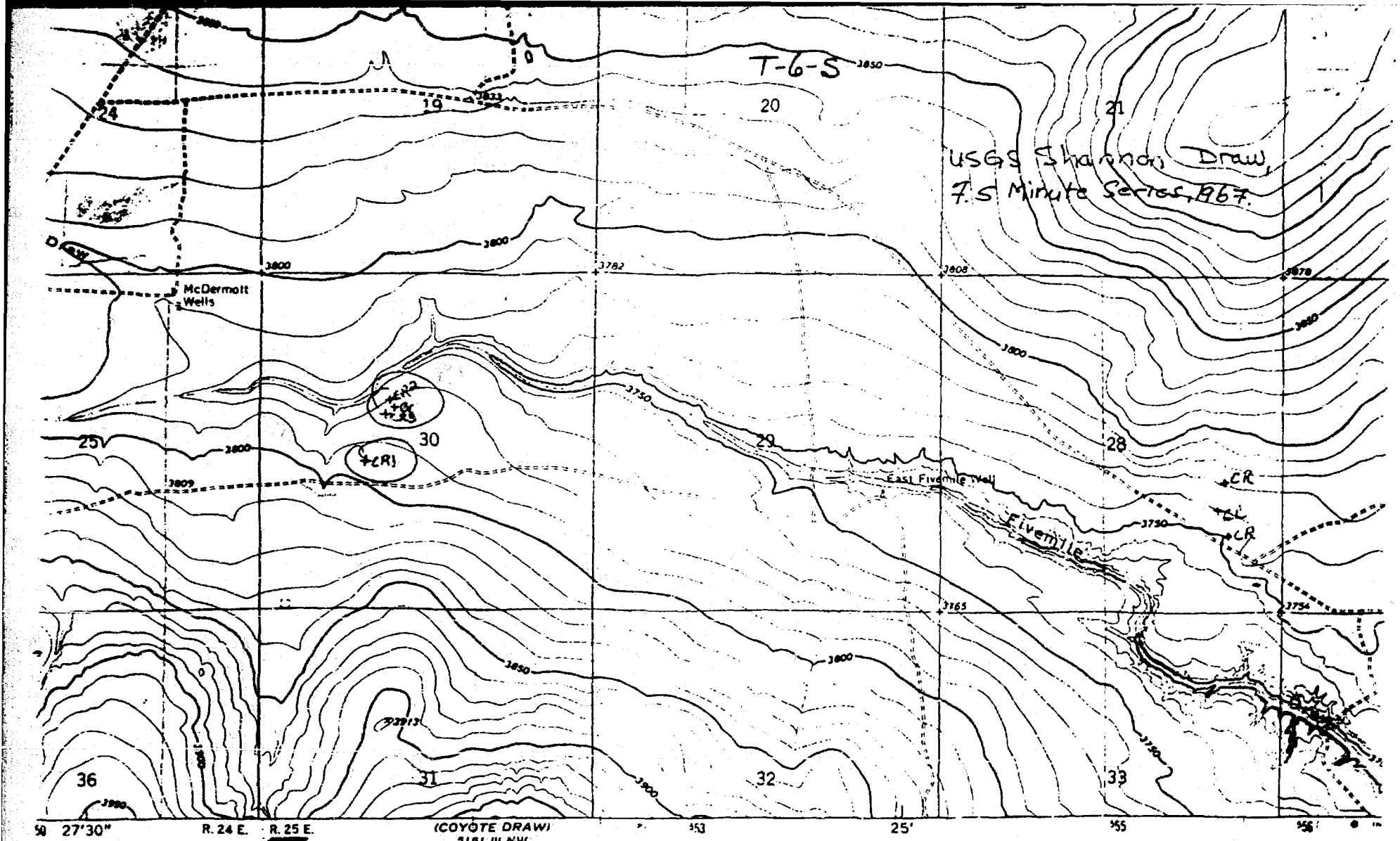
Map Reference: USGS SHANNON DRAW QUADRANGLE, 7.5 Minute Series, 1967.

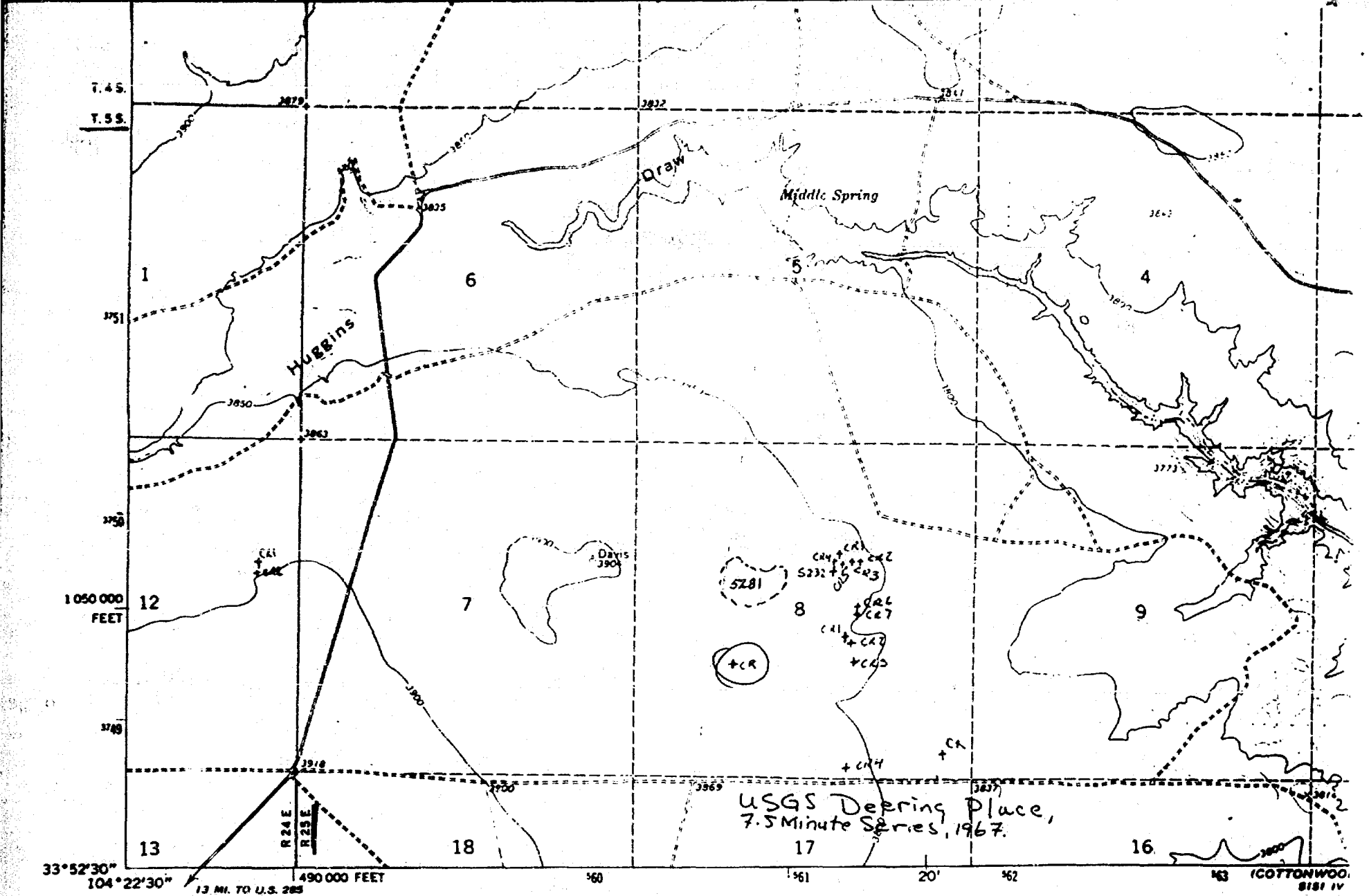
Burned Limestone (BC)

As for the burned limestone cobble, it is situated at a point 200 ft due east of the center stake.

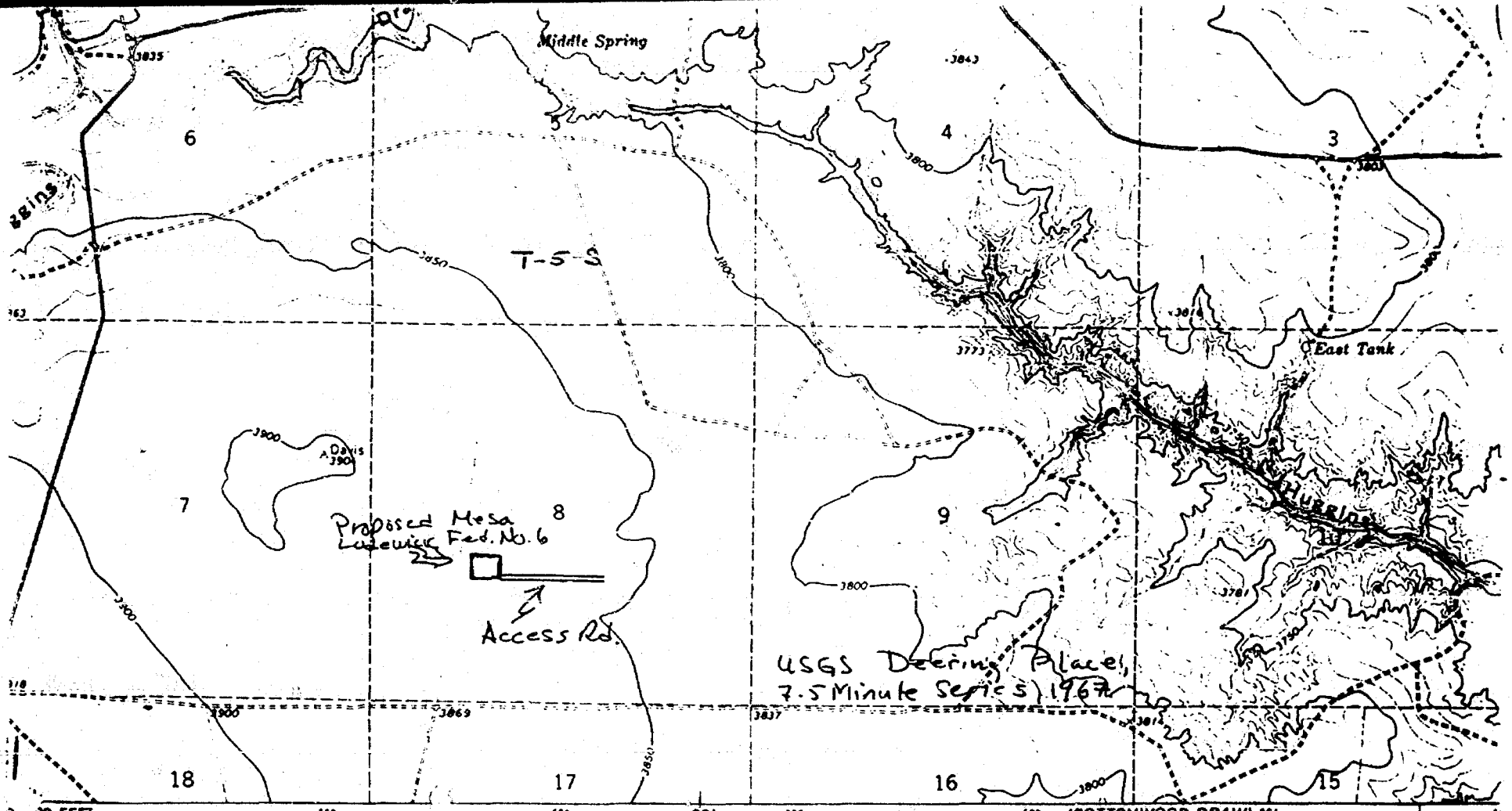
Recommendations

NMAS recommends clearance for MESA PETROLEUM CO.'s proposed Donna Federal Well No. 1 and its access road and suggests that work-related activities proceed in accordance with company plans. Clearance, of course, is granted by the Bureau of Land Management. If additional cultural resources are encountered during construction, the BLM and NMAS should be notified immediately.


T-6-S
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USGS Shannon Draw,
7.5 Minute Series, 1967.
McDermott Wells
3800
3782
3808
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East Fivemile Well
Fivemile
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32
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R. 25 E.
(COYOTE DRAW)
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THIS MAP COMPLIES WITH NATIONAL MAP ACCURACY STANDARDS



USGS Deering Place,
7.5 Minute Series, 1967.



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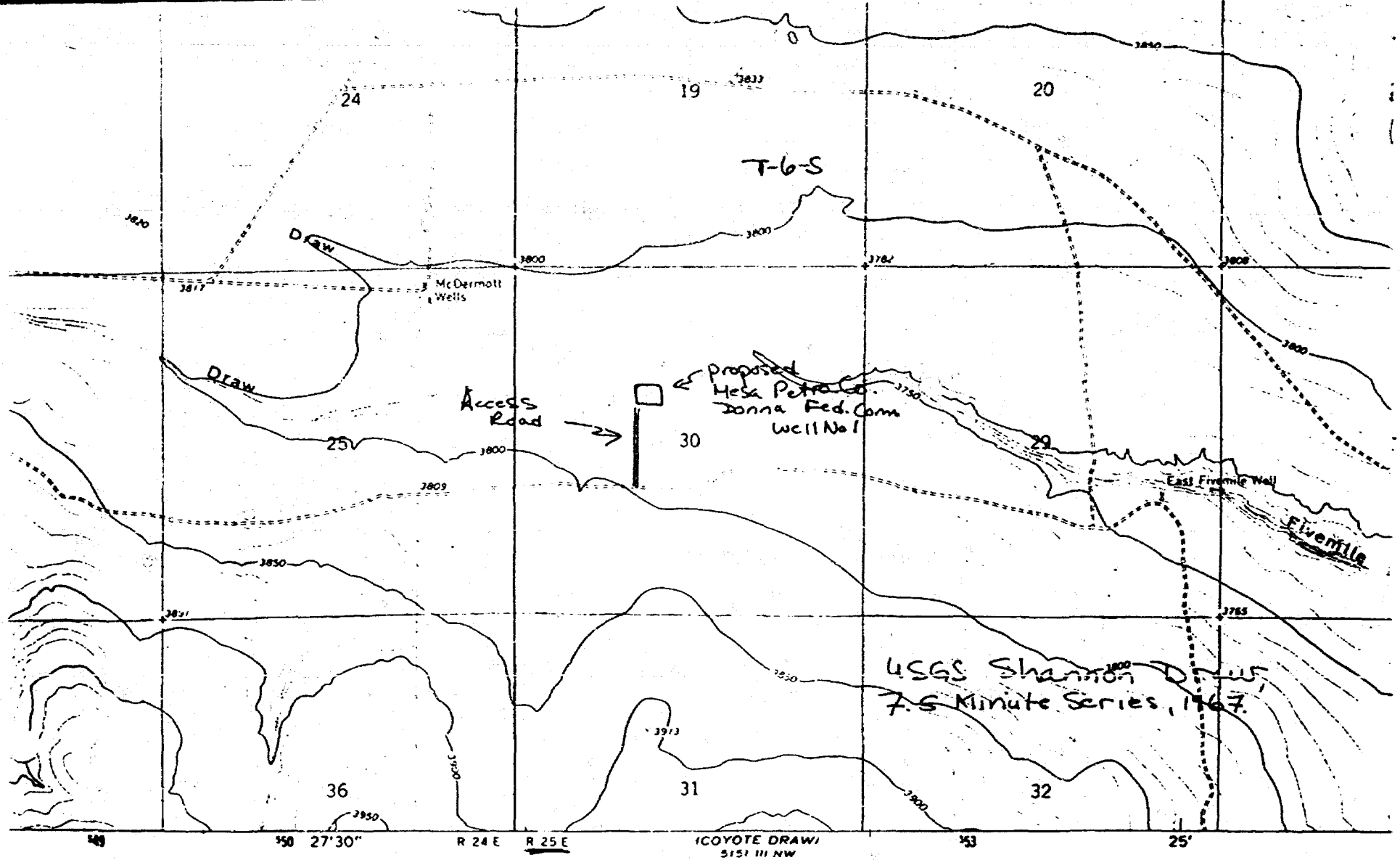
te selected fence lines

UTM GRID AND 1967 MAGNETIC NORTH DECLINATION AT CENTER OF SHEET

SCALE 1:24000

CONTOUR INTERVAL 10 FEET
DOTTED LINES REPRESENT 5-FOOT CONTOURS
DATUM IS MEAN SEA LEVEL

THIS MAP COMPLIES WITH NATIONAL MAP ACCURACY STANDARDS
FOR SALE BY U.S. GEOLOGICAL SURVEY, DENVER, COLORADO 80225, OR WASHINGTON, D
A FOLDER DESCRIBING TOPOGRAPHIC MAPS AND SYMBOLS IS AVAILABLE ON REQUEST



SCALE 1:24000

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1000 0 1000 2000 3000 4000 5000 6000 7000 FEET

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CONTOUR INTERVAL 10 FEET

DATUM IS MEAN SEA LEVEL

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12° / 213 MILS

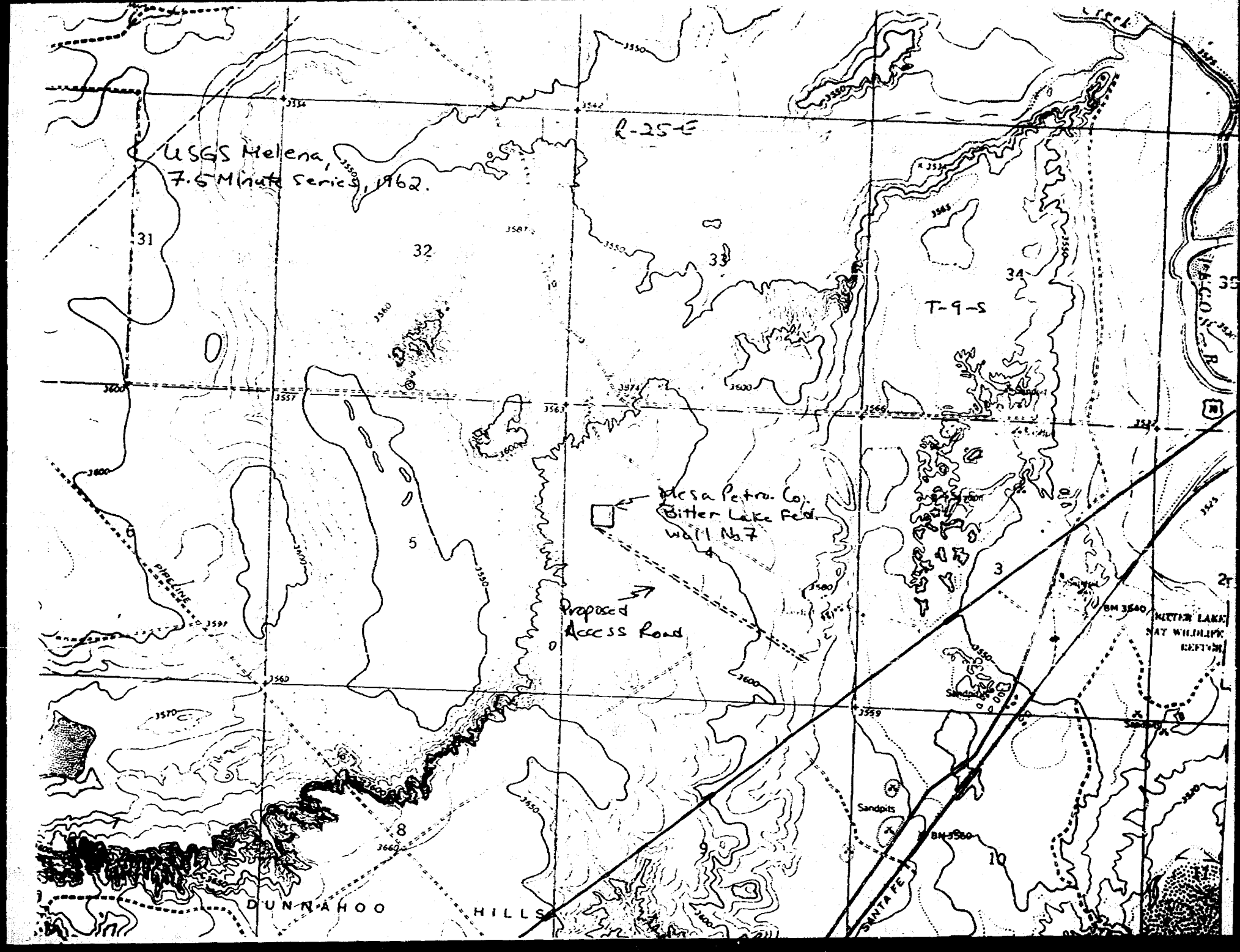
UTM GRID AND 1967 MAGNETIC NORTH DECLINATION AT CENTER OF SHEET

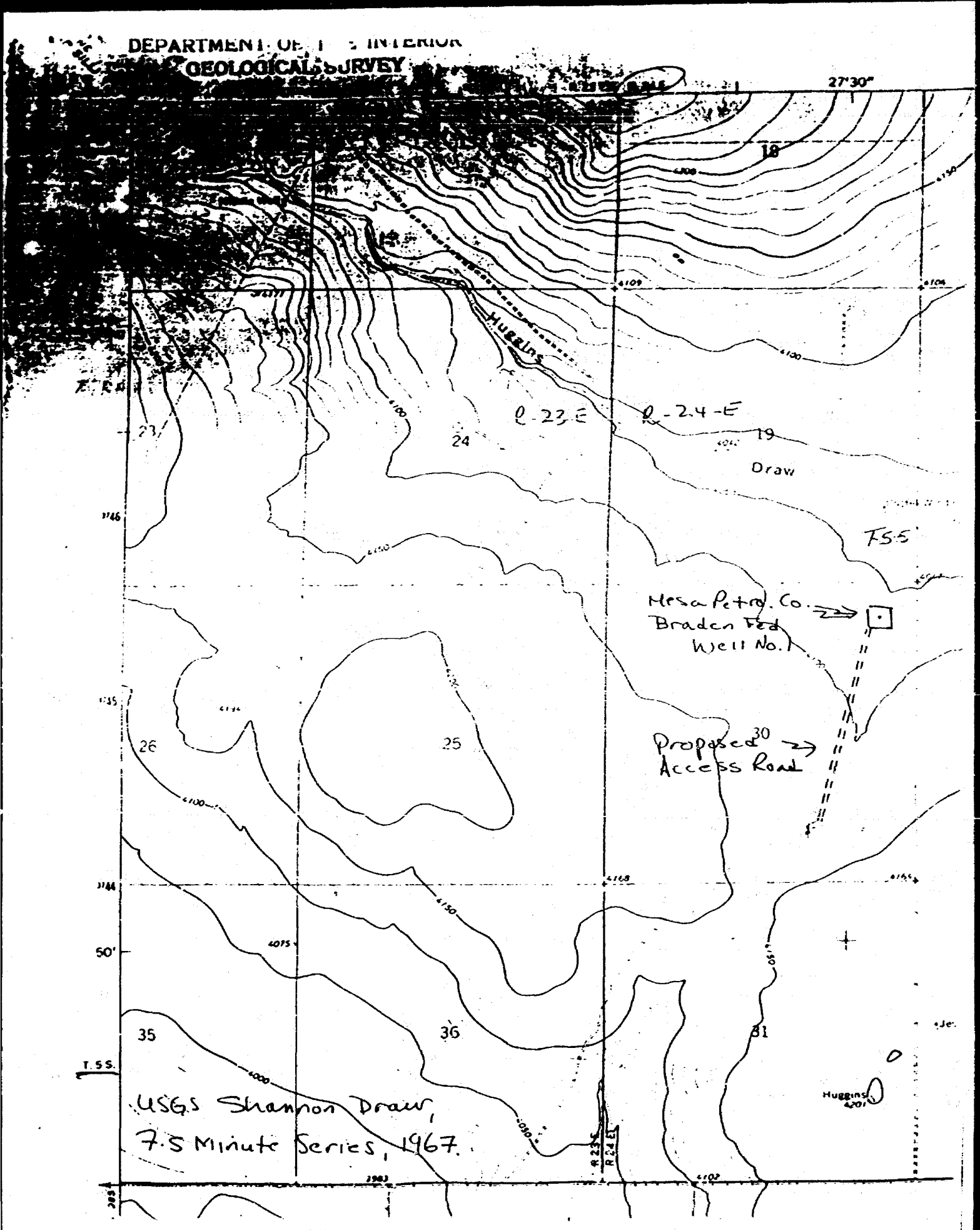
NEW MEX

QUADRANGLE I

THIS MAP COMPLIES WITH NATIONAL MAP ACCURACY STANDARDS

FOR SALE BY U.S. GEOLOGICAL SURVEY, DENVER, COLORADO 80225, OR


USGS Helena,
7.5 Minute Series, 1962.
R-25-E
T-9-S
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Mesa Petro. Co.
Bitter Lake Fed.
Well No. 7
Proposed
Access Road
PIPELINE
BM 3540
BITTER LAKE
NAT WILDLIFE
REFUGE
Sandpits
BM 3560
SANTA FE
DUNNAHOO
HILLS


DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY
27'30"
18
Huggins
23
24
19
Draw
T.5S.
R.24E.
R.25E.
Mesa Petrol. Co.
Braden Fed
Well No. 1
Proposed
Access Road
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26
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T.5S.
Huggins
USGS Shannon Draw,
7.5 Minute Series, 1967.

MESA
PETROLEUM CO.

March 18, 1982

Western Reserves Oil Co.
MAR 19 1982

Western Reserves Oil Company
P. O. Box 993
Midland, TX 79702

Attention: Mr. R. C. Beveridge

Gentlemen:

Subject: #1 Donna Federal Com.
1980' FNL & 1904' FWL
Section 30, T-6-S, R-25-E
Chaves County, New Mexico
Pecos Slope Prospect
Mesa OP 05-NM-0138

Mesa Petroleum Co., as Operator, proposes the drilling of the captioned well at the location indicated on the attached AFE prior to April 3, 1982. Mesa desires to communitize the NW/4 of Section 30, T-6-S, R-25-E for the drilling of an Abo test to approximately 4,150'.

The anticipated costs for this well are:

DHC	$250,000.00
C/C	$146,000.00
Producer	$388,000.00

If you desire to join in the drilling of this well, it is requested that you:

1. Return one copy of this letter signed.
2. Return an executed AFE.
3. Furnish this office with three (3) Designations of Operator covering the S/2 of the NW/4 of Section 30, T-6-S, R-25-E at which time Mesa Petroleum Co. will furnish to your office, three (3) Designations of Operator covering Section 7: Lot 1, T-6-S, R-25-E, N.M.P.M. (Western Reserves Oil Company #3 Bravo Federal.)

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 9
CASE NO. 7564

Enclosed for your review and execution is the Operating Agreement covering the NW/4 of Section 30, T-6-S, R-25-E, Chaves County, New Mexico. We will circulate signature pages on behalf of all parties as available. Please sign and return two (2) copies of the signature page.

Very truly yours,

Kevin Dentzer

cs

Enclosures

WESTERN RESERVES OIL COMPANY elects to join in the captioned well.

By:_____ Date:_____

MESA PETROLEUM CO.

AFE/COST ESTIMATE

01/05/OPERATIONS
Co./Div./Subsid./Dept.

AFE # 82-399
ID # 01-05-NM-0138-0087-001-0
Code General Account # _____
Exploratory _____ Development X

LEASE, WELL NAME, AND LOCATION DONNA FED COM #1
1980' FNL & 1904' FWL, SEC 30, T6S, R25E, CHAVES COUNTY, NEW MEXICO

DESCRIPTION COST ESTIMATE TO DRILL AND COMPLETE A 4,150' FLOWING ABO WELL, INCLUDING PRODUCTION EQUIPMENT.

Sub Acct. Codes	ITEM DESCRIPTION	Dry Hole Cost	Completion Cost	Producer/ Other
X01	DRILLING— FOOTAGE Ft. At $ /Ft.	$	$	$
X02	DRILLING or COMPLETION RIG MI-RU, RD-MO	20,000		20,000
	(A) DAY WORK 8/6 DAYS At $ 6000/1250 /DAY	48,000	7,500	55,500
X03	DRILLING or COMPLETION RIG			
	(A) BOILER DAYS At $ /DAY			
	(B) CAMP & CATERING DAYS At $ /DAY			
	(C) OTHER DAYS At $ /DAY			
X04	CEMENTING SERVICES, CEMENT & ACCESSORIES	29,500	10,000	39,500
X05	MUD, CHEMICALS, SERVICES & EQUIP. (A) MUD, CHEM., OIL	8,000		8,000
	(B) WATER	9,000	3,000	12,000
X06	LOGS, TESTING & MUD LOGGING UNIT	9,000	3,000	12,000
X07	DRILL STEM TEST & RELATED TESTING EQUIPMENT			
X08	PERFORATING, WELL STIMULATION SERVICES		50,000	50,000
X09	LOCATION, ROADS, SURVEYS, AIRSTRIPS	17,500	1,000	18,500
X10	COMPANY LABOR, SUPERVISION, ENGINEERING & OVERHEAD	3,000	2,000	5,000
X11	RENTAL EQUIPMENT & TOOLS	18,000	3,500	21,500
X12	ROCK BITS, HOLE OPENERS, REAMERS, STABILIZERS	8,000		8,000
X13	HAULING & FREIGHT	7,000	4,000	11,000
X14	MOBILIZATION - INSTALLATION -			
X15	DEMOBILIZATION - DISMANTLING & SALVAGE			
X16	SUPPLYBOATS, CREWBOATS, BARGES, TUGS			
X17	FUEL, LUBES, POWER	5,000		5,000
X18	SHOREBASE, OFFICE, DOCK FEE & CRANES			
X19	AIRCRAFT RENTALS—HELICOPTERS, FIXED WING			
X20	DIVERS AND RELATED EQUIPMENT			
X21	MISCELLANEOUS	7,000	3,000	10,000
X22	COST to ABANDON (NOT INCLUDED IN PRODUCER TOTAL)*	* 8,000		
X22	MUD ENGINEER DAYS At $ /DAY			
X24	CONSULTING ENGINEER			
	(A) DRILLING DAYS At $ /DAY			
	(B) COMPLETION DAYS At $ /DAY			
X25	GEOLOGICAL CONSULTANT 2 DAYS At $ 250 /DAY	500		500
	Total Intangible & Non-Controllable Costs	$ 197,500	$ 87,000	$ 276,500 *
X41	BUOYS AND MARKERS	$	$	$
X42	CASING/TUBULARS			
	(A) 900 FT. OF 13 3/8 " OD $ 27.00 /FT.	24,300		24,300
	(B) 1,800 FT. OF 8 5/8 " OD $ 13.50 /FT.	24,300		24,300
	(C) 4,150 FT. OF 4 1/2 " OD $ 6.50 /FT.		27,000	27,000
	(D) 3,600 FT. OF 2 3/8 " OD $ 4.00 /FT.		14,400	14,400
	(E) FT. OF " OD $ /FT.			
X43	WELL HEAD & GUIDE STRUCTURE	3,900	3,600	7,500
X44	SUB-SURFACE WELL EQUIPMENT			
X45	SURFACE WELL EQUIPMENT			
X46	OTHER MAJOR EQUIPMENT			
	(A) SEPERATOR		8,000	8,000
	(B) 210-BBL FIBERGLASS TANK		3,000	3,000
	(C)			
X47	BUILDINGS			
X48	ELECTRICAL & INSTRUMENTATION EQUIPMENT			
X29	INSTALLATION, MATERIALS, & SERVICES		3,000	3,000
	Total Tangible Controllable & Non-Controllable Costs	$ 52,500	$ 59,000	$ 111,500
	Total Costs	$ 250,000	$ 146,000	$ 388,000 *

Prepared by William R. Montalbine Title DIV DRLG SPVR Date 3-5-82
Mesa Approved Michael F. Houston Title DIV OPS MGR Date 3-5-82
Other Approved _____ Title _____ Date _____
Other Approved _____ Title _____ Date _____

Mesa WI _____ %
Others WI _____ %
_____ %
_____ %
_____ %

OP# 05-NM-0138-219

EXHIBIT "A"

FOR AFE/COST ESTIMATE DATED MARCH 5, 1982

WELL NAME DONNA FED COM #1

LOCATION 1980' FNL & 1904' FWL, SEC 30, T6S, R25E

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

MESA PETROLEUM CO.

AFE/COST ESTIMATE

01/05/OPERATIONS
Co./Div./Subsid./Dept.

AFE # 82-399
ID # 01-05-NM-0136-0087-001-0
Code General Account # _____
Exploratory _____ Development X

ASE, WELL NAME, AND LOCATION DONNA FED COM #1
1980' FNL & 1904' FWL, SEC 30, T6S, R25E, CHAVES COUNTY, NEW MEXICO

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o Acct odes	ITEM DESCRIPTION	Dry Hole Cost	Completion Cost	Producer/ Other
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	(A)DAY WORK 8/6 DAYS At $ 6000/1250 /DAY	48,000	7,500	55,500
3	DRILLING or COMPLETION RIG			
	(A) BOILER DAYS At $ /DAY			
	(B) CAMP & CATERING DAYS At $ /DAY			
	(C) OTHER DAYS At $ /DAY			
4	CEMENTING SERVICES, CEMENT & ACCESSORIES	29,500	10,000	39,500
5	MUD, CHEMICALS, SERVICES & EQUIP. (A) MUD, CHEM., OIL	8,000		8,000
	(B) WATER	9,000	3,000	12,000
6	LOGS, TESTING & MUD LOGGING UNIT	9,000	3,000	12,000
7	DRILL STEM TEST & RELATED TESTING EQUIPMENT			
8	PERFORATING, WELL STIMULATION SERVICES		50,000	50,000
9	LOCATION, ROADS, SURVEYS, AIRSTRIPS	17,500	1,000	18,500
0	COMPANY LABOR, SUPERVISION, ENGINEERING & OVERHEAD	3,000	2,000	5,000
1	RENTAL EQUIPMENT & TOOLS	18,000	3,500	21,500
2	ROCK BITS, HOLE OPENERS, REAMERS, STABILIZERS	8,000		8,000
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4	MOBILIZATION - INSTALLATION			
5	DEMOBILIZATION - DISMANTLING & SALVAGE			
6	SUPPLYBOATS, CREWBOATS, BARGES, TUGS			
7	FUEL, TUBES, POWER	5,000		5,000
8	SHOREBASE, OFFICE, DOCK FEE & CRANES			
9	AIRCRAFT RENTALS—HELICOPTERS, FIXED WING			
0	DIVERS AND RELATED EQUIPMENT			
1	MISCELLANEOUS	7,000	3,000	10,000
2	COST to ABANDON (NOT INCLUDED IN PRODUCER TOTAL)*	* 8,000		
3	MUD ENGINEER DAYS At $ /DAY			
4	CONSULTING ENGINEER			
	(A) DRILLING DAYS At $ /DAY			
	(B) COMPLETION DAYS At $ /DAY			
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	(C) 4,150 FT. OF 4 1/2 " OD $ 6.50 /FT.		27,000	27,000
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7	BUILDINGS			
8	ELECTRICAL & INSTRUMENTATION EQUIPMENT			
9	INSTALLATION, MATERIALS, & SERVICES		3,000	3,000
	Total Tangible Controllable & Non-Controllable Costs	$ 52,500	$ 59,000	$ 111,500
	Total Costs	$ 250,000	$ 146,000	$ 388,000 *

Prepared By William R. Montaglin Title DIV DRLG SPVR Date 3-5-82 — Mesa WI

Approved Michael F. Houston Title DIV OPS MGR Date 3-5-82 — Others WI

Approved _____ Title _____ Date _____ — _____ %

Approved _____ Title _____ Date _____ — _____ %

Approved _____ Title _____ Date _____ — _____ %

Approved _____ Title _____ Date _____ — _____ %

Western Reserve Oil Company

EXHIBIT "A"

FOR AFE/COST ESTIMATE DATED MARCH 5, 1982

WELL NAME DONNA FED COM #1

LOCATION 1980' FNL & 1904' FWL, SEC 30, T6S, R25E

COUNTY CHAVES COUNTY, NEW MEXICO

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

March 5, 1981

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

ATTEST:

MESA PETROLEUM CO.

By: _____
Assistant Secretary

By: _____
Marion E. Causey, Vice President

NON-OPERATORS

CORONA OIL COMPANY

_____

By: _____

WESTERN RESERVES OIL COMPANY

_____

By: _____

Signature page for that certain
Operating Agreement dated March 18, 1982 by
and between Mesa Petroleum Co., as Operator,
and Corona Oil Company and Western Reserves
Oil Company as Non-Operators.
#1 Donna Federal Com.

ARTICLE XVI.
MISCELLANEOUS

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MESA PETROLEUM CO.

By: _____
Assistant Secretary

By: _____
Marion E. Causey, Vice President

NON-OPERATORS

CORONA OIL COMPANY

_____

By: _____

WESTERN RESERVES OIL COMPANY

_____

By: _____

Signature page for that certain
Operating Agreement dated March 18, 1982 by
and between Mesa Petroleum Co., as Operator,
and Corona Oil Company and Western Reserves
Oil Company as Non-Operators.
#1 Donna Federal Com.

N.C.F. MICROGRAPHICS

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

MODEL FORM OPERATING AGREEMENT

Mesa Petroleum Co., as Operator,
Corona Oil Company and Western
Reserves Oil Company as Non-Operators

MESA #1 DONNA FEDERAL COM.

OPERATING AGREEMENT

DATED

March 18, 1982,

OPERATOR MESA PETROLEUM CO.

CONTRACT AREA NW/4 Section 30, T-6-S, R-25-E, N.M.P.M.

COUNTY OR ~~PARISH OF~~ CHAVES STATE OF NEW MEXICO

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APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Mesa Petroleum Co., 1000 Vaughn Building Midland, Texas 79701-4493, 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.

M.C.F. MICROGRAPHICS



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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

I.C.F. MICROGRAPHICS



ST AVAILABLE COPY

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.

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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 August, 1982, Operator shall commence the drilling of a well for oil and gas at the following location:

NW/4 Section 30, T-6-S, R-25-E, N.M.P.M.
Chaves County, New Mexico

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

a depth of 4,150' or 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

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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 [illegible] is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand - - - - - - - Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand - - - - - - - - - - Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 20% 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

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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

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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.

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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.

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[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 120 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling 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.

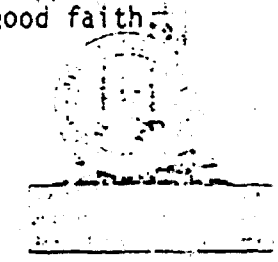
B. Governing Law:

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-Operators agree 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-Operators 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 statues, laws, resolutions or similar mandates, rules, rulings, regulations or orders.

Notwithstanding anything herein to the contrary, if any Non-Operator neglects or fails to pay sums due and owing Operator hereunder for a period of thirty (30) days after receipt of invoice therefor, Operator may notify Non-Operator of its election to regard such non-operating party as a non-consenting party hereunder as to said costs, if such costs would normally be costs subject to the provisions concerning operations by less than all parties under this operating agreement. If Non-operator fails to pay such amount within ten days after receipt of such notice, Operator's election shall be automatically effective. Non-Operator shall retroactively be subject to the non-consent provisions of Article VI hereof, the same as if such party had elected to be a non-consenting party at the inception of operation, but only with respect to the sums remaining unpaid, and any future sums to be paid by such Non-Operator. This provision shall not be applicable to any sums invoiced by Operator which Non-Operator contests in good faith.



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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

ATTEST:

MESA PETROLEUM CO.

By: _____
Assistant Secretary

By: _____
Marion E. Causey, Vice President

NON-OPERATORS

CORONA OIL COMPANY

_____

By: _____

WESTERN RESERVES OIL COMPANY

_____

By: _____

Signature page for that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company as Non-Operators.
#1 Donna Federal Com.

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EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company as Non-Operators.

PART I. The Contract Area is defined as:
The NW/4 Section 30, T-6-S, R-25-E, N.M.P.M.
Chaves County, New Mexico

PART II. Working Interest Ownership:

Mesa Petroleum Co.	24.99513%
Corona Oil Company	24.99512%
Western Reserves Oil Company	50.00975%

PART III. Leases included in Contract Area subject to this Agreement:

A. Oil and Gas Lease
Book 180, page 595, Deed Records, Chaves County, New Mexico
Mesa OP 05-NM-0138-0108-001
Lessor: H. G. Bedford and Louis Bedford, et al
Lessee: Public Lands Exploration, Inc.
Description: Insofar and only insofar as it covers the NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

B. Oil and Gas Lease
Book 180, page 563, Deed Records, Chaves County, New Mexico
Mesa OP 05-NM-0138-0108-002
Lessor: Royalty Investment Company
Lessee: Public Lands Exploration, Inc.
Description: Insofar and only insofar as it covers the NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

C. Oil and Gas Lease
Book 180, page 589, Deed Records, Chaves County, New Mexico
Mesa OP 05-NM-0138-0108-003
Lessor: Ludie Bedford
Lessee: Public Lands Exploration, Inc.
Description: Insofar and only insofar as it covers the NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

D. Oil and Gas Lease
Book 181, page 334, Deed Records, Chaves County, New Mexico
Mesa OP 05-NM-0138-0116-000
Lessor: Fred McDermett and Roxy McDermett
Lessee: Carl A. Schellinger
Description: Insofar and only insofar as it covers the NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

E. USA NM-12438
Lessor: United States of America
Lessee: Western Reserves Oil Company
Description: Insofar and only insofar as it covers the S/2 NW/4 of Section 30, T-6-S, R-25-E, N.M.P.M. Chaves County, New Mexico

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ADDRESS LIST:

Mesa Petroleum Co.
1000 Vaughn Building
Midland, Texas 79701-4493

Corona Oil Company
4835 LBJ Freeway
Suite 635
Dallas, Texas 75234

Western Reserves Oil Company
P. O. Box 993
Midland, Texas 79702

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company 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 Operator's legal staff shall be made.

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10. Taxes

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

11. Insurance

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

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 (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 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 Joint Account, the construction overhead charge on projects in excess of $25,000 shall be 1½ of total cost.

(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.

SCHEDULE 1

Attached to and made a part of Exhibit "C" attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company 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.

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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.

C.F. MICROGRAPHICS

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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

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company, 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 _____, 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 that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company, as Non-Operators.

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.

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 Under-produced 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:

C.F. MICROGRAPHICS



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(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 3 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 Percentage Ownership share of gas production, 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; provided that if any Under-produced Party is taking less than its full share of the gas production made available by the Over-produced Parties, than each of the other Under-produced Parties shall be entitled to share, pro rata, in such available gas production.

(2) For the purpose of balancing production accounts as provided in Section 3 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 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 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 by an Over-produced Party for any 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.

4. STATEMENTS:

During the term hereof, each party selling gas from a well within the Unit Area in any month will furnish or cause to be furnished to the Operator 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.

5. PRODUCTION TAXES:

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

6. 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 calims 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.

7. 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.

8. 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.

9. 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.

10. OPERATOR'S LIABILITY:

The Operator under the Operating Agrement 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.

C.F. MICROGRAPHICS

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Attached to and made a part of that certain Operating Agreement dated March 18, 1982 by and between Mesa Petroleum Co., as Operator, and Corona Oil Company and Western Reserves Oil Company, 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.

MESA
PETROLEUM CO.

April 12, 1982

Western Reserves Oil Company
P. O. Box 993
Midland, Texas 79702

Attention: Dianne Craft

Gentlemen:

Subject: Well Proposals
Western Reserves Bravo Federal #3
Mesa #1 Donna Fed (W.R. #5 Bravo)
Pecos Slope Prospect
Chaves Co., New Mexico
Mesa OP-05-NM-0138

This is to acknowledge receipt of your letter dated April 8, 1982 to Joe Jeffers.

With reference to prior conversations between myself and Dick Beveridge of your office wherein we advised Western Reserves that we would like to join in the drilling of the #3 Bravo Federal, subject to final management approval, conditioned upon a mutually acceptable operating agreement and your joining Mesa in the drilling of the #1 Donna Federal in the NW4 Section 30-6S-25E. It is requested that you advise the status of this proposal.

If you have any questions, or if I can be of assistance please contact me.

Yours very truly,

Mark Hannifin
Landman

ki

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 10
CASE NO. 7564

WESTERN RESERVES OIL COMPANY
P. O. BOX 993
MIDLAND, TEXAS 79702

February 23, 1982

Mesa Petroleum
1000 Vaughn Building
Midland, Texas 79701

Attention: Mr. Joe Jeffers

Re: Western Reserves Oil Company
#3, 4, and 5 Bravo Federal Wells
Sections 7 and 30-6S-25E
Chaves County, New Mexico

Gentlemen:

Pursuant to our earlier discussions we present the attached AFE's designed to cover the captioned wells whose specific locations are described below:

#3 Bravo Federal 1980' FN & WL, Section 7-6S-25E

#4 Bravo Federal 660' FS & EL, Section 30-6S-25E

#5 Bravo Federal 1980' FN & WL, Section 30-6S-25E

At the present time Western is drilling its #2 Bravo Federal at 2094', which is located in the NE NE of Section 7-6S-25E. We plan to move the Tex-Mex rig to our second Bravo location (Bravo Federal #1, 1980' FSL & 660' FEL of this same Section 7). With your approval we will then move the rig immediately and drill the #3, 4 and 5 Bravo Federal wells described above.

We anticipate the spudding of the #3 by March 15, 1982 and accordingly will greatly appreciate your prompt handling of these AFE's.

Yours very truly,

R. C. Beveridge

RCB/dc

Attachments

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 11
CASE NO. 7564

AUTHORITY FOR EXPENDITURE

Lease Name Bravo Federal Well No. 3 Date 2-23-82

Location 1980' FN & WL, Section 7-6S-25E County Chaves

State New Mexico Total Depth 4100' Field Undesignated Abo

DRILLING INTANGIBLES	DRY HOLE	PRODUCER
Prepare location, road, damages	$ 9000	$ 9000
Footage ____ ft. at $ ____	----	----
Day Work 12 days WDP at $5800	69600	69600
Day Work ____ days WODP at ____	----	----
Drilling Mud and Chemicals	9000	9000
Fuel, Water and Power	28000	28000
Well Logging Service	9500	9500
Mud Logging	----	----
Drill Stem Testing	----	----
Coring and Analysis	----	----
Cement and Services-Cond., Surface, Inter.	17000	17000
Rental Equipment	10000	10000
Trucking and Labor	7000	7000
Overhead and Supervision: Adm. OH, Engr. & Geol.	9000	9000
Restore Location, Plug and Abandon	3000	3000
Miscellaneous Costs and Contingencies	15000	15000
TOTAL DRILLING	$ 186,100	$ 186,100
COMPLETION INTANGIBLES		
Cement and Services - Prod. Csg. ____	$ ----	$ 6000
Completion Unit 10 days at $ 1600	----	16000
Perforating and Cased Hole Logging	----	4500
Stimulation - Acidizing, Fracturing	----	23000
Tool Rentals	----	7000
Engineering - Supervision and Overhead	----	7000
Trucking and Labor	----	5500
Miscellaneous	----	8000
TOTAL COMPLETION	$ ----	$ 77,000
TOTAL INTANGIBLES	186,100	263,100
TANGIBLES		
CASING		
Conductor 40 ft. of 20" @ $25/ft.	$ 1000	$ 1000
Surface 900 ft. of 13-3/8" @ $28/ft.	25200	25200
Inter 1700 ft. of 8-5/8" @ $13.25/ft.	22525	22525
Prod. 4100 ft. of 4½" @ $6.35/ft.	----	26035
Tubing 4100 ft. of 2-3/8" @ $4/ft.	----	16400
Float Equipment, Centralizers, etc.	700	1000
Wellhead Assembly	4000	9000
Pumping Unit, Prime Mover	----	----
Subsurface Equipment, Packer, Rods, Pump, etc.	----	----
Tanks	----	4200
Separators and Treater	----	9500
Line Pipe, Connections & Miscellaneous	----	3000
Installation of Surface Facilities	----	6000
TOTAL TANGIBLES	$ 53,425	$ 123,860
TOTAL WELL COST	239,525	386,960

APPROVALS:

OPERATOR Western Reserves Oil Company By _____ Date 2/25/82

JOINT INTEREST OWNER Mesa Petroleum By _____ Date _____

AUTHORITY FOR EXPENDITURE

Lease Name Bravo Federal Well No. 4 Date 2-23-82

Location 660' FS & EL, Sec. 30-6S-25E County Chaves

State New Mexico Total Depth 4100' Field Undesignated Abo

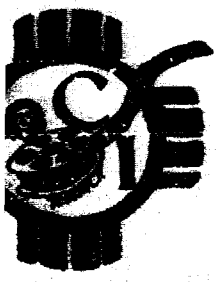
DRILLING INTANGIBLES	DRY HOLE	PRODUCER
Prepare location, road, damages	$ 9000	$ 9000
Footage ft. at $	----	----
Day Work 12 days WOP at $5800	69600	69600
Day Work days WODP at	----	----
Drilling Mud and Chemicals	9000	9000
Fuel, Water and Power	28000	28000
Well Logging Service	9500	9500
Mud Logging	----	----
Drill Stem Testing	----	----
Coring and Analysis	----	----
Cement and Services-Cond., Surface, Inter.	17000	17000
Rental Equipment	10000	10000
Trucking and Labor	7000	7000
Overhead and Supervision: Adm. OH, Engr. & Geol.	9000	9000
Restore Location, Plug and Abandon	3000	3000
Miscellaneous Costs and Contingencies	15000	15000
TOTAL DRILLING	$ 186,100	$ 186,100
COMPLETION INTANGIBLES		
Cement and Services - Prod. Csg.	$ ----	$ 6000
Completion Unit 10 days at $ 1600	----	16000
Perforating and Cased Hole Logging	----	4500
Stimulation - Acidizing, Fracturing	----	23000
Tool Rentals	----	7000
Engineering - Supervision and Overhead	----	7000
Trucking and Labor	----	5500
Miscellaneous	----	8000
TOTAL COMPLETION	$ ----	$ 77,000
TOTAL INTANGIBLES	186,100	263,100
TANGIBLES		
CASING		
Conductor 40 ft. of 20" @ $25/ft.	$ 1000	$ 1000
Surface 900 ft. of 13-3/8" @ $28/ft.	25200	25200
Inter 1700 ft. of 8-5/8" @ $13.25/ft.	22525	22525
Prod. 4100 ft. of 4½" @ $6.35/ft.	----	26035
Tubing 4100 ft. of 2-3/8" @ $4/ft.	----	16400
Float Equipment, Centralizers, etc.	700	1000
Wellhead Assembly	4000	9000
Pumping Unit, Prime Mover	----	----
Subsurface Equipment, Packer, Rods, Pump, etc.	----	----
Tanks	----	4200
Separators and Treater	----	9500
Line Pipe, Connections & Miscellaneous	----	3000
Installation of Surface Facilities	----	6000
TOTAL TANGIBLES	$ 53,425	$ 123,860
TOTAL WELL COST	239,525	386,960

APPROVALS:

OPERATOR Western Reserves Oil Company By M Brent Date 2/23/82

JOINT INTEREST OWNER Mesa Petroleum By _____ Date _____

:.F. MICROGRAPHICS



VAILABLE COPY

AUTHORITY FOR EXPENDITURE

Lease Name Bravo Federal Well No. 5 Date 2-23-82

Location 1980' FN & WL, Section 30-6S-25E County Chaves

State New Mexico Total Depth 4100' Field Undesignated Abo

DRILLING INTANGIBLES	DRY HOLE	PRODUCER
Prepare location, road, damages	$ 9000	$ 9000
Footage ____ ft. at $ ____	----	----
Day Work 12 days WDP at $5800	69600	69600
Day Work ____ days WODP at ____	----	----
Drilling Mud and Chemicals	9000	9000
Fuel, Water and Power	28000	28000
Well Logging Service	9500	9500
Mud Logging	----	----
Drill Stem Testing	----	----
Coring and Analysis	----	----
Cement and Services-Cond., Surface, Inter.	17000	17000
Rental Equipment	10000	10000
Trucking and Labor	7000	7000
Overhead and Supervision: Adm. OH, Engr. & Geol.	9000	9000
Restore Location, Plug and Abandon	3000	3000
Miscellaneous Costs and Contingencies	15000	15000
TOTAL DRILLING	$ 186,100	$ 186,100

COMPLETION INTANGIBLES		
Cement and Services - Prod. Csg. ____	$ ----	$ 6000
Completion Unit ____ days at $ ____	----	16000
Perforating and Cased Hole Logging	----	4500
Stimulation - Acidizing, Fracturing	----	23000
Tool Rentals	----	7000
Engineering - Supervision and Overhead	----	7000
Trucking and Labor	----	5500
Miscellaneous	----	8000
TOTAL COMPLETION	$ ----	$ 77,000
TOTAL INTANGIBLES	186,100	263,100

TANGIBLES		
CASING		
Conductor 40 ft. of 20" @ $25/ft.	$ 1000	$ 1000
Surface 900 ft. of 13-3/8" @ $28/ft.	25200	25200
Inter 1700 ft. of 8-5/8" @ $13.25/ft.	22525	22525
Prod. 4100 ft. of 4½" @ $6.35/ft.	----	26035
Tubing 4100 ft. of 2-3/8" @ $4/ft.	----	16400
Float Equipment, Centralizers, etc.	700	1000
Wellhead Assembly	4000	9000
Pumping Unit, Prime Mover	----	----
Subsurface Equipment, Packer, Rods, Pump, etc.	----	----
Tanks	----	4200
Separators and Treater	----	9500
Line Pipe, Connections & Miscellaneous	----	3000
Installation of Surface Facilities	----	6000
TOTAL TANGIBLES	$ 53,425	$ 123,860
TOTAL WELL COST	239,525	386,960

APPROVALS:

OPERATOR Western Reserves Oil Company By _____ Date 2-23

JOINT INTEREST OWNER Mesa Petroleum By _____ Date

C.F. MICROGRAPHICS

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WESTERN RESERVES OIL COMPANY
P. O. BOX 1993
THE BLANKS BUILDING MIDLAND, TEXAS 79702 PHONE (915) 683-5533

March 24, 1982

RECEIVED
MAR 26 1982
MES

Mesa Petroleum Co.
Suite 1000 Vaughn Building
Midland, Texas 79701

Attention: Kevin Dentzer

Dear Mr. Dentzer:

Enclosed herewith you will find certain material along with your letters of March 9, and March 18, 1982, relating to Western Reserves Oil Company No. 5 Bravo location.

Mesa presently has our proposal to drill the 160 acre unit described as the NW¼ of Section 30-T6S-R25E. In addition we have discussed this location with Mr. Mark Hannifan of your Midland land department. Since Western is the majority owner of this unit (50%), and particularly since the location will be the fifth well on our Bravo lease, we ask that you join with us by executing our earlier submitted AFE. Thank you for your consideration.

Yours very truly,

WESTERN RESERVES OIL COMPANY

R. C. Beveridge

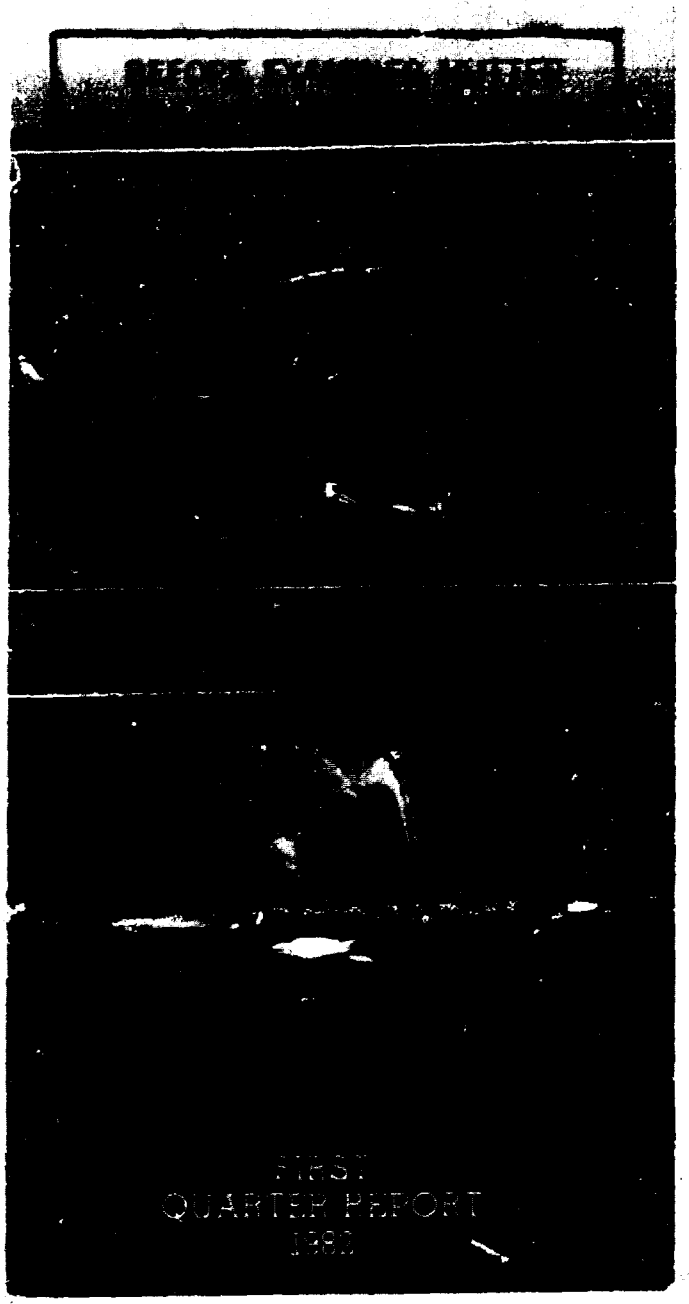
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Enclosures

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 12
CASE NO. 7564

.F. MICROGRAPHICS

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MESA
PETROLEUM CO.



FIRST
QUARTER REPORT
1982

:.F. MICROGRAPHICS



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THE COVER: Testing well No. 1 on Brazos A-39 (*Mesa 50%*), a gas discovery in the Miocene "Big hum" trend offshore Texas.

To Our Shareholders

Mesa's net income for common shares for the three months ended March 31, 1982, was $29.6 million, or $.44 per share, compared to $29.8 million, or $.43 per share, for the same period last year. First quarter earnings for 1982 were increased by an after-tax gain on sale of marketable securities of $16 million and reduced $7 million by foreign exchange adjustments due to fluctuations in the Canadian/U.S. dollar exchange rate.

Total revenues for the first quarter of 1982 were $104.1 million compared to $103.6 million for the same period last year. Oil and gas revenues for the first quarter were $95.4 million, a 1% increase from $94.2 million last year. This is the thirty-seventh consecutive quarter that the Company's oil and gas revenues have exceeded those for the same period of the preceding year.

SUMMARIZED FIRST QUARTER RESULTS

	Three Months Ended March 31	
	1982	1981
	(In thousands, except per share data)	
Oil and gas revenues	$ 95,353	$ 94,173
Interest and other income	8,786	9,451
Total revenues	$104,139	$103,624
Net income	$ 33,229	$ 29,841
Net income available for common	$ 29,604	$ 29,841
Per share—		
Excluding foreign exchange gain (loss) and gain on sale of marketable securities	$.30	$.42
Foreign exchange gain (loss)	(.10)	.01
Gain on sale of marketable securities	.24	—
Net income available for common	$.44	$.43

C.F. MICROGRAPHICS

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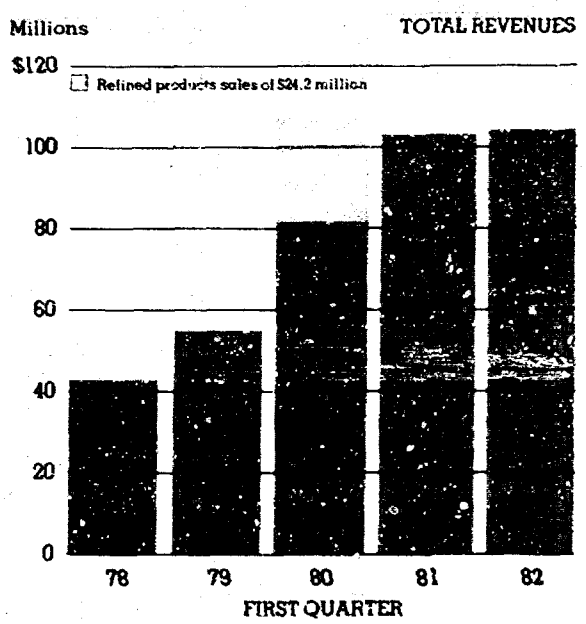
Exploration and Development

During the first quarter, Mesa participated in the drilling of 121 exploratory and development wells, of which 38 were in progress at March 31. Of these, 79 were operated by Mesa.

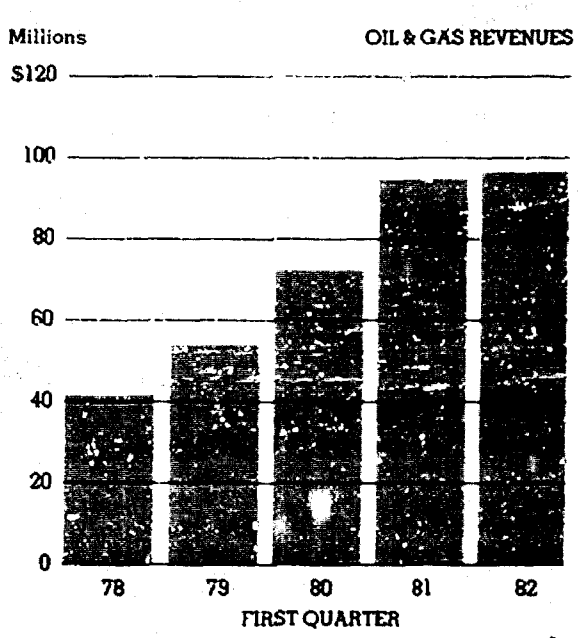
In the Gulf Coast division, a gas discovery was announced on Brazos A-39 (Mesa 50%) in the Miocene "Big hum" trend offshore Texas. The well was tested from perforations between 16,826 and 16,880 feet and flowed at a daily rate of 12.7 million cubic feet of gas and 28 barrels of condensate through a 16/64-inch opening with a flowing tubing pressure of 10,290 psi. The price for gas at this depth is deregulated. The discovery well was drilled through a 4-slot platform jacket, and a second well will soon commence drilling. On Brazos A-7 (Mesa 50%), also in the "Big hum" trend, well No. 2 has been drilled to total depth of 14,300 feet, and preparations are under way to log and test. This well is being drilled from a 4-slot platform installed in 1981 over well No. 1, the previously announced discovery. Production is expected to begin in early 1983. On Matagorda Island 624 (Mesa 32.5%), where a 9-well platform was installed in December 1981, the second well has been completed and tested 5 million cubic feet of gas per day through a 13/64-inch choke with 6,600 psi flowing tubing pressure. A third well is currently drilling, and production is expected to begin in mid-1983.

Production commenced in February from five wells on South Pass 78 (Mesa 25%) which are currently producing at a combined daily rate of 93 million cubic feet of gas. Production from 12 wells is expected by year-end 1982 at an estimated daily rate of 150 million cubic feet of gas and 1,500 barrels of oil. On Vermilion 348 (Mesa 75%), production began in February from two wells which are currently producing at a daily rate of 10 million cubic feet of gas. The remaining six wells will commence production throughout 1982. The eight wells are expected to produce at a combined daily rate of 25 million cubic feet of gas and 500 barrels of oil.

Onshore in the Gulf Coast division, the Barton No. 1 (Mesa 16.3%), a 21,500-foot Tuscaloosa



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. MICROGRAPHICS

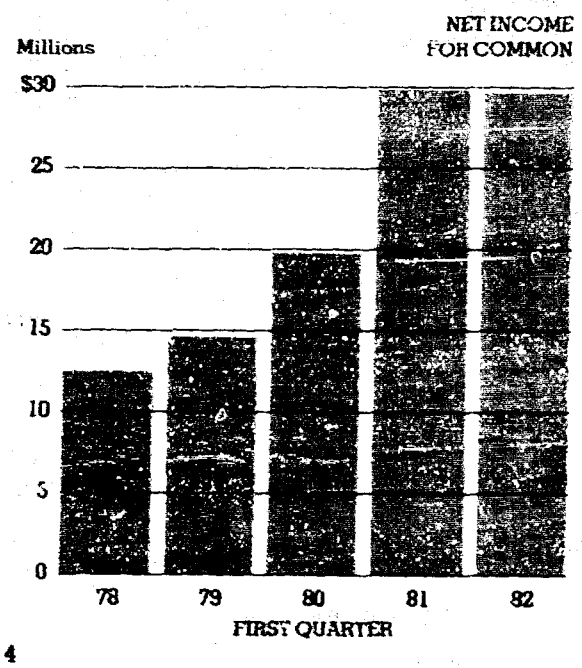
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test in Pointe Coupee Parish, Louisiana, is drilling below 18,000 feet after having set casing to a depth of 16,478 feet.

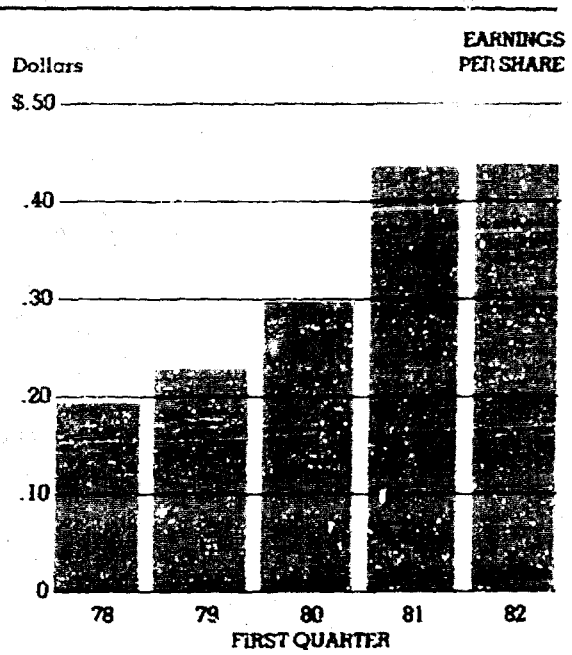
In the Permian Basin division, four rigs continue drilling in the Pecos Slope area of eastern New Mexico where the Company owns a 33% to 50% interest in approximately 788,000 acres. During 1982, Mesa drilled 40 Permian Abo formation gas wells in the area, bringing to 168 the number drilled since 1979. One hundred twenty-eight of these wells have been completed, 15 are in various stages of completion and 25 were plugged and abandoned. Eighty-three wells are on production at a combined daily rate of 23.7 million cubic feet of gas, and 45 are awaiting pipeline connection. Mesa expects to drill 94 additional Abo wells during 1982.

In Pecos County, Texas, the Ceif Ranch No. 1-9 (Mesa 16.3%) is drilling below 28,500 feet toward a 29,500-foot Ellenburger objective. In Ward County, Texas, the University No. 26-19 (Mesa 40.6%), a development well, is drilling below 9,000 feet toward a 22,500-foot Fusselman/Ellenburger objective. This is the second development well offsetting the University No. 42-20 (Mesa 50%), a 1980 dual Fusselman and Ellenburger discovery. The University No. 43-20 (Mesa 40.6%), the first development well, has commenced production from the Fusselman and Ellenburger formations at a combined daily rate of 10.1 million cubic feet of gas. Mesa owns a 40.6% interest in approximately 5,100 acres in this area and is presently receiving $3.75 per Mcf for gas from these wells.

In the Rocky Mountain division, the Pelton No. 1-10 (Mesa 65%), a previously announced oil discovery in the Red River formation of the Williston Basin in Dunn County, North Dakota, has commenced production at a daily rate of 171 barrels of oil and 476 Mcf of gas. Approximately one mile north of the discovery, the Knutson-Werre 3 No. 1 (Mesa 65%) is awaiting pipeline connection after having tested 300 barrels of oil and 1.2 million cubic feet of gas per day from several zones in the Red River formation. The Federal 10 No. 1 (Mesa 65%), one mile east of the discovery, tested 630 barrels of oil per day and 1.75 million cubic feet of



4



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.F. MICROGRAPHICS

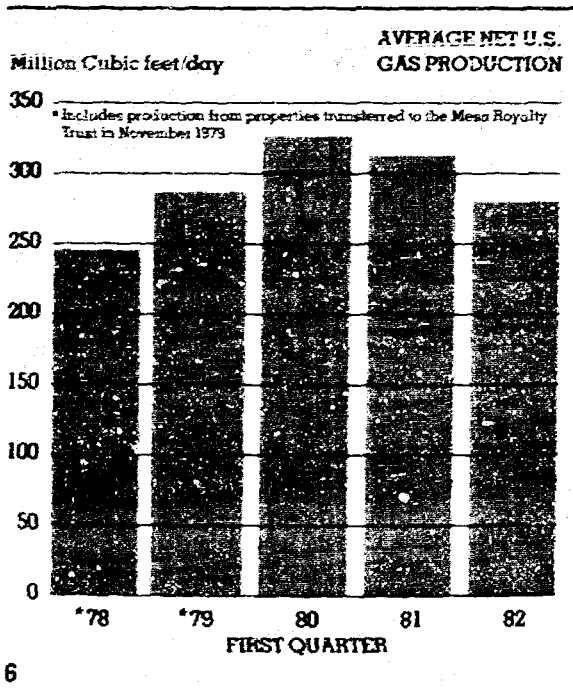
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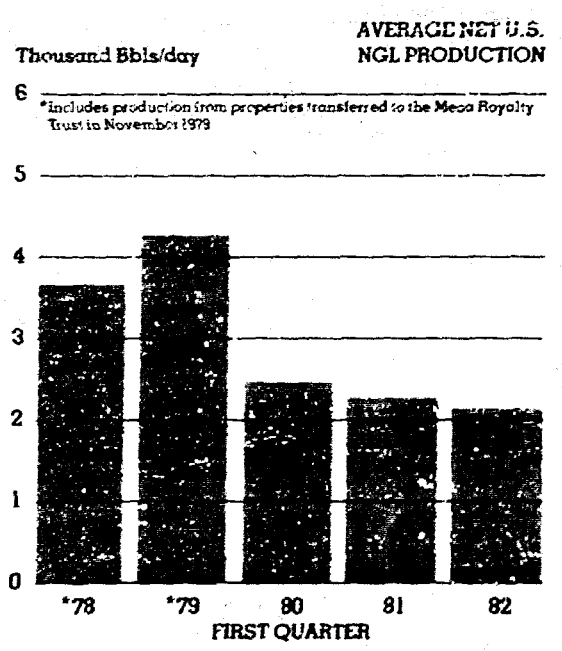
gas through a 15/64-inch choke with 2,350 psi flowing tubing pressure. Approximately two miles north of the discovery, the Federal 4 No. 1 (Mesa 65%), was plugged and abandoned. Three miles north of the Pelton No. 1-10 discovery, the Knutson-Werre 34 No. 1 (Mesa 65%) was drilled to 14,000 feet and logged 71 feet of indicated pay in the Red River formation. Mesa owns a 65% interest in 12,565 acres in this area.

Three additional oil discoveries were made during the first quarter in the Williston Basin. In Dunn County, North Dakota, the Hausauer No. 1-22 (Mesa 33.5%) is producing 250 barrels of oil per day from the Duperow formation. Mesa owns a 55% interest in 7,000 acres in this area. In McKenzie County, North Dakota, the Roen 14 No. 1 (Mesa 65%) flowed oil at a daily rate of 150 barrels and 400 Mcf of gas from the Red River formation and is awaiting pipeline connection. In Roosevelt County, Montana, the Ronning No. 1-21 (Mesa 56.9%) flowed 100 barrels of oil and 250 Mcf of gas per day from the Ratcliffe formation and is also awaiting pipeline connection.

In Sublette County, Wyoming, the Riley Ridge Federal No. 17-34 (Mesa 12.7%), a third development well one mile south of the previously announced gas discovery, logged approximately 200 feet of gas pay in the Mississippian formation, and completion operations are under way. The Riley Ridge Federal No. 12-43 (Mesa 40%), the fourth development well, is being completed after logging 175 feet of gas pay in the Mississippian formation. In addition, the Federal No. 12-43 logged 24 feet of gas pay in the Frontier formation. This gas will not require plant processing before marketing. The Riley Ridge Federal No. 33-24 (Mesa 34.4%), a fifth development well approximately two miles northeast of the discovery, is drilling below 8,600 feet toward a total depth of 17,000 feet. Gas from the Mississippian formation in this area has a high CO_2 content. A feasibility study for an extraction plant is under way to determine marketing potential for this gas.

In the Overthrust Belt, the Champlin 404 Amoco "C" No. 1 (Mesa 27%), a 15,500-foot Nugget test in Uinta County, Wyoming, is drilling below 10,500 feet. This development well is in





F. MICROGRAPHICS

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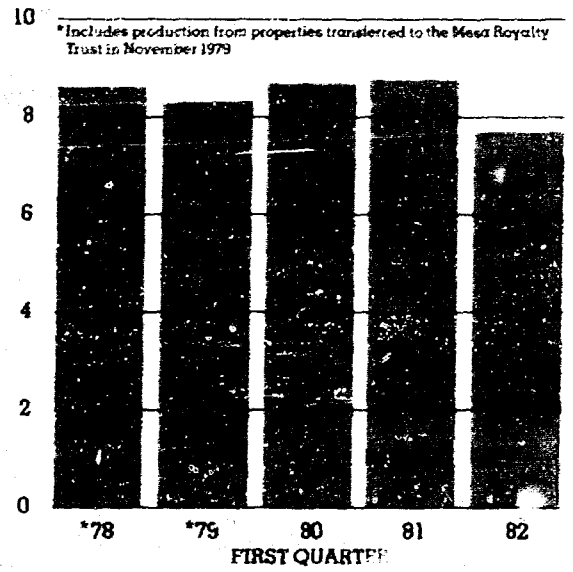
the large Anschutz Ranch East field. Mesa owns a similar interest in an adjacent drilling unit to the south and a 65% interest in 640 acres one and one-half miles northeast of the well. In another area of Uinta County, the Urroz No. 1-5 (Mesa 65%) has been plugged and abandoned after encountering noncommercial quantities of oil.

In the Mid-Continent division, Mesa is drilling five wells in Beckham County, Oklahoma, to objectives below 15,000 feet. The Cox No. 2-34 (Mesa 57.2%) and the Tipton No. 2-28 (Mesa 51.2%), both 26,000-foot Hunton formation tests, are drilling below 17,800 feet and 22,500 feet, respectively. The Cox is three miles east and the Tipton is one mile north of the Crook No. 1-32 (Mesa 63.5%), a previously announced Morrow formation gas discovery. The Mandrell No. 1-30 (Mesa 12.1%), one mile northwest of the Crook, is drilling below 17,400 feet toward a 20,000-foot Morrow-Springer objective. The Keathley No. 1-31 (Mesa 13.1%), one mile west of the Crook, is drilling below 9,800 feet toward a Morrow-Springer objective at 20,000 feet. The Benton No. 1-21 (Mesa 15.8%), a 20,000-foot Springer test, is drilling below 11,200 feet.

In Custer County, Oklahoma, the Gholston No. 1-15 (Mesa 38.8%), a 19,500-foot Morrow-Springer test, is drilling below 18,500 feet.

In Western Australia, the Yardie East (Mesa 5%), an 18,500-foot test, is being directionally drilled from onshore to an offshore target two miles from the coast and is drilling below 16,500 feet.

AVERAGE NET U.S. OIL AND CONDENSATE PRODUCTION



*Includes production from properties transferred to the Mesa Royalty Trust in November 1979

Production

Net daily U.S. production is summarized as follows:

	Three Months Ended March 31	
	1982	1981
Natural gas (Mcf/day)	278,767	311,953
Natural gas liquids (Bbls/day)	2,171	2,296
Oil and condensate (Bbls/day)	7,732	8,746

The decrease in natural gas production resulted from lower pipeline takes from properties in the Gulf of Mexico and the Hugoton field of Kansas. The decrease in gas production resulted in a corresponding decrease in condensate production.

Prices

Mesa's average U.S. prices received during the first quarter are shown below:

	Three Months Ended March 31	
	1982	1981
Natural gas (per Mcf)	$ 2.52	$ 2.04
Natural gas liquids (per Bbl)	$16.77	$20.98
Oil and condensate (per Bbl)	$33.80	$33.52

The increase in average natural gas prices was due to a larger percentage of Mesa's total gas production qualifying for higher gas price categories under the Natural Gas Policy Act of 1978. Natural gas liquids and oil and condensate prices fluctuate with supply and demand in a free market.

MICROGRAPHICS



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President's Comments

While having been affected by the general economic decline in recent months, the petroleum industry remains one of the strongest and most vital in America. The industry responded to higher petroleum prices by directing additional funds toward the discovery and development of oil and gas reserves which, with the help of a conservation-minded public, has reduced significantly the nation's dependence on imported crude oil. The nation's long-range economic vitality, however, remains heavily dependent on secure domestic sources of energy, and efforts should be continued to reduce regulations and price controls. Market forces, reacting to increased domestic energy supplies and reduced OPEC crude oil output, are serving to stabilize petroleum prices. In response to a changing business climate, the industry is becoming more innovative and selective in order to take advantage of investment opportunities. Mesa expects to be an active participant and catalyst in these activities.

Sincerely,

T. Boone Pickens, Jr.
President and Chairman
of the Board of Directors

May 4, 1982

Financials

U.M.I.C.F. MICROGRAPHICS



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MESA PETROLEUM CO. AND SUBSIDIARIES

Consolidated Statements of Income *(Unaudited)*

	Three Months Ended March 31	
	1982	1981
	(In thousands, except earnings per share)	
REVENUES:		
Natural gas	$ 68,412	$ 57,266
Oil and condensate	23,664	32,572
Natural gas liquids	3,277	4,335
Total oil and gas revenues	95,353	94,173
Interest and other income	8,786	9,451
	104,139	103,624
COSTS AND EXPENSES:		
Operating	14,531	11,523
Federal excise tax on oil and condensate	4,943	7,898
General and administrative	4,585	4,200
Interest	27,519	22,650
Interest capitalized	(15,371)	(15,673)
Taxes, other than on income	965	1,205
Depreciation, depletion and amortization	29,979	22,995
	67,151	54,798
INCOME BEFORE OTHER INCOME (EXPENSE) AND INCOME TAXES	36,988	48,826
Foreign exchange gain (loss)	(9,753)	1,437
Gain on sale of marketable securities	22,274	3
Provision for income taxes	(16,280)	(20,425)
NET INCOME	33,229	29,841
PREFERRED STOCK DIVIDENDS	(3,625)	—
NET INCOME AVAILABLE FOR COMMON	$ 29,604	$ 29,841
INCOME PER COMMON SHARE—primary and fully diluted	$.44	$.43
AVERAGE SHARES—fully diluted	67,712	69,467

M.C.F. MICROGRAPHICS



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MESA PETROLEUM CO. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes In Financial Position *(Unaudited)*

	Three Months Ended March 31	
	1982	1981
	(In thousands)	
SOURCE OF FUNDS:		
Net income	$ 33,229	$ 29,841
Depreciation, depletion and amortization	29,979	22,995
Deferred income tax	14,903	19,345
Gain on sale of marketable securities	(22,274)	(3)
Funds provided from operations	55,837	72,178
Proceeds from sale of marketable securities	30,988	5
Long-term borrowings, production payments and subordinated debentures	140,256	48,757
Decrease in long-term notes receivable and term royalty receivable	16,077	36,226
Other	3,375	438
	$246,533	$157,604
USE OF FUNDS:		
Capital expenditures	$121,925	$ 85,364
Retirements of long-term debt, production payments and subordinated debentures	183,909	16,829
Other	11,336	2,847
Increase (decrease) in working capital	(70,637)	52,564
	$246,533	$157,604

Condensed Consolidated Balance Sheets *(Unaudited)*

	March 31 1982	December 31 1981
	(In thousands)	
ASSETS:		
Current assets	$ 251,804	$ 279,536
Marketable securities	193,798	238,339
Long-term notes receivable	847	1,377
Term royalty receivable	258,512	274,059
Property, plant and equipment (net)	1,353,871	1,263,331
Deferred charges and other assets	15,929	12,713
	$2,074,761	$2,069,355
LIABILITIES:		
Current liabilities	$ 238,500	$ 195,595
Long-term debt	671,382	594,423
Production payments	55,442	176,054
8½% subordinated debentures	76,590	76,590
Deferred revenue	20,433	21,588
Deferred income taxes	216,532	199,660
7% REDEEMABLE PREFERRED STOCK	210,000	210,000
STOCKHOLDERS' EQUITY	585,882	595,445
	$2,074,761	$2,069,355

C.F. MICROGRAPHICS

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Directors

T. BOONE PICKENS, JR.	*President and Chairman of the Board of Directors of the Company*
JACK K. LARSEN	*Executive Vice President of the Company*
WALES H. MADDEN, JR.	*Attorney and businessman Amarillo, Texas*
MICHAEL A. NICOLAIS	*President of The Clark Estates, Inc. (estate management) New York, New York*
ROBERT L. STILLWELL	*Partner of Baker & Botts (attorneys) Houston, Texas*

Officers

T. BOONE PICKENS, JR.	*President and Chairman of the Board of Directors*
JACK K. LARSEN	*Executive Vice President*
BILL R. ALEXANDER	*Vice President-Personnel and Administration*
JOHN F. BOROS	*Vice President, Treasurer and Secretary*
MARION E CAUSEY	*Vice President-Permian Basin*
GAINES L. GODFREY	*Vice President-Finance*
JESSE P. JOHNSON	*Vice President-Operations*
ROBERT W. KING	*Vice President-Rocky Mountain*
JAMES O. UPCHURCH	*Vice President-Engineering*
DAVID H. BATCHELDER	*Controller*

MESA PETROLEUM CO.

Principal Offices

EXECUTIVE OFFICES
One Mesa Square
P.O. Box 2009
Amarillo, Texas 79189

GULF COAST DIVISION
1700 Dresser Tower
601 Jefferson Street
Houston, Texas 77002

MID-CONTINENT DIVISION
6 Broadway Executive Park
6600 North Harvey
P.O. Box 18950
Oklahoma City, Oklahoma 73154

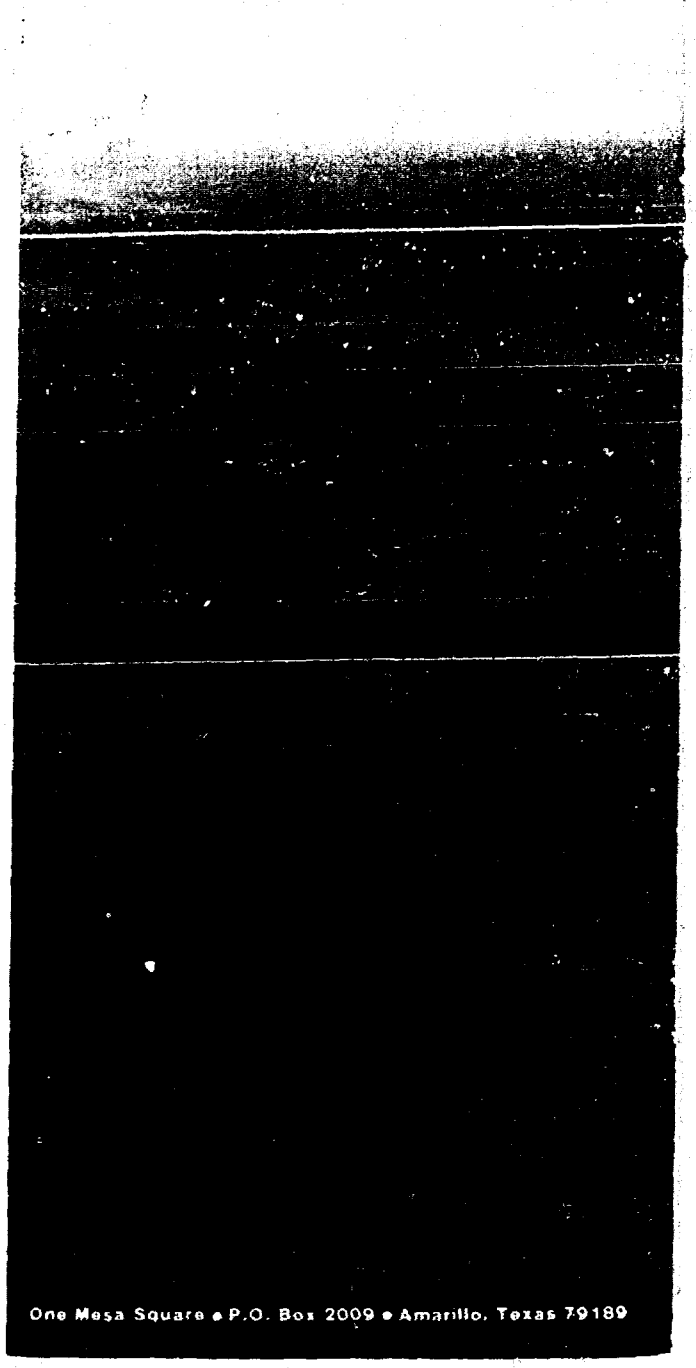
PERMIAN BASIN DIVISION
1000 Vaughn Building
400 West Texas Avenue
Midland, Texas 79701

ROCKY MOUNTAIN DIVISION
2800 Lincoln Center Building
1660 Lincoln Street
Denver, Colorado 80264

INTERNATIONAL DIVISION
Australia Mutual Provident Building
140 St. Georges Terrace
G.P.O. Box A.8
Perth, Western Australia 6001

C.F. MICROGRAPHICS

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One Mesa Square • P.O. Box 2009 • Amarillo, Texas 79189


BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 15
CASE NO. 7564



President's Greeting

Bea and I hope that this will be the happiest of all holiday seasons for you and your family. We have been blessed this year with our first grandson who, along with two granddaughters and our own children, makes the Christmas season extra special.

Our Mesa family also continues to grow, and it, too, is a great source of personal satisfaction. Mesa people are unique in their dedication, outstanding accomplishments and personal values. It is particularly gratifying that this group of special people has built a company which can help its employees meet the needs for a happy and successful life. Mesa's continuing growth provides each employee the opportunity to be productive. The Company's physical fitness facilities and programs will assist employees in acquiring and maintaining good health throughout their lives. And, Mesa's stock purchase and profit sharing plans will help individuals attain economic security for retirement. As a result, the Company's personnel enjoy greater job satisfaction, healthier lives and financial security.

This same dedication to achievement will again be needed in 1982 as Mesa faces such industry-wide problems as increased drilling costs and escalating acreage prices. To ensure realistic capital budget requirements for the Company, every employee must demand full value for funds expended. I am confident that the Mesa team will view these situations as opportunities to excel.

Mesa has received recognition for its industry leadership throughout the year in numerous publications, including Financial World, Forbes, Fortune, Institutional Investor, Texas Business *and the* Wall Street Transcript, *and by such organizations as the Stanford Business School Alumni Association. The Company will continue as an industry leader by bringing to bear its unique brand of innovativeness, operational expertise and adherence to excellence.*



Christmas Tree Traditions

Last year, Susan Burns, draftsman in the Mid-Continent division, bought two live Christmas trees, one for the office and one for home. "When you think about it," says Burns, "you spend more time at the office than you do at home.

"The trees were only six inches tall, and I shared one with a friend. We wanted to buy a Christmas tree together, but we couldn't decide whether to keep it at her house or mine. Neither of us really had room for a big tree, so the two small trees were a nice compromise.

"Even though the trees were small," says Burns, "it gave us a feeling of Christmas."

Christmas trees are an American tradition, and for those born in the 20th century, it is hard to imagine Christmas without one. If not at one's own house, then a friend's or relative's.

Legend dates the Christmas tree back to the 5th and 6th centuries. St. Boniface, a Christian missionary in what is now Germany who lived between 680 and 755 A.D., is said to have brought the first fir tree into his home because all its branches pointed toward heaven. He encouraged his recent converts to use a tree as a symbol of their new faith.

Another version of this legend

Ron and Yvonne Bishop head home with their freshly cut blue spruce.

has Boniface chopping down a sacred oak tree beneath which human sacrifices had been offered to pagan gods. As the oak tree fell, a young fir tree miraculously appeared in its place. Boniface declared that it was an emblem of the new faith he had brought to Germany.

Martin Luther, 16th century Christian leader, is said to have started the tradition of lighting trees. One Christmas Eve, while walking home from the Christmas Eve candle lighting services, Luther looked into the sky. All the twinkling stars reminded him of those reported to have shown brightly the night Christ was born. He hurried home and attached candles to his tree to remind the children of the heavens from which Christ descended.

By 1604, decorating fir trees in Germany was a fairly common practice. One description told of paper roses, apples, wafers, gold foil and sweets hanging from the tree.

The first Christmas trees were used in America by German immigrants who settled in Bethlehem, Pennsylvania, around 1747. They decorated their trees with candles, apples and written verses. Later, Christmas trees in America were decorated with gingerbread cut in different shapes, fruit, raisins, strings of almonds, toy baskets with nuts, handkerchiefs, collars, little shoes, stockings, books, dolls and other small toys.

According to early American traditions, trees were cut on Christmas Eve and decorated after the children were in bed. Their gifts were hung unwrapped on the tree along with fruit, nuts and sweets. Christmas morning, the children awoke to see the tree ablaze with lighted candles, and then the gifts were taken from the tree.

Today, we use the pine tree in our celebration of Christmas. Trees go on sale almost as soon as the last bite of Thanksgiving dinner is finished. Even with commercially produced tree sales reaching well into the millions, many people still find and cut their own tree as part of the season's tradition.

Dan Romines, Rocky Mountain division materials and transportation supervisor, has been cutting his own Christmas tree for three years. "It sounded like a lot of fun," says Romines. "Plus, the price for a tree on a commercial sales lot can easily reach $50.

"I usually go with a couple of friends, pack a lunch and make a day's outing of it. We drive to a designated cutting area in the mountains, about one and one-half hours from Denver, then hike a couple of miles back into the woods to find the kind of trees we want. By the time we cut down two or three trees with a hand saw and ax, it's a full day."

John Benton, drilling engineer in the Rocky Mountain division, says his family has been cutting their own trees since he was born. The family lives on a ranch



in Burn, Colorado, about 140 miles from Denver. "We can usually hike a few minutes from the house and find an excellent tree," says Benton. Their secret for keeping the tree fresh is to put it in water with two ground-up aspirin tablets and decorate immediately.

In the Rocky Mountain division's Flora Vista, New Mexico, office, A. D. Miller, drilling foreman, says that cutting a Christmas tree is a family ritual.

"We pack a lunch, hatchet and saw and drive about 80 miles into the mountains," says Miller. "While we're looking for a tree, we have snowball fights and wrestle in the snow. By the time we pay for the gas, lunch and a broken bone or two, we could probably buy a really nice tree, but getting out and being together is really



Snowball fights are part of the fun of an outing to cut a tree according to Ron and Yvonne Bishop, Aztec Office, Flora Vista, New Mexico.

what it's all about."

David Green, assistant drilling foreman, Flora Vista, has been cutting his own Christmas tree since he was "knee-high to a grasshopper."

"We save a little money," says Green, "but the real reason we cut our own is to enjoy a day out as a family. We drive to a designated area in Colorado where the forest service has marked certain trees to be cut as part of a thinning/conservation program."

Every Christmas since Diana Carmean's son Russell (9), was a baby, she has decorated his room with a tree. Carmean, a geological assistant in the Permian Basin division, was in the process of picking out a cut tree at the local nursery when she spotted a small, potted fir decorated with a string of small lights.

"It was perfect," says Carmean. "After Christmas, we replanted it in a bigger pot. Russell kept it in his room all winter, and we moved it out on the back porch in the spring."

The tree grew about three inches, according to Carmean, and this Christmas, she plans to move it back into her son's room. "He decorates the tree with several ornaments that he has made and some his grandparents have given him over the years. We really enjoy having a live tree," says Carmean. "For one thing, they don't shed their needles, and after Christmas, you still have a nice plant."

For Sally Buys, draftsman in the Permian Basin division, this will be the first year that she and her husband have had a tree since being married.

"We always went somewhere for Christmas," says Buys, "so we didn't go to the expense of putting up a tree. But this Christmas, we are buying a live tree."

Buys' husband works for a landscaping service and specially ordered the five-foot pine this fall.

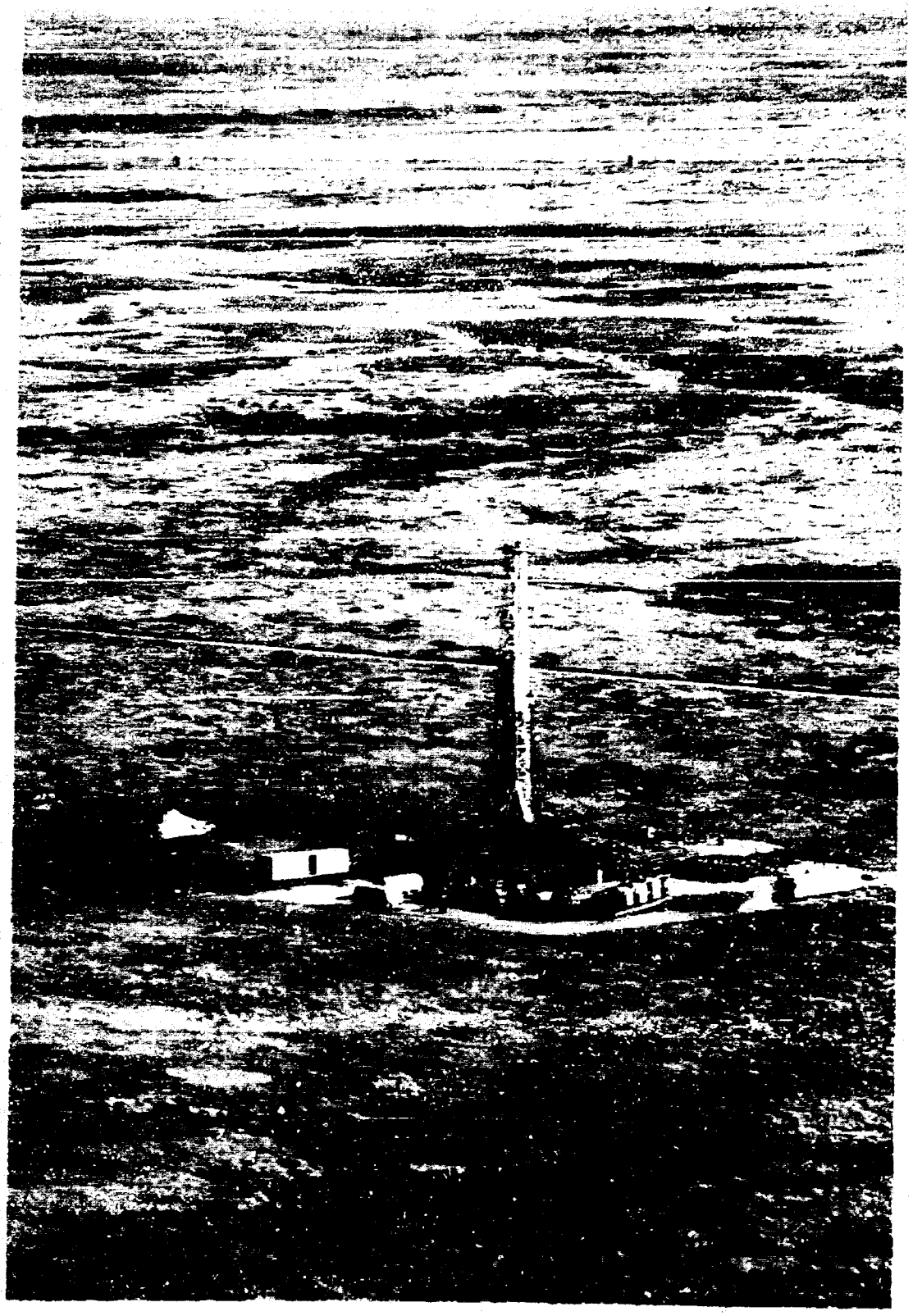
"We will be able to keep the tree as a house plant after Christmas," says Buys, "and then use it again next year. It will always be serving a useful purpose."

Jim Knight, materials and transportation supervisor in the Mid-Continent division, grew up on a farm in Illinois. "My parents planted a windbreak of fir trees when I was very small. After a few years, the trees began to crowd each other. My mom and dad decided that instead of cutting down some of the trees, they would dig them up and use them for potted Christmas trees.

"They were nicer than the cut trees you buy, because they stayed fresh and didn't shed their needles, which is the worst thing about a cut tree.

"After Christmas, we kept the tree, undecorated, in the house until the ground thawed enough to plant it somewhere else on the property. We did that for about seven years.

"We moved from the farm when I was in high school, but I imagine those trees are still there, symbols of seven memorable Christmases we spent on the farm."



The Pecos

In 1869, a professional gambler named Van C. Smith and his partner, Arron O. Wilburn, decided to construct two adobe buildings close to the Pecos River which runs through southeastern New Mexico. The buildings served as post office and general store with sleeping quarters in the attic for passing travelers. When Smith filed a homestead claim on the 136 acres around his buildings, he named the settlement after his father, Roswell.

From those humble beginnings, Roswell has grown to a town of 55,000 population with ranching, irrigated farming and rapidly developing natural gas exploration and production providing the economic base.

In April this year, Mesa's Permian Basin division opened a district office in Roswell to oversee the Company's activities in the Pecos Slope area. John James, drilling superintendent, now has 12 people working out of the office. Five are drilling foremen: Jack Jackson, Steve Matthews, Don Mayberry, Dean Pate and Tommy Roger. Ea Bannister is production foreman; Mike Lynch is production foreman assistant; and pumpers—James Craig, John Hunt and Eugene Neff—keep produc-

Mesa owns an interest in approximately 780 000 acres in the Pecos Slope area in eastern New Mexico.

Slope

tion units operating. Lloyd Reed is the regulatory agent, and Jamie Owens is the secretary.

The impact of the increasing exploration and production activities in the past two years can be seen on the Chaves County tax rolls. In 1979, the energy industry paid $13.5 million in taxes. By 1980, that figure was up to $22 million, and for 1981, the industry paid $40.8 million through October.

The first royalty check paid to the State of New Mexico was for $124 in 1923. In 1980, the state received $800 million in royalties and taxes.

Three major industrial parks covering 242 acres with oil and gas related equipment and servicing facilities were constructed in Roswell in the past two years. According to the Chamber of Commerce, each drilling rig provides an average yearly payroll of $600,000. There are currently 19 rigs operating in the area.

The cause of this boom is a gas play in the Pecos Slope area of eastern New Mexico. Although most current activity is centered in Chaves County, north and east of Roswell, the potential producing area stretches farther north to include all of De Baca County, about half of Guadalupe County and the eastern edge of Lincoln County.

Underlying the Pecos Slope (drainage basin for the Pecos River) is the Permian Abo formation, a shallow gas zone (at about 3,500 feet) once shunned as uneconomic, according to the June 22, 1981, *Oil and Gas Journal*. The formation is made up of very fine-grained sandstone and siltstone, and without fracturing, the formation flows only 7 to 50 Mcf of gas per day. With hydraulic fracturing, a process of injecting gelled water mixed with sand down the well bore to crack open the formation, flow rates can reach 300 to 15,000 Mcf per day.

Gas was discovered in the Abo several years ago in a well drilling for a deeper zone. Prior to the discovery, over 200 wildcat wells were drilled in the 5 million-acre area, all with objectives other than the Abo. The initial well was drilled in 1923 with the majority of the 200 drilled in the 1950s. While some of the wells were drilled for shallower zones such as the San Andres, most were looking for formations deeper than the Abo, like the Wolfcamp.

The Abo age rocks in the Pecos Slope are a series of sand deposits left 280 million years ago by rivers draining into the Permian Sea, much as the Mississippi River deposits sands off the coast of Louisiana today. Therefore, reservoirs are found in disconnected channel sands laid down by ancient rivers and streams in the Pecos Slope. The Abo rocks are a series of red and green sands and shales, which would look much like Palo Duro Canyon if they were exposed on the surface. Over the years, gas has migrated from the shales into the channel sands which permeate the formation.

With drilling and completion costs, including fracturing, averaging $350,000 to $400,000 per well, the economics of drilling a well were marginal at the $2.81 per Mcf ceiling price for gas set by the Federal Energy Regulatory Commission (FERC).

As the most active operator in the Pecos Slope, Mesa, along with another operator, filed a joint application for a "tight sand" designation on 5.76 million acres in De Baca, Chaves, Lincoln, Guadalupe and Torrance counties.

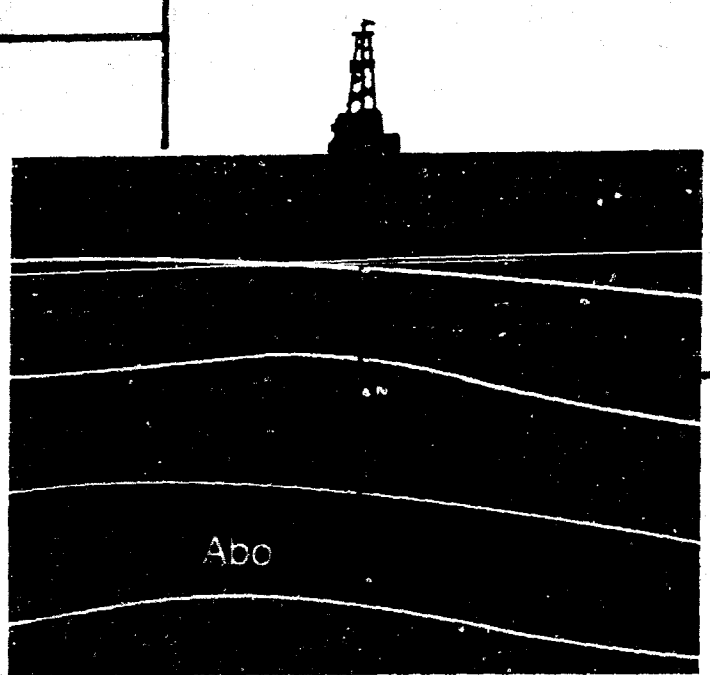
In June, the FERC approved the designation for 1.54 million acres in Chaves and De Baca counties. The designation raises the ceiling price on natural gas wellhead sales contracts to $4.92 per Mcf which greatly enhances the economics for these wells.

Mesa's first well in the Pecos Slope was the Rock Federal No. 1 (Mesa 53.3%) drilled in October 1979. The well initially produced 3.1 million cubic feet of gas per day after fracturing. Since the Rock Federal No. 1,

MESA
Pecos Slope Prospect
New Mexico

Guadalupe

De Baca



Chaves

Lincoln

Roswell

Mesa's primary area of activity in the Pecos Slope (yellow hatchered area of map) covers four counties in eastern New Mexico. Inset is a cross section of the Abo gas play.



Ed Bannister (left) and John James oversee Mesa's operations in the Pecos Slope. They are based in the Permian Basin division's Roswell office.

the Company had drilled 88 wells through the third quarter of 1981. Fifty-eight of these wells (Mesa 45.2% average interest) had been successfully completed, 15 were in various stages of completion and 15 were dry holes. Thirty-three wells were on production, and 25 were awaiting pipeline connection. The wells are expected to produce at an average initial daily rate of 500 Mcf of gas. Mesa plans to have drilled 133 wells by year-end and will drill 200 more in 1982.

The Pecos Slope is a new area for the oil and gas industry, and no one knows the ultimate size of recoverable reserves. Estimates from the *Oil and Gas Journal* state the Pecos Slope could cover as much as 8,000 square miles with potential recoverable reserves of 3 trillion cubic feet which would classify it as a giant gas field in the U.S. "That would compare in size with reserves in the Pictured Cliffs formation, a major producing zone in the San Juan Basin of northwestern New Mexico, one of the oldest gas producing fields in North America and second in size of gas reserves," says Les Carnes, manager of reservoir engineering.

"We estimate, based on cumulative production to date from 2,800 wells," says Carnes "that the Pictured Cliffs formation has ultimate recoverable gas reserves of 4 trillion cubic feet. The wells initially produced at a rate of approximately 500 Mcf per day from the 3,500-foot Pictured Cliffs zone on 160-acre spacing (one well per 160 acres). That just about mirrors the situation in the Pecos Slope, where wells in the Abo produce initially at average rates of 500 Mcf per well from about 3,200 feet on 160-acre spacing.

"Mesa could ultimately participate in the drilling of nearly 1,000 wells, of which we could expect 750 to be productive," says Carnes. "Mesa's net wells would number 270. At an average stabilized production rate of 300 Mcf per day per well, we could produce 80 million cubic feet of gas per day to Mesa's interest and generate revenues, based on a selling price of $5 per Mcf, of $150 million per year."



Trixie Lee Slife

Second Longest Service, but Second to None

How She Became a Mesa Employee — According to Mrs. Slife

"The day I discovered that the ironing, sprinkled days earlier, had molded, because I had taken to playing bridge incessantly," says Trixie Lee Slife, production records coordinator, "I decided it was time for me to go back to work. I had signed up with an employment agency, and they called me about a job with Petroleum Exploration, Inc. (PEI, the predecessor company to Mesa). PEI was in urgent need of a secretary. Would I talk to them that afternoon?

"I arrived at the Alta Building, 1501 Taylor, for the interview — fresh from the beauty parlor — promptly at 2 p.m. The receptionist, a secretary and jack-of-all-trades, told me that PEI had hired someone else for the position that morning. I left for home, headed straight for the telephone and told the employment agency that PEI was nothing but a bunch of amateurs. How wrong I was!

"The agency called the next morning, with great reservations I learned later, to ask me to go back to PEI and interview for the same job. The woman they hired had quit. Curiosity prompted me to go back to PEI's headquarters. That day, I proceeded to 'throw in my lot' with the most energetic, exasperating, inspiring and kind people I have ever known."

Trixie Lee Slife, with 24 years of service, has been with Mesa and its predecessor companies longer than anyone but T. Boone Pickens, Jr.

According to Mr. Pickens

"My secretary had resigned, because she couldn't stand the phones," says T. Boone Pickens, Jr., president and chairman of Mesa Petroleum Co. "I called Berlin Vance, who owns an employment agency, and told him I needed a secretary. Vance said he had a really qualified, nice-looking lady who he thought would be perfect for the job. So, we set up an appointment for 2 o'clock that afternoon.

"In the meantime, a friend called and told me she needed a job. I desperately needed someone, so I told her to come on over.

"I called the agency to tell them to cancel the interview, because I had already hired someone. However, they were unable to reach Mrs. Slife, and she arrived promptly at 2 p.m. She was very unhappy with us, to say the least. Then the next morning, the friend I had hired the day before quit. I called Vance to see if the lady he had mentioned previously would come back for an interview.

"He was a little hesitant about calling Mrs. Slife, but she agreed to return. I will never forget that meeting. She had on a red dress with a shawl. I knew from the way she walked into the room and tossed her shawl onto a chair that we had a problem.

"'I just wanted to see the person who had the nerve to set up an interview, hire someone else, cancel at the last minute and then call me back for an interview the next morning,' she said. Those were her first words, but certainly not her last. And after 24 years, she still does not mind setting anyone straight when she feels the occasion calls for it."

The Rest of the Story

On the morning of September 17, 1957, Trixie Lee Slife decided to "throw in her lot" with one president, two vice presidents, one landman, one part-time student-engineer and one other secretary/jack-of-all-trades. Slife knew nothing about the oil business, and there were no written office procedures.

"To show you how much I didn't know, El Paso Natural Gas had offices on the second floor of the Alta Building," Slife continues. "One day, not too long after I started working, Mr. Pickens came in and said he was going to see El Paso. I told everyone who called him that

he had gone to El Paso (Texas) and probably wouldn't be back for a few days.

"What an adventure," Slife continues in her one-page diary of those first years. "We hired a bookkeeper (She had plenty of experience as an executive secretary.) and a new land secretary. (The other one got married.) Then we hired a full-time production superintendent. Our part-time draftsman was still with us, and we had another drilling account going. Lots of prospects. Our wells were good ones. People were interested.

"One of the original partners left. The bookkeeper retired. We hired a secretary/treasurer, and he hired two clerks. Help — we're being crowded out."

"Those first years were rough," says Slife. "We all worked hard, long hours. We pitched in and helped each other with whatever needed to be done. No one talked about overtime. In fact, we would have taken a cut just to keep things running. And, we still managed to have fun.

"One time when we had been working particularly hard," says Slife, "Sandra Hunter, the other secretary, and I started clowning around after we had eaten lunch in the office. I don't remember exactly how we reached the point where we decided to imitate Jackie Gleason's traveling act from the old 'Honeymooners' TV series. I told Sandra to give me a little traveling music — da da da da dada, and away we go! — down the hall right into Mr. Pickens coming back from an abbreviated lunch. All he said was: 'What if someone had been with me?' Ever since that day, 'traveling' just hasn't been the same for me.

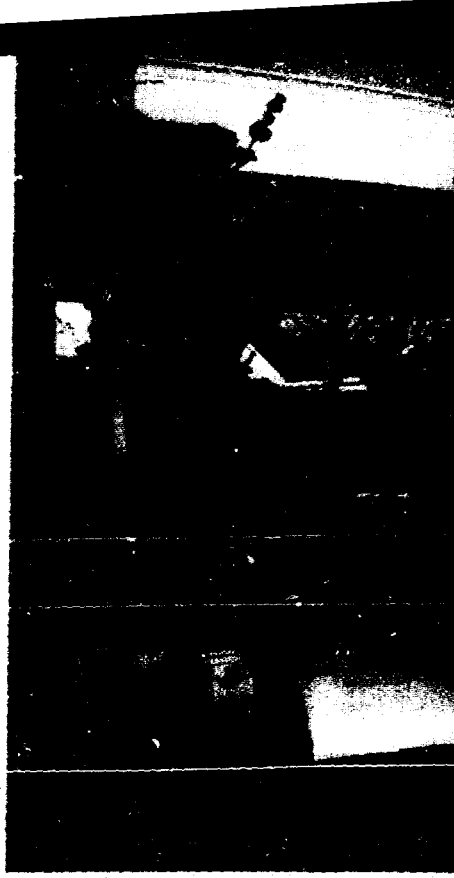
"In those early days, before we had a chance to prove ourselves, we wanted to be sure that our office conveyed a professional appearance to outsiders. (We still do.) Because of that, Mr. Pickens decided that we should call each other 'Mrs. Whoever' and 'Mr. Whomsoever.' To this day, he is still Mr. Pickens to me, and I am still Mrs. Slife."

Slife was the production records, division orders and central records departments all rolled into one. "I knew when each well started — from buying or selling an interest through drilling and bringing it on production. We kept our production records in a single book," says Slife.

PEI had offices in the Alta Building, which is still standing. The windows in that building could be opened, and when Slife began her career, the Company's offices were on the ground floor.

"Mr. Pickens was always 'on the wing,' even then," says Slife. "The way our offices were set up, I could see the parking lot from my window. If he was leaving before I gave him all his messages, I could just open the window and yell at him, which I did many times.

"Of course, that was a two-edged sword. I was called back many times from that same window to type an urgent letter.

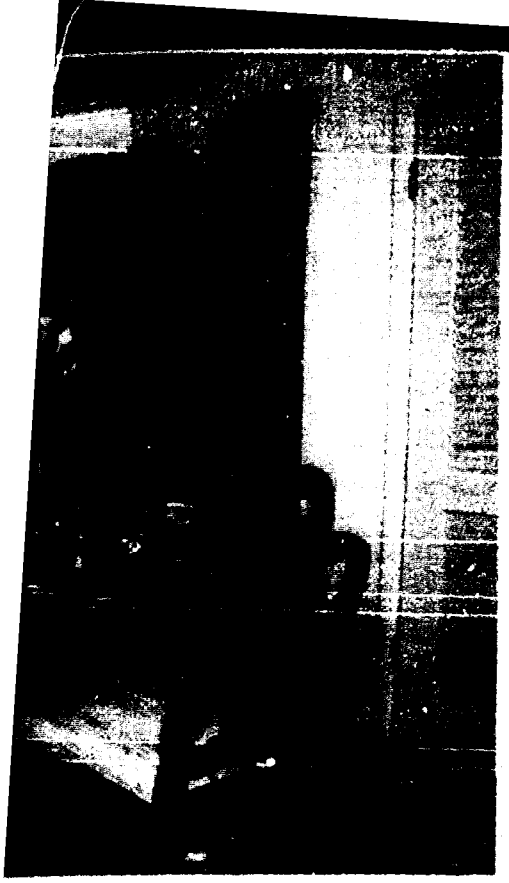


For 8 years, Slife said, "I'm going to b stock price rises." She proudly displa built."

"Sometimes, it wasn't even possible to catch Mr. Pickens in the parking lot for a last minute call. Once, he needlessly drove 150 miles because he just missed a call from the field where a well he was to visit lost circulation. After that, we instituted the 'call when you get to the edge of town rule,' which over the years saved two or three needless trips for Mr. Pickens."

From the day she began working until 1969, Slife was, among everything else, the mailman. Every day at 8:30 a.m. and noon she stopped at the post office to pick up the mail. She opened the mail, stamped it with the date received and distributed it to the proper person. Outgoing mail was sealed and stamped with Slife's "hand-tongue-glass-of-water machine."

After five years of devoted service, Slife looked forward to



y window when the
dow that "Mesa

her anniversary date. The day came, and she sat at her desk waiting for a sign of recognition.

"And, nothing happened," says Slife. "Oh, I got the usual 'good morning, Mrs. Slife.' No congratulations, no happy anniversary, no cake, no band, nothing. Toward the end of the day, I decided I had to say something. I told Mr. Pickens, 'Today's my five-year anniversary. Where's my service award?'

"There was no immediate response, so I went back to my desk. In a few minutes, Mr. Pickens came out to personally present me with my service pen — a paper circle (not exactly round) about the size of a nickle with a penciled-in numeral '5' attached to a routing slip with a paper clip. I still have both. He told me the paper clip was platinum."

Slife also has her 10-year service award. Jim Farrell, then drilling and production supervisor, now operations manager in the Rocky Mountain division, wanted the occasion to be momentous for Slife and submitted a check request for 10 cents. The date needed was "ASAP," and the reason given for such a sum was: To purchase one paper clip (for Trixie Lee Slife — to supplement existing five-year service pen and as acknowledgement of her 10-year anniversary).

The following is taken directly from the section titled "Comments" on the check request form. Farrell's comments are in regular type and Pickens' comments are italicized and underlined.

Mrs. Slife is: exuberant, courteous, cheerful, friendly, silent,— *xed out;* gregarious — *definitely;* titillating — *don't know the meaning ... suggest you drop it;* attractive — *no doubt;* youthful, accurate — *? must have changed;* faithful — *always;* is a daily Billiken belly rubber (see Billiken story) — *this is what really counts;* prompt, winsome, devastating — *xed out, sounds like a bulldozer;* dependable, never lost a post office key — *forgot it a few times though!;* thrifty — *xed out, need to check with Mark (Slife);* Democratic — *party only;* open minded, resourceful, tenacious — *I can vouch for this one;* unpretentious, philanthropic — *xed out, scratch, not on policies, ask Cast;* scintillating — *we could send her to Montana to work on the uranium prospect;* productive — *Department?;* humble — *xed out, should be Mesa, not Humble.*

"And, it is true," says Pickens. "Mrs. Slife has done just about everything in this Company there is to do. She is extremely loyal. If we cut her wrist, it would bleed little 'M's.' She knows every pumper, which wells they take care of and how hard they work. And, she can tell a cover-up from a mistake."

Today, Slife is the coordinator of production records. She has six production analysts working under her supervision and can boast that the turnover in personnel in her department is zero. Dorothy Randle joined Mesa in 1973. Marcie Miller and Jeanne McGee came in 1974. Sue Howard, Lesa Grider and Lovella Hollingsworth all came in 1979 to take care of the Tema properties.

"She has confidence in her employees," says Miller. "She gives you a job to do, shows you how to do it, makes sure you understand and then turns you loose to do it," says Grider.

Slife and her crew keep production records on 1,800 onshore wells (918 Mesa operated) in which the Company has an interest. Run tickets, a daily record of the amounts of production taken from each well, are sent in by the pumpers each month. The analysts compare the information on the run tickets with statements that come in from the purchasers who take the production. If there are discrepancies between the run tickets and the statements, the production records department

settles them. Then, Slife alerts accounting and the purchaser to make sure Mesa is paid or pays for the correct amount.

The production records department is also responsible for informing each working interest owner, state agency and the United States Geological Survey (USGS) about the Company's production.

Because of Slife's thorough methods of auditing production amounts, she often saves the Company money and can spot problems that might otherwise go undetected. For instance, a few years ago, Mesa formed a partnership with another company for an acquisition. Under the terms of the partnership, Mesa operated certain properties close to some of its existing production, and the other company operated wells close to its existing production.

After the acquisition, Slife wrote each participant with an interest in any of the acquired properties, both those Mesa is responsible for overseeing and those the other company is responsible for overseeing, and requested production reports on the wells. From the information provided by the companies with interests in our co-owner's area of responsibility, Slife noted that our partner had not booked or paid Mesa for production on several wells. She alerted the auditing department, and they looked into the situation. The discrepancies amount to several hundred thousand dollars.

The production records department works closely with several other departments in the Company. Slife's group supplies all the information on new wells for central records. She issues notices of first production and keeps track of the status of each well drilled, such as plugged and abandoned, shut in, producing and the status of Mesa's leases. Each month, leases close to expiration are identified, and the divisions are notified of the need for action.

Information provided by production records is used in the reservoir, gas contracts, accounting, auditing and tax departments. "If you have a production question about any well, you can call Trixie Lee, and she can tell you about it," says Celia Irwin, supervisor of division orders. "She is a whole library of information about the Company and can answer questions when you can't find the information anywhere else."

"You can always tell when Mesa's stock is up," says Hollingsworth. "You can hear Trixie Lee coming down the hall singing, 'We're in the money.'"

"I used to tell people that Mrs. Slife is Mesa's second oldest employee," says Pickens. "However, one day she asked me to rephrase that statement to say employee with the second longest service."

"Just because I was Mesa's first grandmother doesn't make me a day over 39," says Slife.

Slife has a few other "firsts" to her credit. She was Mesa's first mother, August 23, 1950. She was the first editor of the *Mesa Message*, then a four-page newsletter complete with art by Iris Shackelford, executive secretary. She instituted the "honor your boss Christmas lunch," a covered dish affair that was the highlight of the Christmas season for three years. And, Slife designed many of the forms and filing systems which are still used today.

"Mr. Pickens is a caring man, and I think that is what's made Mesa different from other companies," says Slife.

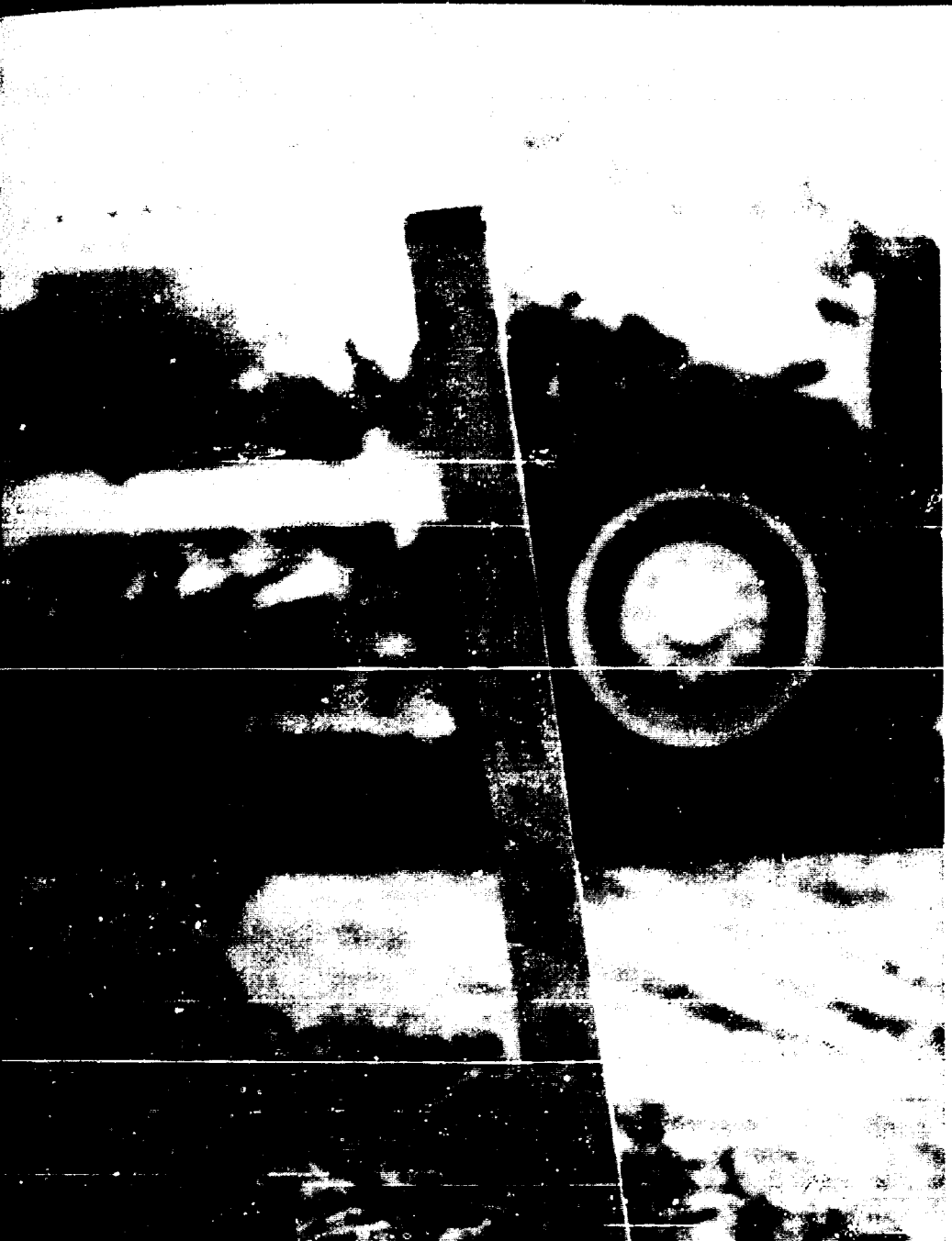
For many people inside and outside of Mesa, Slife has made a difference. They know they can call her for reliable, accurate information. "And," says Grider, "although Trixie would never hold one of her people back, there is no one for which I would rather work."

Billiken Belly Rubbing

A Billiken is a strange looking little man usually carved from ivory which the Eskimos adopted many years ago as a symbol of good luck and happiness.

"Back when we first started our Canadian operations," says Slife, "Mr. Pickens brought several Billikens back and passed them out among the seven employees in the Amarillo office. His instructions were to rub the Billiken's belly for good luck every time we drilled a well.

"I was and still am a faithful Billiken belly rubber."

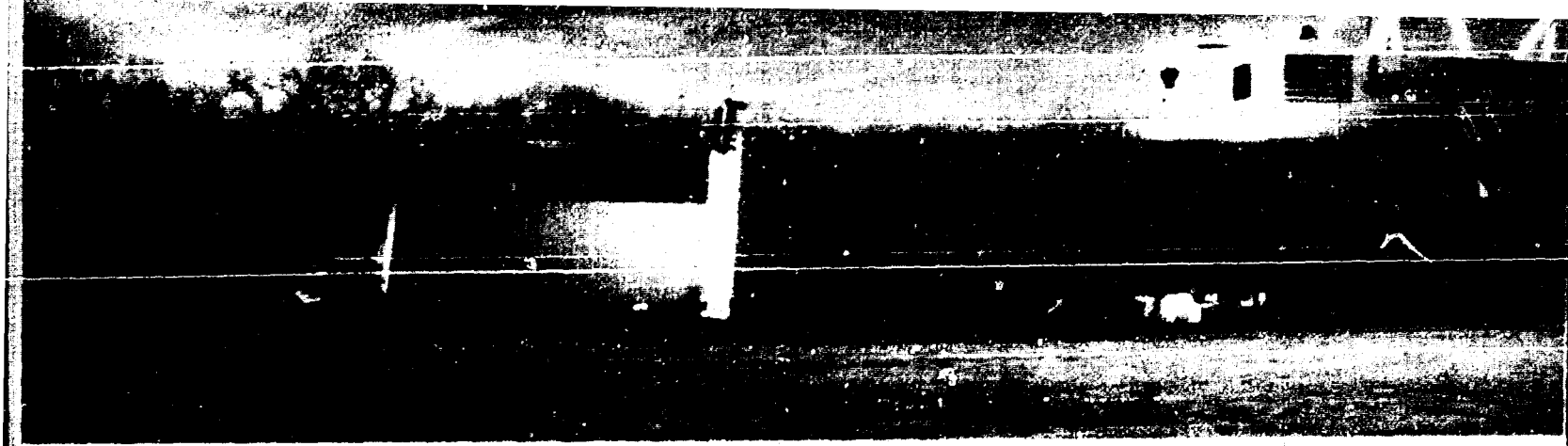


Drilling Locations

There Is More Than Meets the Eye

Take I-40 from Amarillo to Clinton, Oklahoma. Turn north on State Highway 183 to Seiling. Continue north from Seiling on State 281 across the North Canadian River bridge. Turn right onto the first black-top which jogs south and then back east again. The rig signs are approximately one mile past the last turn. At the signs, turn south off the black-top and follow the road for one and one-half miles. The derrick marks the spot.

What sounds like a guide to buried treasure is actually directions to a typical drilling site, in this case the Macosa No. 1-5 (Mesa 28.4%) in the Mid-



"Rigging up" is the final phase before drilling commences.

has proven to be a prolific oil and gas zone in Dewey County, Oklahoma. The best location to drill the well was chosen by carefully interpreting and plotting data from seismic surveys which constitute the first step taken in selecting a drilling site. Seismic surveys are patterns of reflected sound waves through buried rock formations. The resulting "map" shows the best place to drill to intersect the most promising zones.

The next step was for Mike Lyon, landman in the division, to obtain a lease. The land on which the Macosa is drilling belongs to a Cheyenne-Arapaho Indian named David Fanman, Sr., who inherited it from his mother, Dodging Girl. Since Fanman is an indian, the Bureau of Indian Affairs (BIA) handled the leasing. The land was put up for bid by the Choncho Indian Agency through the Department of the Interior. Lyon acquired the lease for Mesa on 157.25 acres for a bid of $18,083.75 or $115 per acre.

Fanman had previously leased the property's surface rights to Leo Hurt. Consequently, Lyon negotiated with Hurt for the drilling site. Settlements can range from $100 for the entire location with little productive value on the surface to several thousand dollars for land that would normally be growing crops or grazing animals.

"First," says Lyon, "I met on the site with Fanman, Hurt and the BIA's representative to ensure that our proposed drilling location would be environmentally safe." After the onsite inspection and negotiations with Hurt, the operations department began the permitting process.

According to Brad Crouch, division drilling supervisor in the Mid-Continent division, the Company contracts with an independent surveying company to physically "stake" the location, including a layout for access roads. "Since this location was on indian land," says Crouch, "it falls under the same permitting process as federal lands. We filed a notice of 'intent to stake' with the United States Geological Survey (USGS) and the Bureau of Land Management (BLM), including a topographical map (a map showing the elevations and physical features of the area)."

Along with the intent to stake, the Company must prepare a 13-point surface-use plan for both the USGS and the BLM. The plan includes (1) roads, where they originate and how far to the nearest town; (2) the sources of water for drilling; (3) a location map for the rig; (4) the location of the mud pit; (5) a cut and fill survey for leveling the ground underneath the rig; (6) a cut and fill plan which refers to cutting down or filling



in to make the location level; (7) a description of the environment including plants, animals and the nearest humans; (8) a centerline survey of proposed roads; (9) a plan for culverts that must be constructed; (10) what bridges will need to be built and where; (11) a diagram of any pipelines including a centerline survey of the proposed route; (12) the seed mixture and plan for reclaiming the location; and (13) a diagram of proposed production facilities.

The Company must also hire an independent archeologist to certify that there are no archeological artifacts on the location where we plan to drill. The archeological survey is sent to a government archeologist who performs his own survey.

"After all the applications and notices are on file," says Stan Dobler, operations manager in the Mid-Continent division, "we have an onsite inspection with representatives of the Company, the surface management agency (in this case the BIA) and the USGS. Each part of the 13-point surface-use plan is walked through."

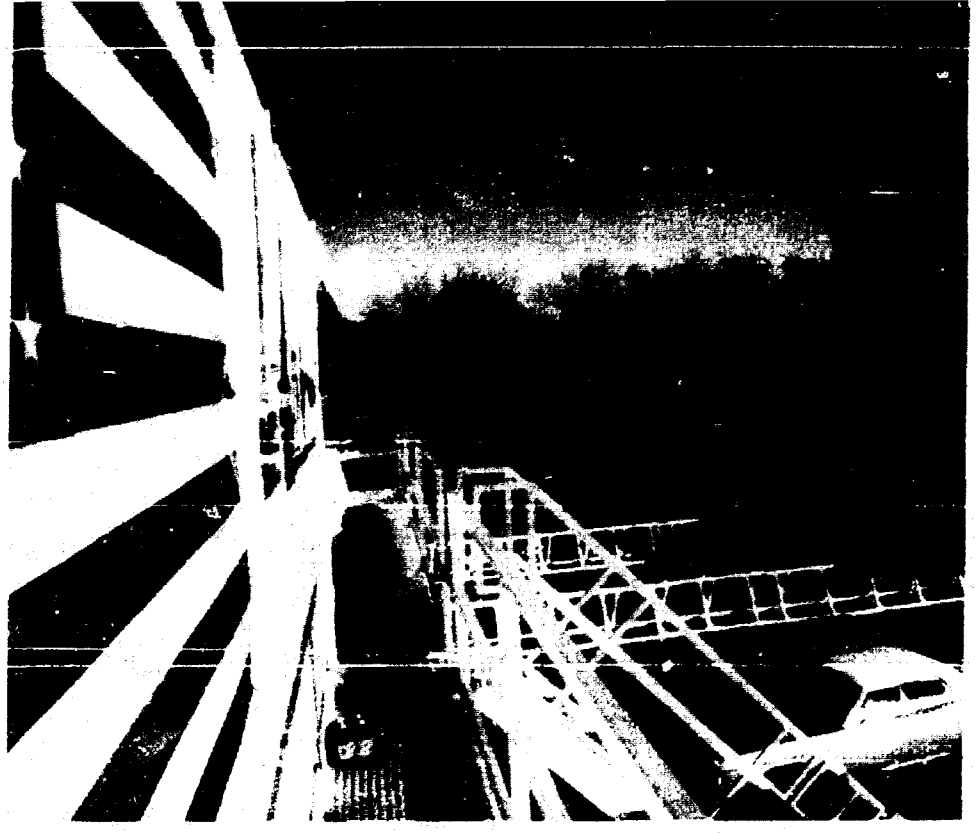
During the onsite inspection, the representatives look at a 10-point operator's plan, also prepared by the Company. The operator's plan covers the blowout preventer system, the types of casing, the cementing plan, total depth of the well and access lines to the gathering system.

After the inspection, the agencies prepare an assessment and, generally, approve the application. "However," says Crouch, "we can have all the approvals, be ready to build a road, but if the government archeologist does not give us a clearance, we have to move the location. That means starting over on all the applications and plans.

Once the applications are approved, contractors move into the area with bulldozers and gravel trucks. Usually, the roads need to be surfaced with caliche (a limestone base gravel found in the southwest) or gravel to keep them passable during wet weather.

On the location, the drilling pad (exact location where the rig will stand) is graded smooth, and the reserve and mud pits are dug and lined to prevent seepage, if necessary. Making the surface for the drilling pad level can involve carving out pieces of hills, filling in a valley or both. Top soil is stockpiled to be spread back over the location when drilling is completed and the area restored.

After the road and pad are built, the drilling rig can be brought in and raised. "Mesa contracts with drilling companies to drill our wells," says Dobler. "They make all the



Crew quarters ("the dog house") on the rig serve as office and home on the drilling location.

arrangements to have the rig moved in."

Depending on the size, moving a rig may require 10 to 70 trucks. Rigs range in height from 100 to 182 feet.

"A small rig can be torn down, moved and raised in a day," says Dobler. "Six days may be required to erect a larger rig."

Next, the trailer houses are moved in for the mud logger and the Company representative. Pipe, cement, drilling mud and water are stockpiled. At this point, drilling can begin.

Each division has its own particular problems in setting up drilling locations. In the Permian Basin division, according to Richard Mathis, regulatory coordinator, one of their problems is finding sources of caliche or gravel to surface the roads in the Pecos Slope area where the Company has five drilling rigs in operation.

"We complete a well every other day in the Pecos Slope area," says Mathis. "That means we need to have a new location ready to move the rig onto that often. Since most of the land we are drilling on belongs to the government, the permitting process keeps us really busy, and it is probably our greatest problem. So far, we have not had to keep a rig idle waiting on location preparation, but we have been close a couple of times."

In the Rocky Mountain division, mountainous remote locations and weather present the biggest obstacles. "On the Pelton No. 1-10 (Mesa 65%), road-base material and gravel were piled 161 feet deep to make the drilling pad large enough to support the rig," says Alec Nash, division drilling supervisor. "That location is in the Little Missouri River breaks in a national forest.

"On the Knutson-Werre No. 3 (Mesa 65%), we had to build one and one-fourth miles of access road in the wilderness of the North Dakota Badlands. That road cost us $80,000. Also in the Badlands, we upgraded and built eight miles of road to the Federal 18 No. 1 (Mesa 24.8%) at a cost of $20,000 per mile.

"We have also built locations in solid rock using dynamite to make a level surface. At times, accessibility is at best terrible, which makes building some locations very expensive."

Once drilling is completed, the operations department restores the location to its former state as much as possible. Mud and reserve pits are cleaned out and filled. The top soil is replaced and seeded with native grasses. On dry holes, not a trace of the drilling is left except for the required marker. On locations where production facilities are installed, the location is also restored as much as possible. The production units on federal land are painted a color which blends in with the surrounding countryside. On private land, the location is restored for its previous use. In many areas, it is not unusual to find cattle feeding around a pump jack or deer nibbling on nearby shrubs.

On the Maccsa No. 1-5 location, the Canadian River runs close by, undisturbed by the drilling operations. "This time," says Dobler, "we hope the directions to the drilling site really do lead to buried treasure."

Educational Assistance

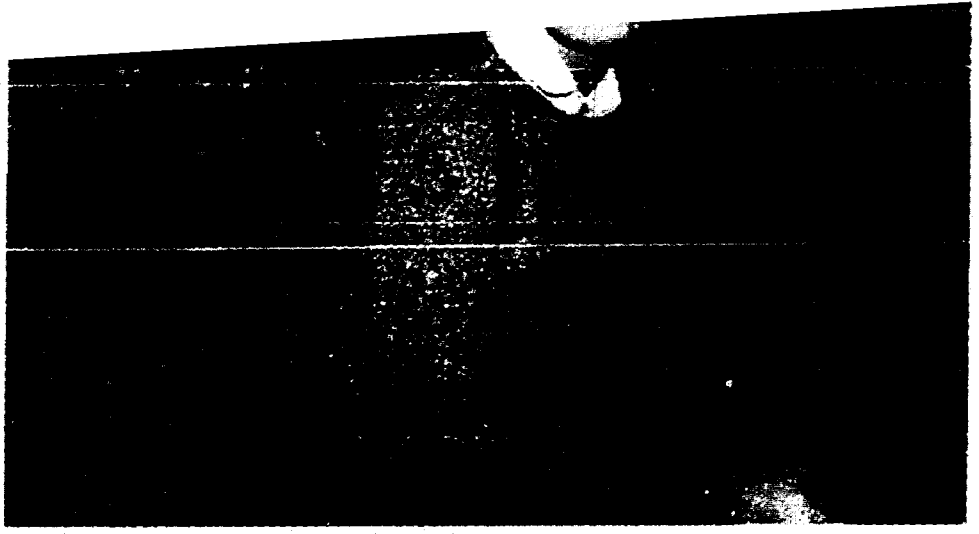


as high as $51 per school day. And, costs are expected to double by 1990.

Ronnie Barnes, director of student financial aid at Texas Tech University in Lubbock, Texas, says that the cost of attending Tech has risen from $1,500 per year in 1971 to $2,500 this year. And most of that increase, approximately $800, has occurred since 1975.

Mesa currently provides two educational assistance programs to help employees and their children meet the increasing costs of higher education. Full-time permanent employees with six months of continuous service are eligible for the Company's educational assistance program if they take courses designed to improve skills, knowledge and capabilities directly applicable to the employee's present position or one to which he may transfer after completing the course.

The Guaranteed Student Loan Program is available to qualified dependent children of full-time permanent employees of Mesa and its domestic subsidiaries. The program is provided by Mesa in cooperation with the United Student Aid Funds, Inc. (USAF), a private nonprofit agency which administers the program. To be eligible for the loan, a student must be enrolled or accepted on at least a half-time basis at a post-high school institution approved by the Department of Education and the U.S.A. Funds. If already enrolled, the student must be in good standing and making satisfactory academic progress. As of October 1, 1981, new students entering the program and their families must also meet certain criteria based on salary and number of dependents to qualify for a student loan.



The student loan fund pays tuition, books, fees and dormitory expenses for Tracy Britain, Texas Tech freshman.

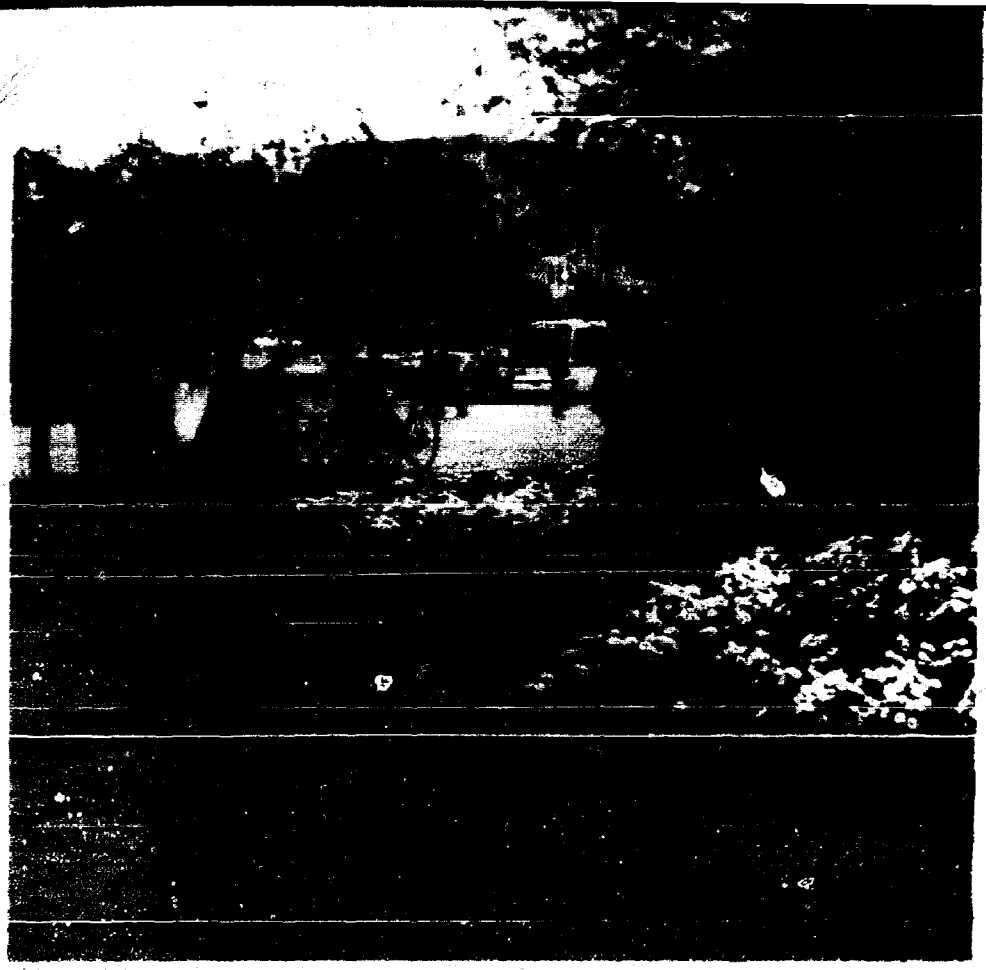
Rhonda Dixon, daughter of George Dixon, Rocky Mountain division production superintendent, is a junior journalism/public relations major at Texas Tech University. Dixon has used the loan program to pay tuition, fees, books and dormitory expenses all three years.

Michel Bayless, daughter of Sid Bayless, manager of personnel in Amarillo, is a sophomore geology major at Texas Tech. "Since I attended Amarillo College in my home town last year," says Michel Bayless, "this is my first year to take advantage of Mesa's guaranteed student loan."

Tracy Britain, daughter of Jeri Britain, executive secretary in Amarillo, is a freshman deaf education major also attending Tech on the loan program. "The loan covers tuition, books, fees and room and board costs," says Tracy Britain. "I use the money I made working last summer for the extras," she says.

All three borrowed the maximum allowed undergraduates for one year — $2,500. The total an undergraduate may borrow is $12,500. Graduate students are allowed $5,000 per year and a total (including undergraduate balances) of $25,000.

Loans must be applied for each year, and processing the application takes approximately



Michel Bayless, sophomore, is using the student loan fund to study geology at Texas Tech.

two months. Distribution of the funds is made either directly to the student or through the school's financial aid office.

The federal government pays the interest on the loan while the student is in school as well as for a grace period after graduation. A student who has borrowed for more than one year pays 7% per annum simple interest, although loans made after January 1, 1981, have interest rates of 9%.

Arrangements for repayment of the loan must be made three months before the end of the grace period which is nine months for students who began borrowing before 1981 and six months for those who began borrowing after January 1, 1981. Payments are a minimum of $3(per month, although other arrangements for scheduling can be made with the lending bank. Loans made subsequent to October 1, 1981, must be paid at not less than $50 per month.

Treva Davis, senior tax accountant, began taking courses toward a degree in accounting before Mesa instituted the educational assistance program in 1979. However, Davis was eligible for reimbursement the last three of the seven years she attended night school to obtain an accounting degree.

Graduating *summa cum laude* with a 4-point grade average, Davis also received an award for the woman with the highest grad point average.

Mesa's educational assistance program paid for Davis' tuition, fees and textbooks on courses which were directly related to the work she performed for the Company. Since Davis was working on a degree program, the policy also covered the electives required to complete her degree.

"I would not have been eligible for any reimbursement," says Davis, "had the degree not been related to improving my skills in my job.

"The student has to pay all the costs upon enrollment," says Davis. "Reimbursement is made only after you have successfully completed the course and can present receipts and a passing grade certification. And, you need to have the courses approved by the Company's Educational Assistance Committee before signing up for them."

Harvey Bear, geological technician in the Gulf Coast division, is working toward a degree in geology. "Although my first job with Mesa was in the drafting department, I met some of the geologists, and they stimulated my interest in this field," says Bear.

After Bear transferred to his present position, he decided to return to school. He has now been in the program for three years.

Although Bear has enough hours to be classified a senior at the University of Houston, he still lacks 60 hours toward his degree. "I'm not looking too far down the road right now," says Bear. "The people I work with give me a lot of encouragement, and that keeps me going." Bear's time is carefully scheduled so that he can take six semester hours, the maximum recommended, each semester.



Kay Morgan, program assistant in the fitness center, is studying nutrition on the educational reimbursement program.

"I get up at 4:30 a.m., drive into town to the YMCA and run five to seven miles. That puts me in the office around seven. On Mondays and Wednesdays, I have class from 5:30 to 7:00 p.m., and on Tuesdays and Thursdays, class is from 7:10 to 8:30 p.m. Studying is worked into evenings and lunch hours. It keeps me busy, but it's better than going home and vegetating in front of the television," says Bear.

Bear says he would probably have gone back to school eventually without Mesa's educational assistance program. "But, it would have been much harder," he says. "I would have had to lay off more semesters, just because of the costs. The Company's program has already paid nearly $1,200 in the past three years."

Mesa's reimbursement policy limits the amount of refund any one employee can receive in a calender year to $750. Also, if an employee receives other assistance from government or school sources, the Company's reimbursement will be applied to the costs remaining after deducting the amount of other assistance. Courses of study must be from an accredited college, university, high school, trade or business school.

For more information about the Guaranteed Student Loan Program or the educational assistance policy, contact Sid Bayless, manager of personnel, Amarillo.

Annual Report Wins Award

Mesa Petroleum Co. was named a Silver Award Winner for the best annual report among natural resource companies in the United States by *Financial World* magazine at the 41st Annual Report Awards Ceremonies in New York City, October 21, 1981.

The winning reports were selected by an independent board of judges which, according to magazine officials, placed Mesa as runner-up to Irving Bank Corp. for the best report throughout all industry.

En route to the silver award, Mesa's 1980 annual report was first selected from over 2,000 entries as a Merit Award winner which qualified the Company to compete in the category of petroleum companies with sales under $600 million, one of 73 industry classifications. Mesa's report was judged best of this category and received a Bronze Award. The Company's annual report entered the next round of competition among six Bronze Award winners representing all natural resource companies. Mesa was judged best of this category and received the Silver Award. Phillips Petroleum Co. was runnerup.

"Mesa's annual report is unique in that it is one of few in the competition which is produced entirely in-house, including all writing, design and photography. No outside agencies are used in its production," said T. Boone Pickens, Jr., president. "Mesa's management is totally involved in the Company's annual report. Five drafts of the report copy are read by each officer, including four group-reading sessions. Our goal is to provide shareholders with clear, concise writing and meaningful graphics."



Jean Larsen christens the J. Storm XVI.

Jean Larsen Christens Rig

Jean Larsen, wife of Jack K. Larsen, executive vice president of Mesa, recently christened the *J. Storm XVI*, a mobile offshore drilling rig built by Bethlehem Steel Corp. at shipyards in Beaumont, Texas.

The offshore unit is capable of drilling in 250-foot deep waters and houses a crew of 48. Mesa Petroleum Co. contracted with Southern Drilling for the *J. Storm XVI*, which is currently drilling on Brazos A-6 (Mesa 65%). Mesa has recently had five J. Storm rigs under contract drilling in the Gulf of Mexico.

Pickens Named Outstanding CEO

T. Boone Pickens, Jr., president and chairman of the board of directors, Mesa, has been named the outstanding chief executive officer in the oil producers industry for 1981 by the *Wall Street Transcript*.

The publication makes its selection based on the extent to which the chief executive officer has taken proper steps to enhance the overall value of the company for the benefit of the stockholders. The final selection results from 40-60 interviews conducted by the newspaper with industry executives, leading financial analysts, money managers, trade journalists and members of the academic community.

In making the award, the *Transcript* said, "Pickens has not only built a topflight exploration team and positioned the Company strongly in such domestic producing areas as the Overthrust Belt, the Anadarko and Permian Basins and the Tuscaloosa Trend, but he has also displayed financial ingenuity in developing the royalty trust concept for the benefit of the shareholders. Pickens also showed foresight in selling Mesa's North Sea and Canadian properties at the right time in 1979 and concentrating Mesa's resources on an aggressive domestic exploration program."

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1981 Vol. VI No. 2

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Mesa Petroleum Co. is engaged in the exploration for and production of oil and natural gas in the continental United States, including offshore areas of Louisiana and Texas, and Australia.

Editor: Barbara Beverlin
Photographer: Billy Pike
Layout Artist: Jeanie Pineingar



Christmas Tree Traditions p. 1



The Pecos Slope p. 4



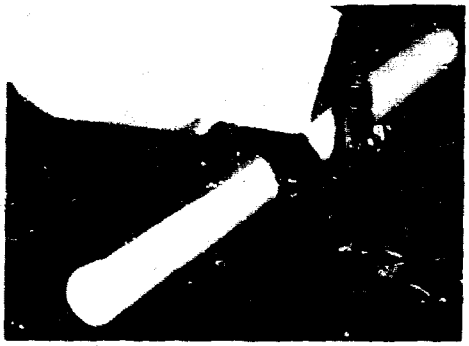
Trixie Lee Slife p. 9
Second Longest Service, but Second to None



Drilling Locations p. 13
There Is More Than Meets the Eye

About the Cover:

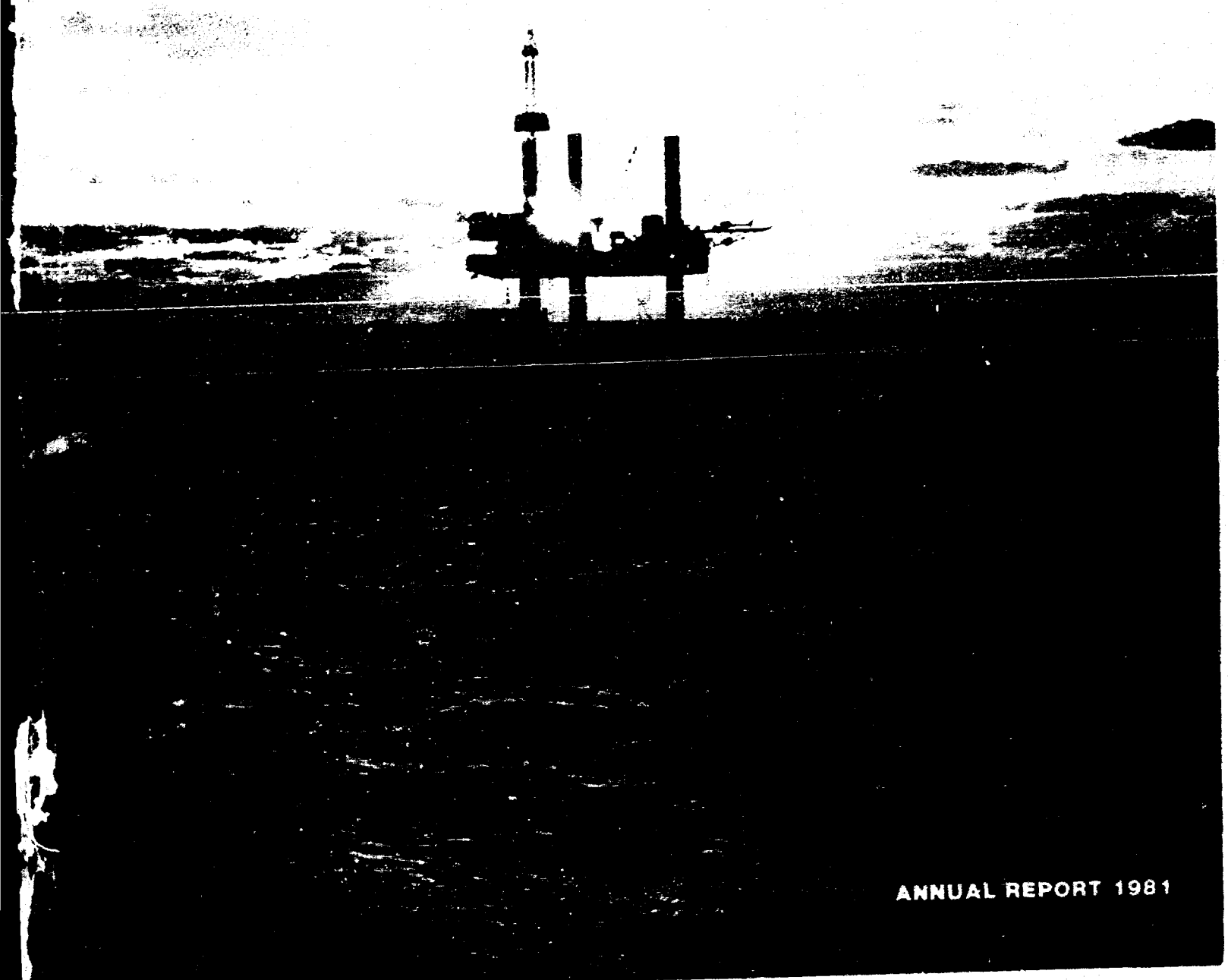
Ron and Yvonne Bishop, Aztec office, Rocky Mountain division, participate in the time-honored tradition of cutting their own Christmas tree. The tree was cut from a Bureau of Land Management designated cutting area in the San Juan National Forest near Durango, Colorado.



Educational Assistance p. 17

MESA
PETROLEUM CO.

EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 13
CASE NO. 7541



ANNUAL REPORT 1981

MESA
PETROLEUM CO.

THE COMPANY

Mesa Petroleum Co. is engaged in the exploration for and the production of oil and natural gas in the United States, including offshore areas of Louisiana and Texas, and Australia.



ABOUT THE COVER: Sunrise over Brazos A-39 (Mesa 50%), offshore Texas in the Gulf of Mexico, where testing of several indicated gas-bearing sands is under way.

Photos by Billy R. Pike
Audio-visual supervisor
Mesa Petroleum Co.

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1981 HIGHLIGHTS

- Increased reserves
- All-time high revenues
- Record operating net income
- Assets in excess of $2 billion

ANNUAL MEETING

The annual meeting of shareholders of Mesa Petroleum Co. will be held at One Mesa Square, Amarillo, Texas, at 10:00 a.m. on Wednesday, April 28, 1982.

FORM 10-K

The Company will provide, without charge, a copy of its Form 10-K filed with the Securities and Exchange Commission upon written request from any stockholder to:

The Corporate Secretary
Mesa Petroleum Co.
One Mesa Square
P.O. Box 2009
Amarillo, TX 79189

Highlights

FINANCIAL

	1981	1980	1979	1978	1977
Revenues	$ 407,744,000	$ 372,363,000	$ 282,851,000	$167,235,000	$140,455,000
Net income available for common	$ 106,379,000	$ 95,236,000	$ 54,203,000[a]	$ 41,766,000	$ 38,905,000
Per share—fully diluted[b]	$1.54	$1.38	$.84[a]	$.66	$.64
Funds provided from operations	$ 276,897,000	$ 219,628,000	$ 164,825,000	$114,528,000	$105,147,000
Stockholders' equity	$ 595,445,000	$ 509,775,000	$ 400,181,000	$315,044,000	$277,881,000
Total assets	$2,003,355,000	$1,426,850,000	$1,268,459,000	$974,963,000	$800,210,000

[a]Excludes $231,418,000 ($3.59 per share) from gain on sale of properties.
[b]Adjusted for two-for-one stock splits in 1980 and 1981.

OPERATING

Net production[a]	1981	1980	1979	1978	1977
Natural gas (Mcf)	102,747,976	106,012,863	131,563,555	109,468,435	101,321,157
Natural gas liquids (Bbls)	710,479	740,154	1,376,658	1,451,660	1,458,186
Oil and condensate (Bbls)	3,095,663	3,036,871	3,518,611	3,275,584	3,252,414
Undeveloped acreage					
United States					
Gross	3,381,992	2,715,131	2,372,088	1,464,694	1,663,573
Net	1,588,629	1,284,646	1,635,217	992,833	1,092,187
International[b]					
Gross	6,832,194	1,240,494	648,494	3,808,664	4,542,657
Net	1,530,123	546,660	191,460	1,416,928	1,608,673

[a]Includes production from Mesa's 50% interest in Tema Oil Company from date of acquisition, April 30, 1979. Includes production prior to November 1979 from interests transferred to the Mesa Royalty Trust and production prior to October 1979 from properties sold in Canada.
[b]Excludes Mesa's 12.5% gross overriding royalty interest in undeveloped acreage in Canada in 1981, 1980 and 1979.

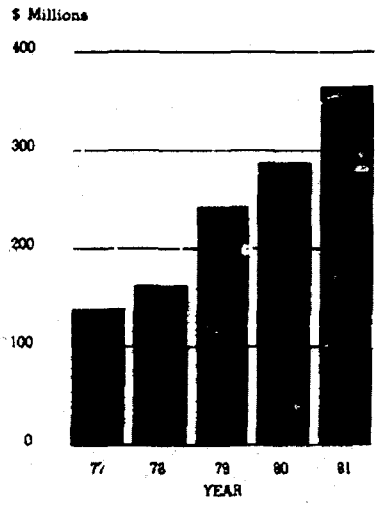
SECURITIES

Mesa Petroleum Co.'s common stock (MSA) is listed for trading on the New York Stock Exchange. The range of high and low quarterly sales prices for the stock and dividends paid for the past two years, as adjusted for the two-for-one stock splits on April 25, 1980, and March 12, 1981, were as follows:

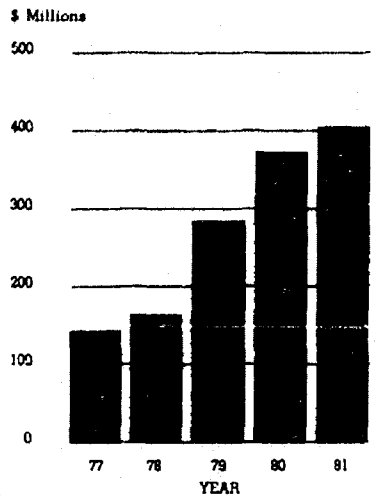
Quarter	High	Low	Dividends
1981			
First	$33¼	$24⅛	$.03
Second	34¼	21⅝	.03
Third	34	17¼	.03
Fourth	24⅝	18¾	.03
1980			
First	$17⅝	$ 9¾	$.0075
Second	20¼	11¼	.015
Third	29⅝	18¾	.015
Fourth	34⅝	24⅛	.015

Number of common shares outstanding at December 31, 1981—66,794,000

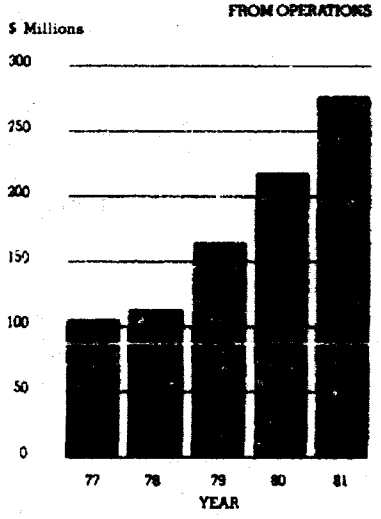
OIL & GAS REVENUES



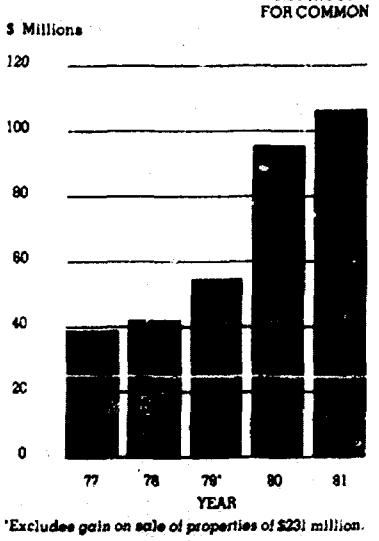
TOTAL REVENUES



FUNDS PROVIDED FROM OPERATIONS

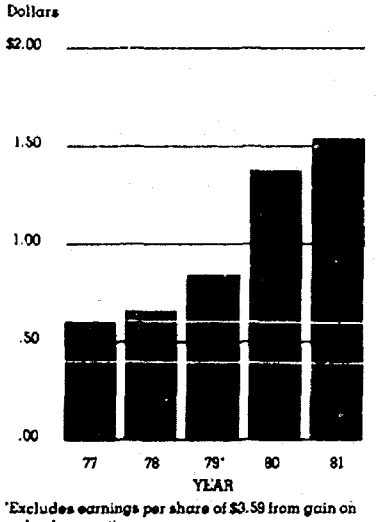


NET INCOME FOR COMMON



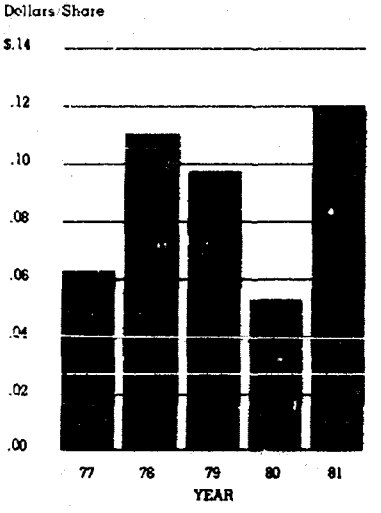
*Excludes gain on sale of properties of $231 million.

EARNINGS PER SHARE

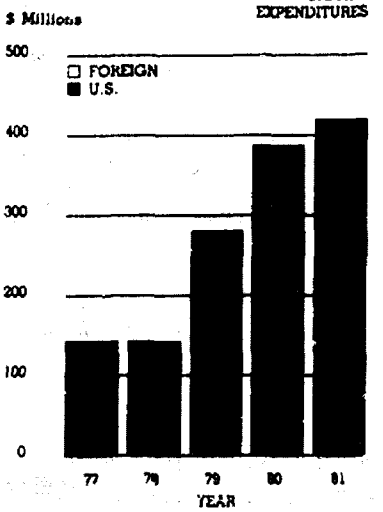


*Excludes earnings per share of $3.59 from gain on sale of properties.

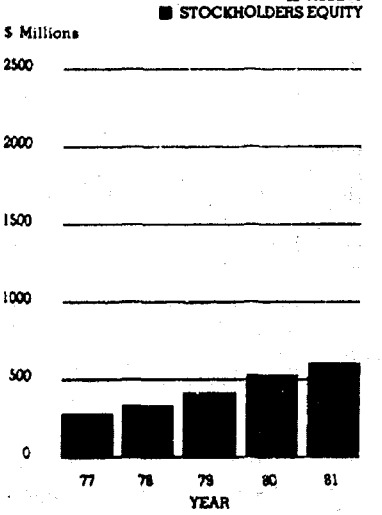
COMMON STOCK DIVIDENDS



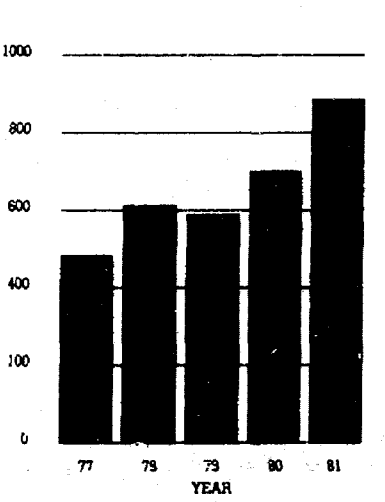
CAPITAL EXPENDITURES



ASSETS
STOCKHOLDERS EQUITY



TOTAL EMPLOYEES



To Our Shareholders

Mesa replaced its production and increased oil and gas reserves during 1981 while achieving record revenues, cash flow and net income from operations.

Reserves at December 31, 1981, were 27.5 million barrels of oil, condensate and natural gas liquids and 919 billion cubic feet of gas, increases of 10% and 7%, respectively, over those for 1980. These quantities do not include oil and gas encountered on 14 offshore tracts currently under development. Total additions to oil, condensate and natural gas liquids reserves from discoveries, extensions and revisions were 6.2 million barrels representing 163% of the Company's 1981 liquids production of 3.8 million barrels. Reserve additions for natural gas of 163 billion cubic feet amounted to 158% of 1981 production of 103 billion cubic feet.

Net income for common shares was $106 million, a 12% increase over $95 million last year. Fully diluted earnings per share were $1.54, a 12% increase over $1.38 per share in 1980. The combined effects of foreign exchange adjustments and gains on sale of marketable securities increased net income by $2.4 million ($.03 per share) in 1981 and $6.5 million ($.09 per share) in 1980.

Oil and gas revenues increased 27% to $366 million compared to $288 million in 1980. This is the fifteenth consecutive year that the Company's oil and gas revenues have exceeded those for the preceding year. Total revenues for 1981 were $408 million, a 10% increase over $372 million last year.

Net daily production for 1981 was 8,481 barrels of oil and condensate, 282 million cubic feet of natural gas and 1,947 barrels of natural gas liquids compared to 8,297 barrels, 290 million cubic feet and 2,022 barrels, respectively, in 1980. The higher oil production primarily resulted from increased production in the Rocky Mountain division. The reductions in natural gas and natural gas liquids production were due to lower pipeline takes from the Hugoton field of Kansas.

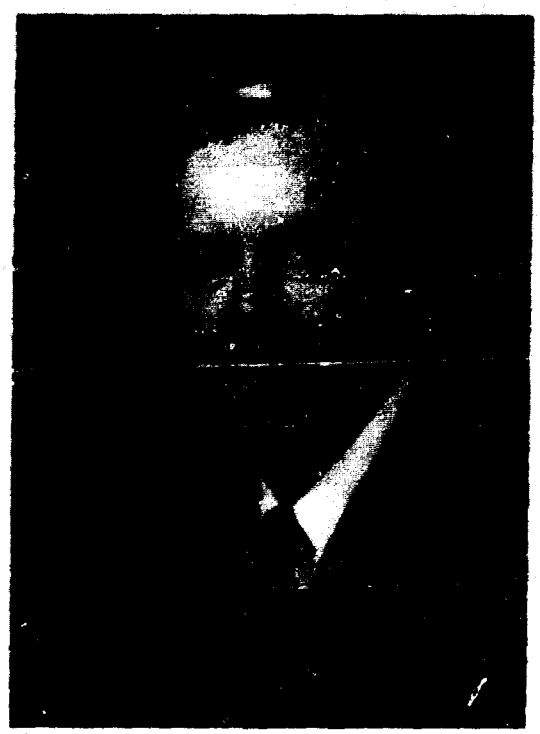
Capital expenditures in 1981 totaled $420 million compared to $397 million in 1980 which included $145 million for interests acquired in 27 federal and state offshore tracts. The major categories of expenditures in 1981 were $37 million for acreage acquisitions, $141 million for exploratory drilling, $146 million for development drilling and $79 million for facilities and offshore platforms. The increase in 1981 expenditures resulted from continued intensive exploration and development in the Gulf of Mexico and major onshore exploratory areas. The Company participated in drilling 387 gross wells (182 net) with an overall net drilling success of 74%.

Mesa funded a portion of its 1981 capital expenditures by issuing $210 million of 7% cumulative preferred stock to Texaco Inc. and Sequoia Ventures Inc. The preferred stock will be redeemed in installments from 1982 through 1986.

At year end, Mesa had a 28.5% average interest in 51 platforms offshore Louisiana and Texas of which 37 were

on production and 14 were in various stages of development. Seven additional platforms are expected to be installed during 1982. Production should commence during the year from 14 of these platforms, giving Mesa a 28.4% average interest in 58 platforms by year-end 1982, of which 51 should be on production.

Under current pricing provisions of the Natural Gas Policy Act of 1978, the industry average wellhead price for gas is approximately $2 per Mcf which represents, on an equivalent heating value (BTU) basis, only 38% of the deregulated price for oil. Without regulation, natural gas should sell at a price in excess of that for oil because of its nonpolluting properties and ease of delivery. As long as current price restrictions exist, the nation's natural gas resources will be exploited, and conservation will not be achieved. The present ample supply of natural gas provides a favorable environment for deregulation. Decontrol of natural gas prices would provide increased revenues for exploration which would reduce the nation's dependence on foreign energy supplies and provide funds for development of alternate sources of energy. Decontrol would also reduce federal government deficits through additional income taxes and royalties of over $25 billion per year.



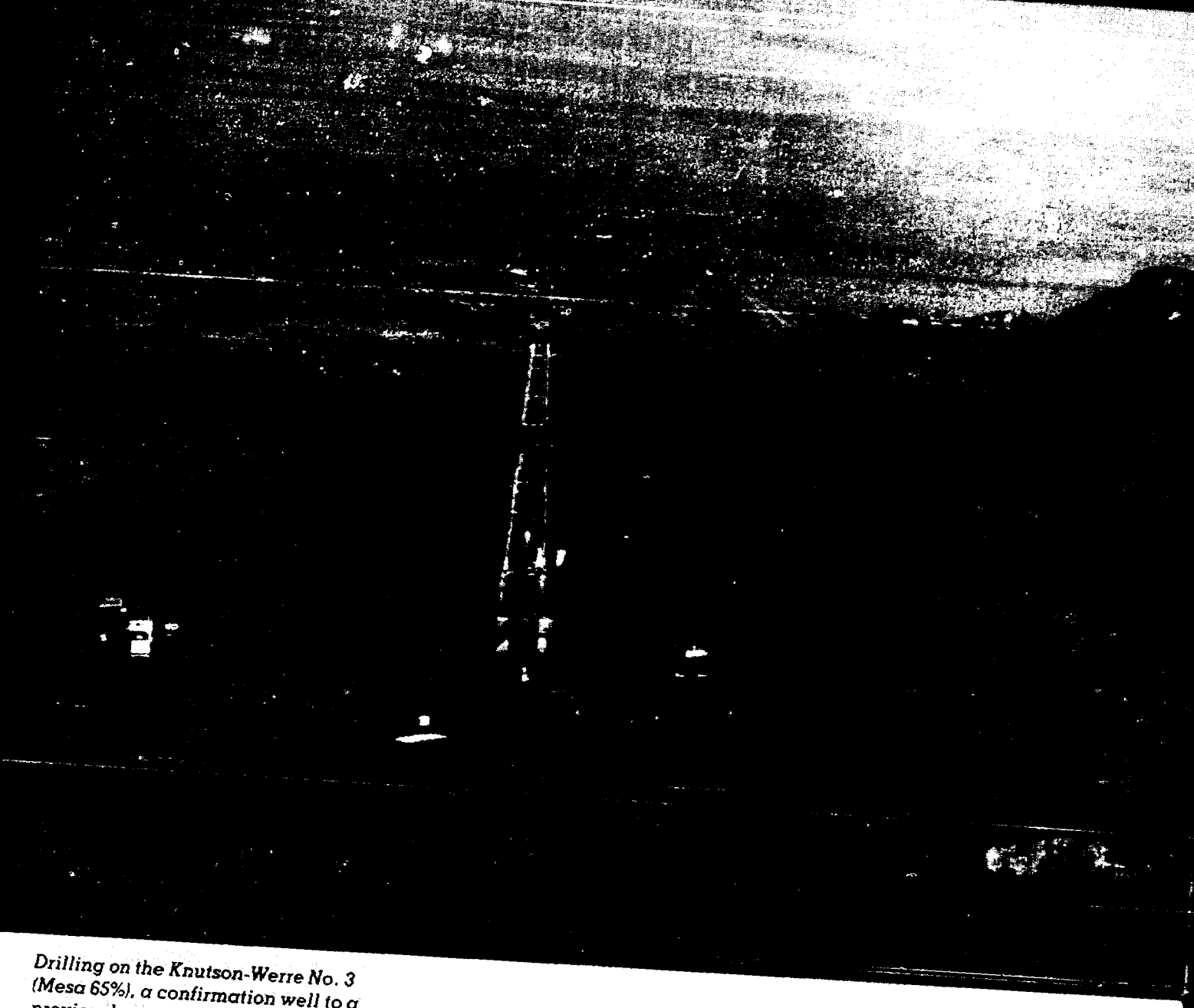
Mesa's capital expenditures have exceeded its net income each year since inception of the Company in 1964 resulting in consistent increases in its oil and gas revenues and reserves. The Company remains committed to the replacement and enhancement of its reserves, the depletable assets of the shareholders. Accordingly, expenditures must be large enough to sustain acreage purchases and intensive exploration and development. The Company's 1982 capital budget of an estimated $350 million will provide for continued aggressive operations. Oil and gas assets are currently undervalued in the security markets as a result of softening world crude oil prices and the temporary oversupply of domestic natural gas; however, the nation's dependence on imports for approximately 35% of its crude oil requirements underscores the inherent long-term value of domestic oil and gas reserves and the importance of their replacement.

Mesa's emphasis on exploration and development will help ensure continued reserve growth and increased oil and gas revenues for 1982. In addition, the Company will actively evaluate and pursue opportunities to enhance its shareholders' investment through acquisitions and financial innovations.

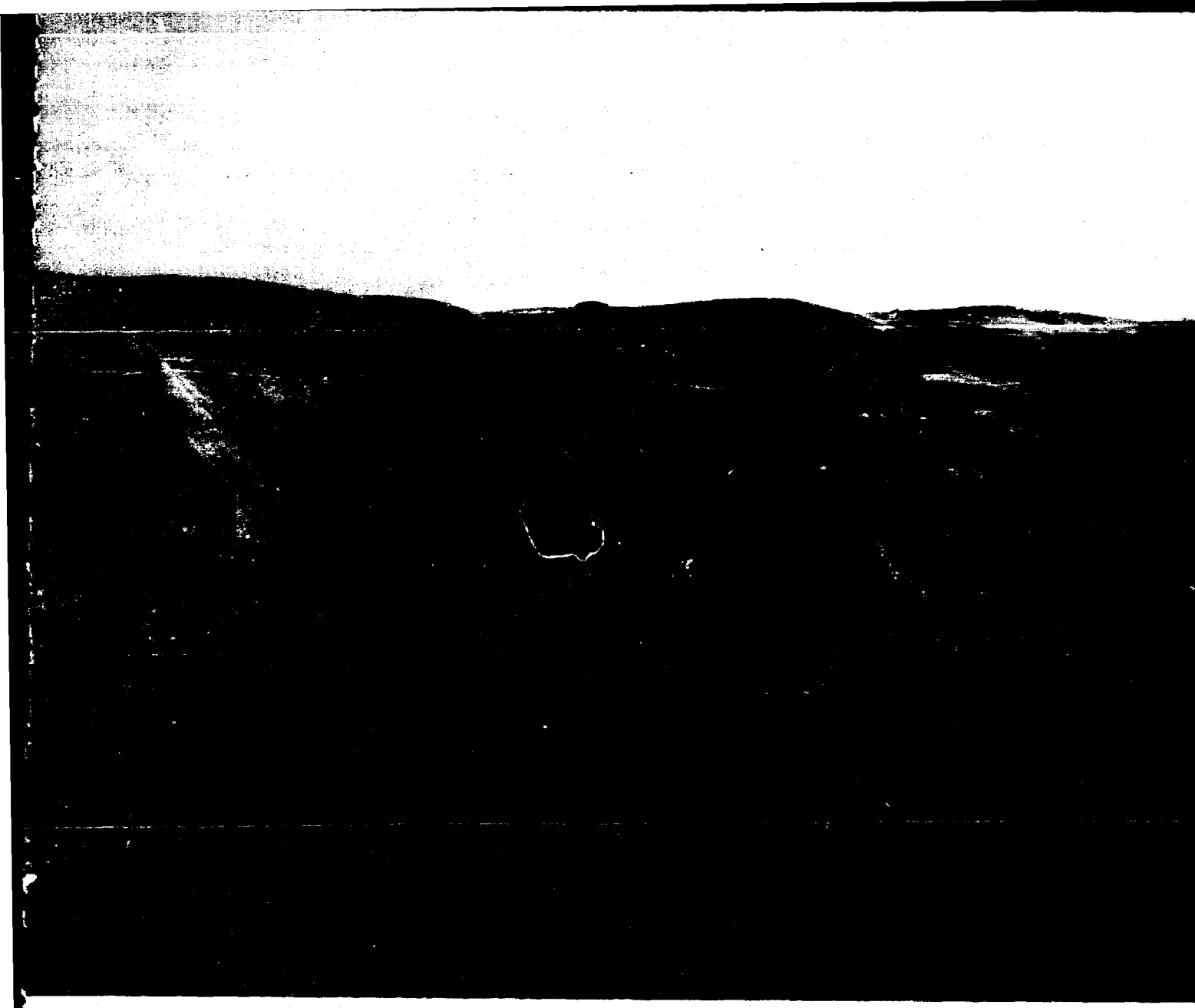
Sincerely,

T. Boone Pickens, Jr.
President and Chairman of the
Board of Directors

March 4, 1982



Drilling on the Knutson-Werre No. 3 (Mesa 65%), a confirmation well to a previously announced discovery in the Williston Basin of Dunn County, North Dakota.



Exploration and Development

Mesa's U.S. undeveloped acreage totaled 1.6 million net acres at December 31, 1981, compared to 1.3 million net acres in 1980, a 23% increase. The purchase of additional acreage in the Pecos Slope area of eastern New Mexico and in the Rocky Mountain region account for most of the increase. The Company's total undeveloped acreage reached 3.1 million net acres at year end, a 72% increase over 1.8 million acres in 1980, due primarily to the acquisition of approximately one million net acres in Australia.

The Company participated in drilling 385 gross wells (181.4 net) in the U.S. during 1981 compared to 215 gross wells (116.0 net) during 1980. This record level of activity resulted in a net drilling success of 74% for 1981, consisting of 48% for exploratory and 81% for development wells. At year-end 1981, Mesa was participating in the drilling of 51 gross (15.7 net) wells in the U.S. and 5 gross (.75 net) wells in Australia.

Statistics

DRILLING ACTIVITY

	United States[a]		Australia		Canada		United Kingdom	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1981								
Exploratory wells								
Productive	42	18.2	1	.3	—	—	—	—
Dry	43	19.7	2	.4	—	—	—	—
Development wells								
Productive	248	116.2	—	—	—	—	—	—
Dry	52	27.3	—	—	—	—	—	—
Total	385	181.4	3	.7	—	—	—	—
1980								
Exploratory wells								
Productive	27	16.6	—	—	—	—	—	—
Dry	24	15.0	2	1.5	—	—	—	—
Development wells								
Productive	147	75.8	—	—	—	—	—	—
Dry	17	8.6	—	—	—	—	—	—
Total	215	116.0	2	1.5	—	—	—	—
1979								
Exploratory wells								
Productive	43	23.9	—	—	20	7.9	—	—
Dry	21	17.5	—	—	13	6.6	—	—
Development wells								
Productive	117	49.8	—	—	34	21.5	3	.8
Dry	36	17.9	—	—	4	1.5	—	—
Total	217	109.1	—	—	71	37.5	3	.8
1978								
Exploratory wells								
Productive	18	10.9	—	—	25	10.2	2	.6
Dry	9	6.4	—	—	6	3.6	2	.4
Development wells								
Productive	161	79.5	—	—	71	42.4	1	.3
Dry	33	12.2	—	—	26	15.3	—	—
Total	221	109.0	—	—	128	71.5	5	1.3

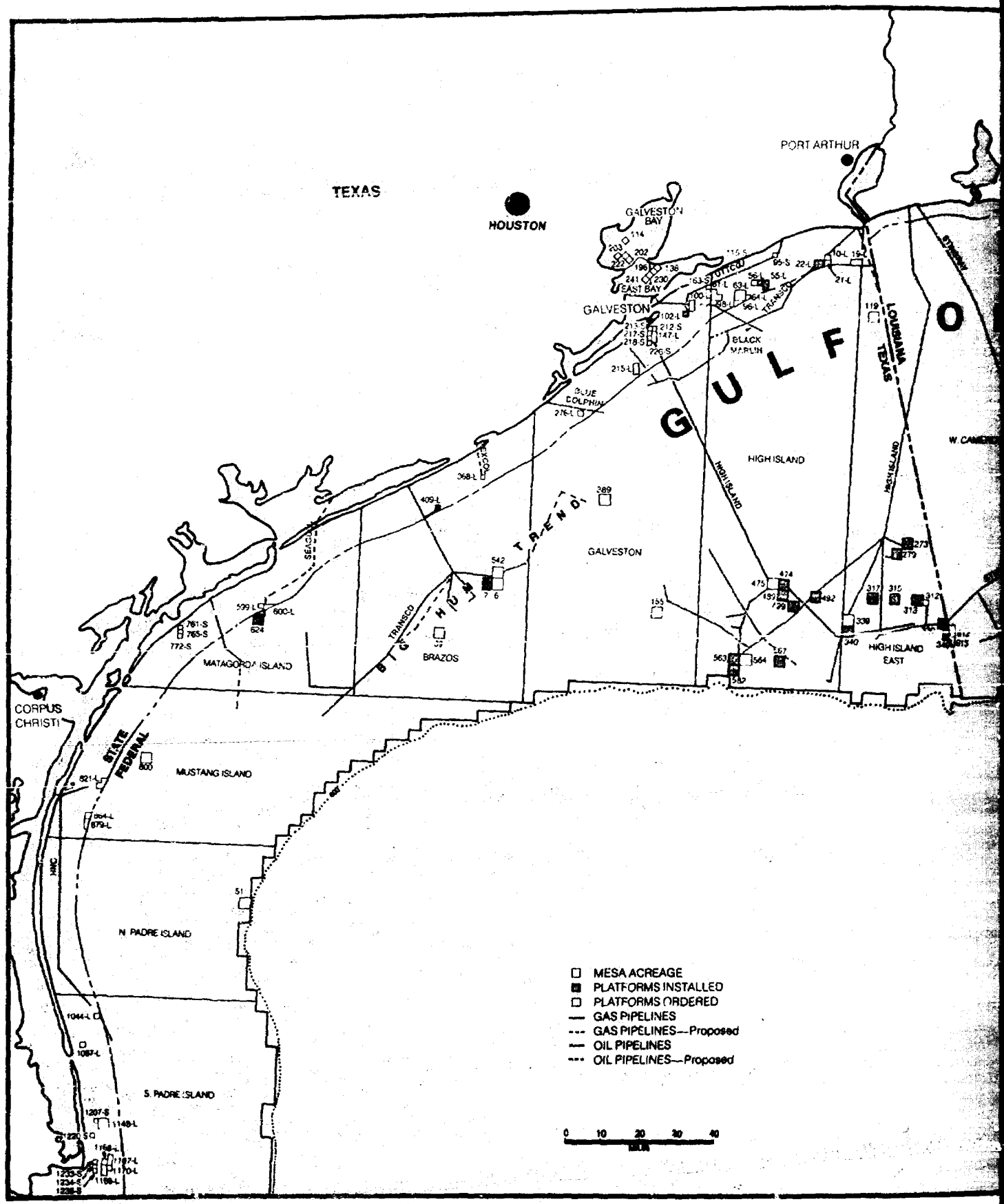
[a]Excludes preplatform expendable wells offshore of 21 gross (8.0 net) in 1981, 33 gross (11.4 net) in 1980, 24 gross (10.0 net) in 1979 and 21 gross (6.9 net) in 1978.

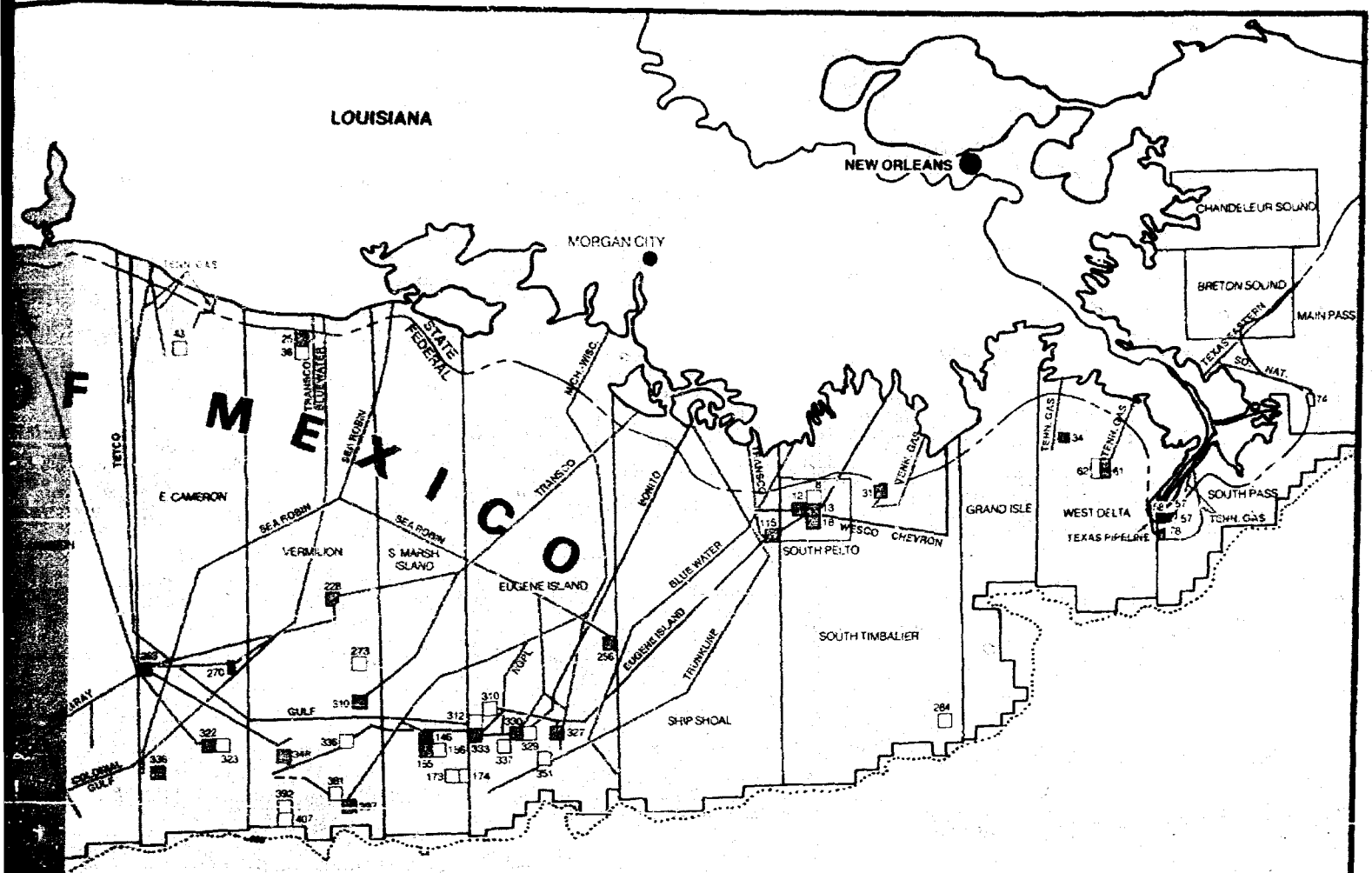
UNDEVELOPED ACREAGE

As of December 31

	1981		1980	
	Gross	Net	Gross	Net
Onshore U.S.				
Arizona	124,658	81,028	2,862	1,861
Colorado	82,881	46,240	56,464	33,854
Florida	124,901	65,899	244,440	98,711
Idaho	63,474	41,258	—	—
Kansas	533,058	226,559	556,790	238,059
Louisiana	38,792	15,323	26,132	8,887
Michigan	729	474	729	474
Montana	115,736	60,971	109,138	56,234
Nebraska	293,014	146,060	291,023	144,383
Nevada	102,627	66,641	83,177	54,037
New Mexico	799,506	289,210	390,493	153,191
North Dakota	219,011	94,283	174,658	84,217
Oklahoma	67,203	15,695	37,983	9,733
South Dakota	19,075	11,664	16,478	9,734
Texas	273,561	144,353	214,714	127,273
Utah	110,931	72,158	110,158	71,582
Wyoming	148,614	86,012	143,082	85,280
	3,117,771	1,463,818	2,458,321	1,177,500
Offshore U.S.				
Louisiana	102,781	43,965	110,429	49,961
Texas	161,440	80,846	146,381	57,165
	264,221	124,811	256,810	107,146
Total U.S.	3,381,992	1,588,629	2,715,131	1,284,646
International[a]				
Australia	6,478,100	1,491,825	886,400	502,400
German North Sea	354,094	38,298	354,094	44,280
	6,832,194	1,530,123	1,240,494	546,680
Total	10,214,186	3,118,752	3,955,625	1,831,326

[a]Excludes Mesa's 12.5% gross overriding royalty interest in approximately 1 million net undeveloped acres in Canada.

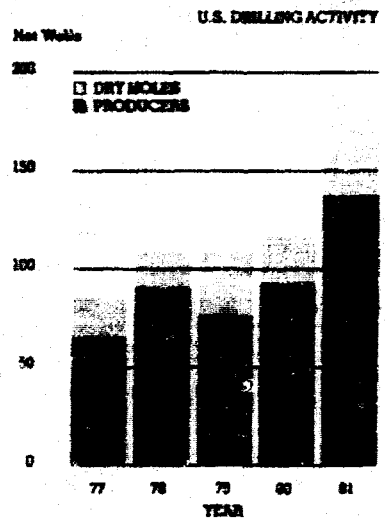

TEXAS
HOUSTON
PORT ARTHUR
GALVESTON BAY
EAST BAY
GALVESTON
BLACK MARLIN
BLUE DOLPHIN
GULF
LOUISIANA
TEXAS
HIGH ISLAND
HIGH ISLAND
HIGH ISLAND EAST
W. CAMERON
GALVESTON
BRAZOS
MATAGORDA ISLAND
MUSTANG ISLAND
N. PADRE ISLAND
S. PADRE ISLAND
CORPUS CHRISTI
STATE
FEDERAL
TRANSCO
TEXAS TRANSCO
SEACOR
HNG
MESA ACREAGE
PLATFORMS INSTALLED
PLATFORMS ORDERED
GAS PIPELINES
GAS PIPELINES—Proposed
OIL PIPELINES
OIL PIPELINES—Proposed
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MILES

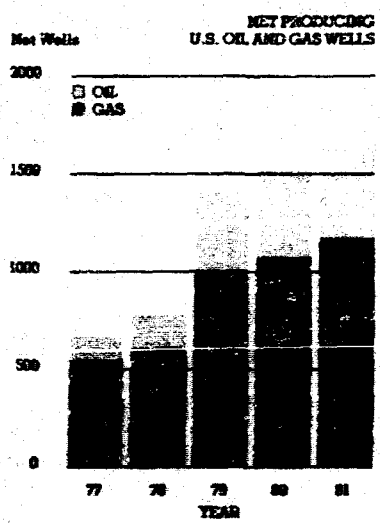


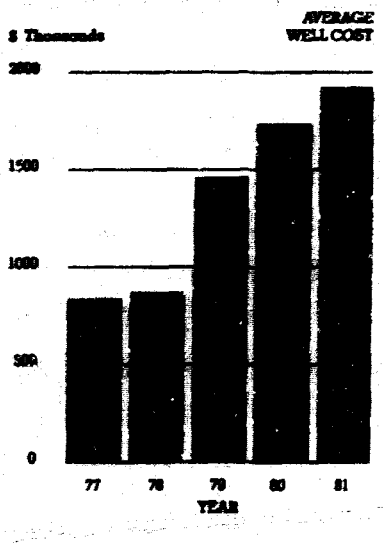
STATUS OF OFFSHORE PLATFORMS

As of December 31

	1981			1980		
	Number	Average Interest	Tracts Involved	Number	Average Interest	Tracts Involved
Platforms installed and producing	37	24.7%	41	35	24.0%	39
Platforms installed and development in progress	14	38.7%	18	9	30.8%	12
Platforms ordered or planned but not yet installed	7	27.3%	10	12	43.3%	14
Total	58	28.4%	69	56	29.2%	65







Gulf Coast Division

At December 31, 1981, Mesa had a 35.2% average interest in 75 federal offshore tracts and a 56.7% average interest in 73 state offshore tracts. The Company purchased interests averaging 61.3% in two federal tracts and 65% in nine state tracts offshore Texas and Louisiana during 1981 for lease bonuses totaling $8.3 million.

The Gulf Coast division drilled 76 gross wells (32.7 net) during 1981 of which 54 were producers (20.0 net) for a 61% net drilling success. A record 16 rigs were drilling in the division at year end, including 12 offshore.

Seven offshore platforms were installed during 1981, and development drilling has commenced on six. Production began from two platforms during the year, bringing to 37 the total on production. Fourteen additional platforms should commence production during 1982, giving Mesa a 29.9% average interest in 51 platforms on production by year-end 1982 of which 14 will be operated by Mesa.

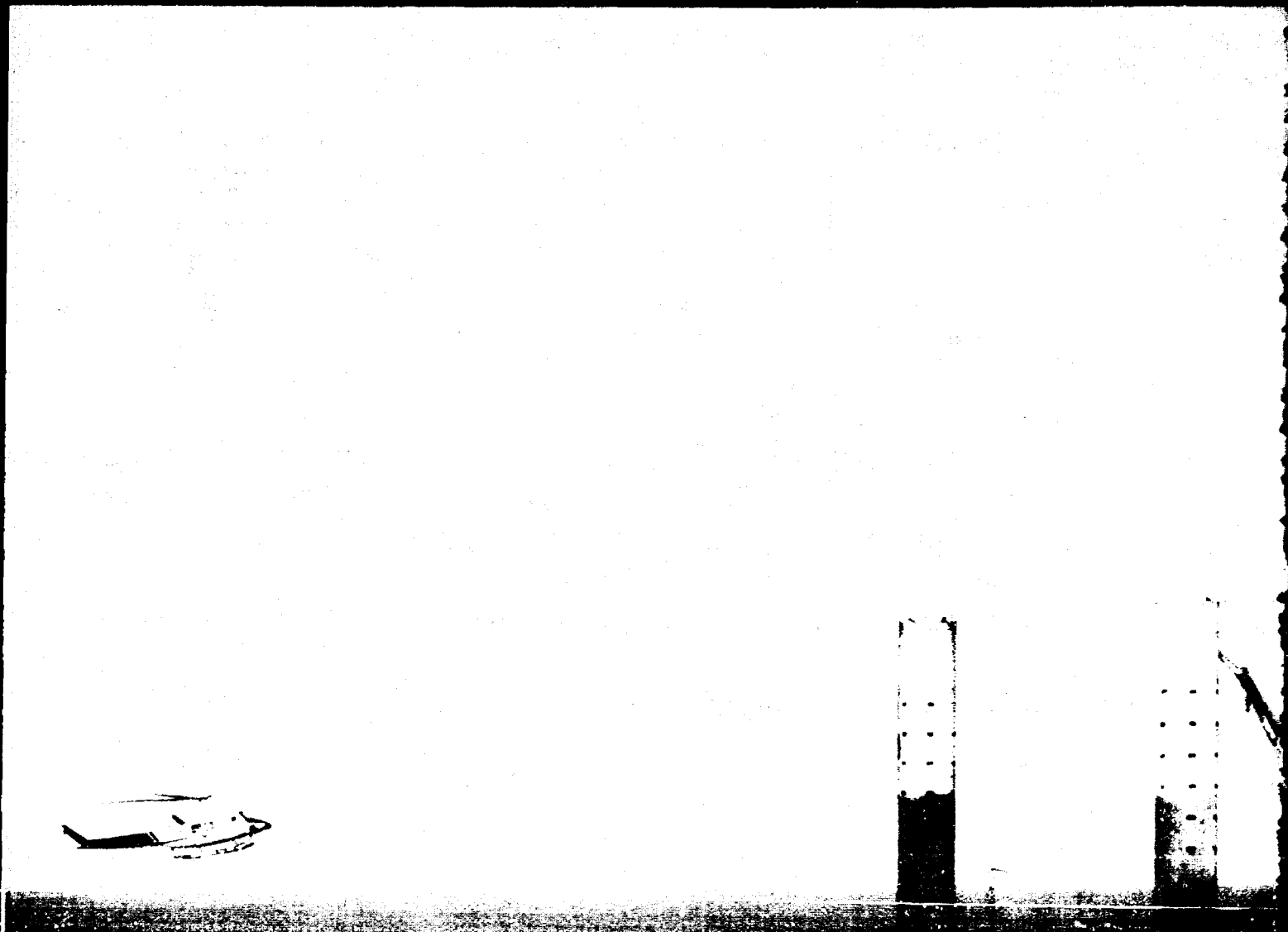
A summary of significant 1981 activities in the Gulf Coast division follows. (See map and tables on pages 9-12.)

South Pass—On state Tract 57/58 (Mesa 33.3%), 12 development wells, including one well to federal Block 57 (Mesa 33.3%), will commence production in mid-1982 at an expected combined daily rate of 60 million cubic feet of gas. On federal Block 78 (Mesa 25%), 12 development wells have been drilled. Production from four wells began in April at a daily rate of 85 million cubic feet of gas. These wells were shut-in during the fourth quarter of 1981 for installation of permanent production facilities. Production will resume during the first quarter of 1982 from the 12 wells at an estimated daily rate of 150 million cubic feet of gas and 1,500 barrels of oil.

South Pelto—Platforms were installed on Blocks 12 (Mesa 37.8%) and 18 (Mesa 26.2%), and two wells have been drilled and completed from each platform. Production is expected to commence from the four wells at a combined daily rate of 55 million cubic feet of gas and 500 barrels of condensate in the third quarter of 1982 when pipeline construction is completed.

Eugene Island—Block 329 (Mesa 22.5%) will be developed from a platform to be installed on an adjacent tract in mid-1982. In the third quarter of 1982, 12-well platforms will be set on Blocks 337 (Mesa 4.9%) and 351 (Mesa 16.3%). Development and completion operations will continue through 1983, and production should commence from these platforms in 1984.

South Marsh Island—On Blocks 155/156 (Mesa 70%), a 24-well platform was installed in May 1981. Five successful wells have been drilled, and development drill-



SUMMARY OF FEDERAL OFFSHORE LEASES
AS OF DECEMBER 31, 1981

Area and Block	Date of Lease Sale	Mesa's Working Interest(1) %	Gross Wells Drilled or Drilling: Exploratory	Gross Wells Drilled or Drilling: Development	Platforms Installed or Ordered	Expected Date of Production
Brazos						
6	7-75	65.0	2	—	—	—
7	11-80	50.0	1	1	1 Installed	1982
39	11-80	50.0	1	—	1 Ordered	—
542	7-75	65.0	3	—	—	—
East Cameron						
43	9-80	100.0	—	—	—	—
263*	7-75	20.0	2	15	1 Producing	—
270*	12-70	5.9	3	23	2 Producing	—
322*	12-72	52.0	5	11	1 Producing	—
323*	12-72	52.0	7	8	(2)	—
336*	11-76	5.0	5	6	1 Installed	1982
Eugene Island						
256*	12-70	16.8	3	7	1 Producing	—
310	11-76	65.0	5	—	—	—
312*	3-74	13.2	3	6	(2)	—
327*	10-74	11.5	5	12	1 Producing	—
329	10-74	22.5	5	—	(2)	—
330*	12-70	5.0	8	59	3 Producing	—
333*	12-72	13.3	3	21	2 Producing	—
337	2-76	4.9	3	—	1 Ordered	—
351	11-78	16.3	2	—	1 Ordered	—
Galveston						
155	7-79	32.5	2	—	—	—
389	11-79	65.0	—	—	—	—
High Island						
119	7-81	91.7	—	—	—	—
273*	9-73	16.9	3	3	1 Producing	—
275*	9-73	15.0	3	15	1 Producing	—
312 (SW)*	Farm-in	30.7	—	1	(2)	—
313*	6-73	30.7	4	6	1 Producing	—
315	7-74	100.0	6	6	1 Installed	1982
317*	6-73	12.3	5	19	1 Producing	—
330*	6-73	18.4	5	14	1 Producing	—
339*	5-74	25.0	1	13	(2)	—
340*	6-73	25.0	3	12	1 Producing	—
349*	5-74	20.0	2	9	1 Producing	—
474*	6-73	15.0	5	15	1 Producing	—
475*	Farm-in	15.0	1	1	(2)	—
489*	6-73	15.0	4	28	1 Producing	—
492*	7-75	20.0	4	11	1 Producing	—
498	2-75	16.4	1	4	1 Installed	1982
563*	6-73	5.7	3	30	1 Installed	1982
564*	6-73	5.7	1	4	(2)	—
567	5-74	50.0	6	11	1 Installed	1982
582	5-74	6.7	3	5	1 Installed	1983
Main Pass						
74	5-75	24.8	3	—	1 Ordered	—
Matagorda Island						
624*	2-76	32.5	1	1	1 Installed	1982
Mustang Island						
800	11-80	100.0	—	—	—	—
North Padre Island						
51	7-81	40.8	—	—	—	—
Ship Shoal						
115*	3-74	20.0	—	2	1 Producing	—
South Marsh Island						
146*	3-74	16.0	5	9	1 Producing	—
155*	7-79	70.0	2	2	1 Installed	1982
156*	11-79	70.0	1	5	(2)	—
173	10-74	5.4	7	—	1 Ordered	—
174	10-74	5.4	7	—	(2)	—
South Pass						
57*	11-76	33.3	—	2	(2)	—
78*	9-72	25.0	3	12	1 Producing	—
South Pelto						
8*	6-77	25.0	1	5	(2)	—
12*	6-77	37.6	4	—	1 Installed	1982
13*	5-75	25.0	3	7	2 Producing	—
18*	6-77	26.2	4	—	1 Installed	1982
South Timbalier						
31*	3-74	15.0	3	1	1 Producing	—
284	9-80	100.0	—	—	—	—
Vermilion						
25*	11-76	4.7	6	11	1 Producing	—
36*	7-79	4.7	3	1	(2)	—
228*	12-70	43.3	5	6	1 Producing	—
273	11-79	48.8	5	—	—	—
310*	11-76	5.0	3	33	2 Producing	—
336	9-80	100.0	—	—	—	—
348*	Farm-in	75.0	1	8	1 Installed	1982
381	11-79	80.0	2	—	1 Ordered	1982
392	2-76	10.0	2	—	1 Ordered	—
397*	5-75	60.0	5	15	1 Producing	—
407	5-75	40.0	4	—	(2)	—
West Cameron						
612*	3-74	18.4	1	6	(2)	—
613*	7-75	18.4	—	5	(2)	—
West Delta						
34*	11-76	5.0	2	5	1 Producing	—
61*	5-75	100.0	4	5	1 Producing	—
62*	6-77	100.0	3	4	(2)	—
Total Federal Leases		55.2 avg.	220	522	53	

SUMMARY OF STATE OFFSHORE LEASES
AS OF DECEMBER 31, 1981

Area and Block	Date of Lease Sale	Mesa's Working Interest(1) %	Gross Wells Drilled or Drilling: Exploratory	Gross Wells Drilled or Drilling: Development	Platforms Installed or Ordered	Expected Date of Production
Brazos			—	—	—	—
388-L (SE)	2-79	65.0	1	1	1 Producing	—
408-L (SE)*	Farm-in	38.3				
East Bay			—	—	—	—
138	4-80	65.0	—	—	—	—
198	4-80	65.0	—	—	—	—
200	4-81	65.0	—	—	—	—
241	4-80	65.0	—	—	—	—
Galveston			1	—	—	—
100-L (NW)	10-76	100.0	—	—	—	—
100-L (SW)	10-76	100.0	3	1	1 Producing	—
102-L (NE)*	10-76	65.0	—	—	—	—
147-L (NW)	10-79	65.0	—	—	—	—
147-L (SW)	6-77	32.5	—	—	—	—
163-S	10-79	65.0	—	—	—	—
212-S	10-79	65.0	—	—	—	—
213-S	2-79	65.0	—	—	—	—
215-L (NW)	10-80	65.0	—	—	—	—
215-L (SW)	10-76	65.0	—	—	—	—
217-S	10-76	65.0	1	—	—	—
218-S	10-79	65.0	—	—	—	—
228-S	10-80	65.0	—	—	—	—
276-L (SE)			—	—	—	—
Galveston Bay			—	—	—	—
114	4-81	65.0	—	—	—	—
202	10-81	65.0	—	—	—	—
203	4-81	65.0	—	—	—	—
222	4-81	65.0	—	—	—	—
High Island			3	—	—	—
10-L (SW)	10-76	20.0	—	—	—	—
19-L (NE)	6-77	32.5	—	—	—	—
19-L (NW)	10-77	32.5	—	—	—	—
21-L (NW)	10-79	20.0	4	4	1 Producing	—
22-L*	4-70	88.4	—	1	(2)	—
55-L (NE)	6-77	32.5	1	—	1 Installed	1982
55-L (NW)*	6-77	32.5	—	—	—	—
56-L (SE)	6-77	32.5	—	—	—	—
56-L (NE)	2-79	32.5	—	—	—	—
61-L (NW)	6-77	32.5	—	—	—	—
61-L (SE)	6-77	32.5	—	—	—	—
61-L (SW)	6-77	32.5	—	—	—	—
63-L (NE)	6-78	65.0	—	—	—	—
63-L (NW)	6-78	65.0	—	—	—	—
63-L (SE)	6-78	65.0	—	—	—	—
63-L (SW)	6-78	65.0	—	—	—	—
64-L (SW)	10-80	65.0	—	—	—	—
95-S	6-77	32.5	—	—	—	—
96-L (NE)	6-78	65.0	—	—	—	—
96-L (NW)	6-78	65.0	—	—	—	—
115-S	10-79	32.5	—	—	—	—
	10-80	65.0	—	—	—	—
Matagorda Island			—	—	—	—
588-L (NE)	6-78	16.3	—	—	—	—
600-L (NE)	6-78	16.3	—	—	—	—
600-L (NW)	6-78	16.3	—	—	—	—
600-L (SW)	6-78	16.3	—	—	—	—
781-S	10-81	65.0	—	—	—	—
786-S	2-79	65.0	—	—	—	—
772-S	2-79	65.0	—	—	—	—
Mustang Island			—	—	—	—
821-L (NE)	10-80	65.0	—	—	—	—
821-L (SE)	10-80	65.0	—	—	—	—
821-L (SW)	10-80	65.0	—	—	—	—
864-L (SW)	2-79	65.0	—	—	—	—
878-L	2-79	65.0	—	—	—	—
South Padre Island			—	—	—	—
1044-L (SE)	4-80	65.0	—	—	—	—
1067-L (NW)	4-81	65.0	—	—	—	—
1148-L	10-81	65.0	—	—	—	—
1167-L (NW)	10-80	65.0	—	—	—	—
1167-L (SW)	10-80	65.0	—	—	—	—
1168-L (SE)	10-80	65.0	—	—	—	—
1169-L (NE)	10-80	65.0	—	—	—	—
1186-L (SE)	10-80	65.0	—	—	—	—
1170-L (NW)	10-80	65.0	—	—	—	—
1207-S	10-81	65.0	—	—	—	—
1230-S	10-80	65.0	—	—	—	—
1233-S	10-80	65.0	—	—	—	—
1234-S	10-80	65.0	—	—	—	—
1238-S	10-80	65.0	—	—	—	—
South Pass	5-74	33.3	3	14	1 Installed	1982
57/58*		58.7 avg.	17	21	5	
Total State Leases						

(1) The federal government usually has a 1/6th royalty interest in offshore tracts.
The state government usually has a 1/5th royalty interest in offshore tracts.
(2) Development wells are drilled from platforms on adjoining tracts.
*The reserves from this tract are included in the 1981 Net Proved Reserves table on page 28.



ing is continuing. Production is expected to begin in the third quarter of 1982 at a daily rate of 2,000 barrels of oil and 15 million cubic feet of gas. On Blocks 173/174 (Mesa 5.4%), a 24-well platform is scheduled for installation in the second quarter of 1982 with initial production expected in 1984.

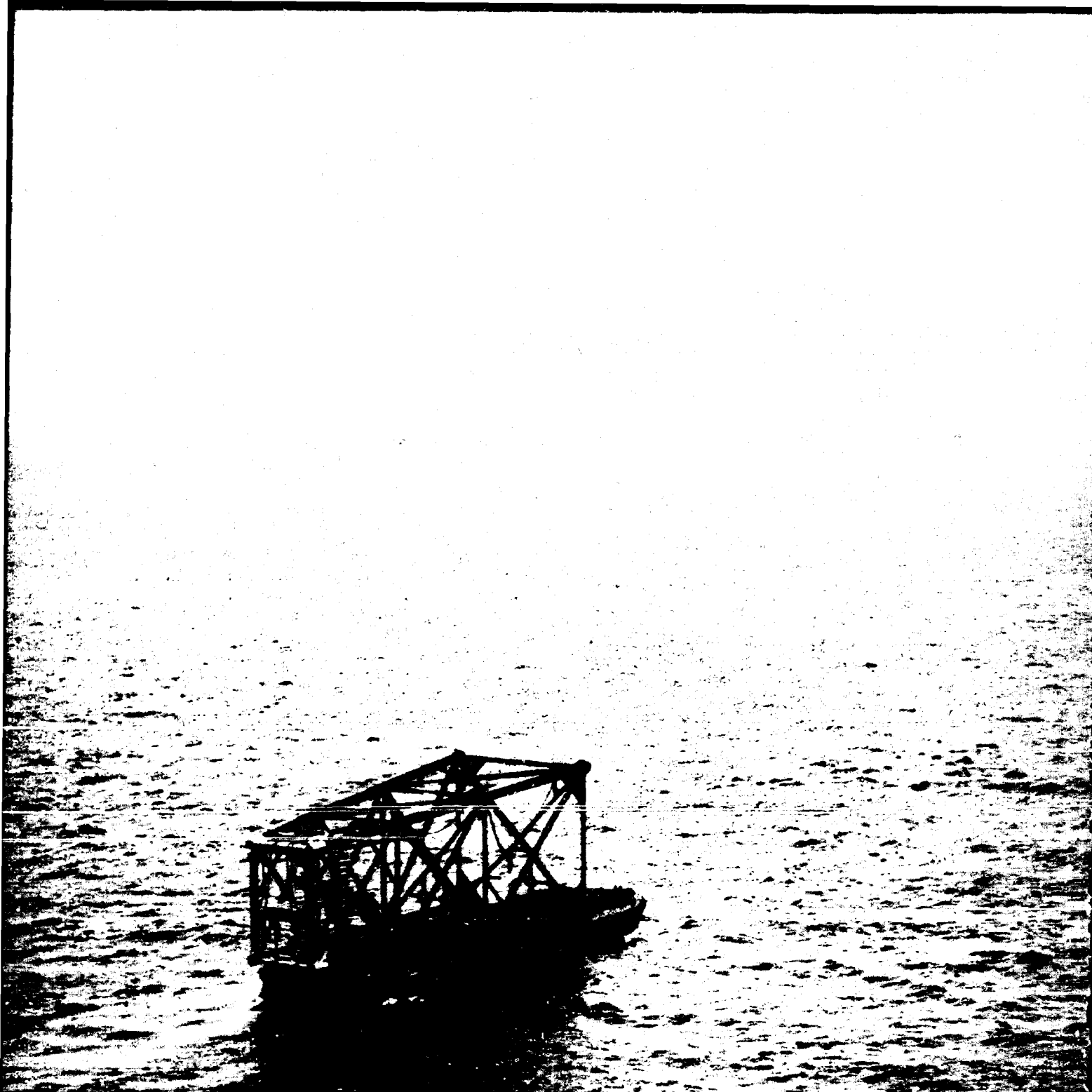
Vermilion—On Block 25 (Mesa 4.7%), 14 wells are currently producing at a combined daily rate of 190 million cubic feet of gas and 3,200 barrels of condensate. Three of these wells were completed below 15,000 feet, qualifying the gas from these wells for deregulated prices. On Block 348 (Mesa 75%), where a blowout occurred in 1980, production commenced from one well in February 1982. The remaining seven wells will commence production throughout 1982. The eight wells are expected to produce at a combined daily rate of 25 million cubic feet of gas and 500 barrels of oil.

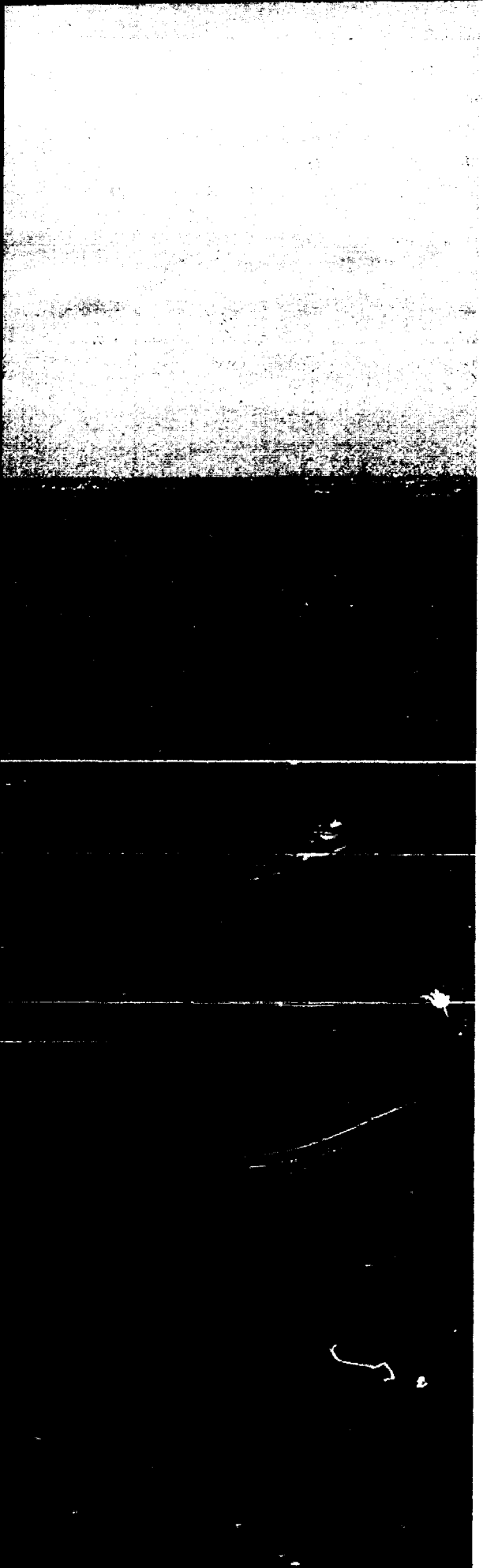
A 24-well platform was installed on Block 381 (Mesa 80%) during the first quarter of 1982. Development drilling is under way, and production should commence during the third quarter of 1982. On Block 397 (Mesa 60%), production began in October 1981 from six wells which are currently producing at a combined daily rate of 21 million cubic feet of gas and 650 barrels of condensate. Five additional development wells have been completed and will commence production when pipeline capacity is increased. The 11 wells have a potential daily rate of 60 million cubic feet of gas and 2,300 barrels of oil and condensate. Drilling continues from this 24-well platform. A 9-well platform will be installed on Block 392 (Mesa 10%) in the third quarter of 1982 with initial production expected in 1984. These three platforms are in water depths exceeding 300 feet.

East Cameron—Six development wells have been drilled on Block 336 (Mesa 5%), and production is expected to begin in the third quarter of 1982 at an estimated daily rate of 20 million cubic feet of gas.

High Island—On state Tract 55-L (Mesa 32.5%), a 4-well platform was installed in September 1981, and development drilling is underway. Production from the discovery well is expected to commence in the second quarter of 1982 at a daily rate of 3 million cubic feet of gas. An 18-well platform was installed on Block 315 (Mesa 100%) in June 1981. Four development wells are expected to commence production at a combined daily rate of 25 million cubic feet of gas in mid-1982, and development drilling continues. On Block 499 (Mesa 16.4%), four development wells have been drilled from a 9-well platform. Production is expected to begin in the second quarter of 1982 from three wells at a daily rate of 25 million cubic

Drilling operations on Brazos A-7 (Mesa 50%) offshore Texas in the Miocene "Big hum" trend.





feet of gas. Additional wells will be placed on production throughout 1982 as development drilling continues.

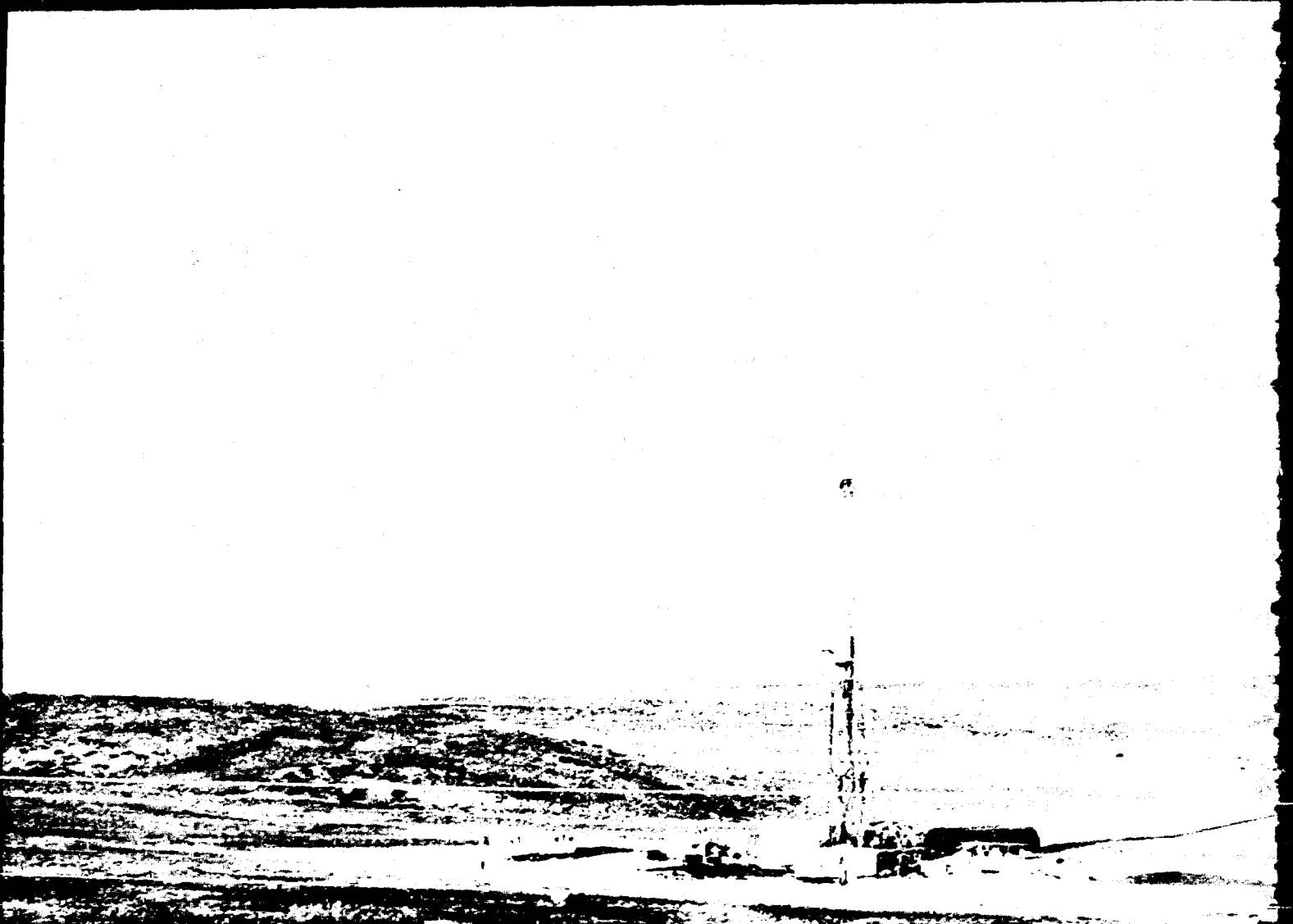
Twenty-two successful development wells have been drilled from a 24-well platform on Blocks 563/564 (Mesa 5.7%). On adjacent Block 582 (Mesa 6.7%), eight wells have been drilled from an 18-well platform, including three to Block 563. Development drilling continues from both platforms. Production should commence from Blocks 563/564 in mid-1982 at an estimated combined daily rate of 75 million cubic feet of gas and 5,000 barrels of oil and condensate. Production is scheduled to begin from the platform on Block 582 in 1983. On Block 567 (Mesa 50%), seven development wells have been completed, and production should begin in the fourth quarter of 1982 at a daily rate of 30 million cubic feet of gas.

Brazos—Exploratory drilling began during 1981 in the Miocene "Big hum" trend on Blocks A-6 (Mesa 65%), A-7 (Mesa 50%) and A-39 (Mesa 50%). Well No. 2 on Block A-6 was plugged and abandoned after encountering mechanical problems below 15,000 feet. Additional drilling on Block A-6 depends on drilling results on adjacent tract A-7. A 4-well platform has been installed over well No. 1 on Block A-7, a previously announced gas discovery. Well logs indicate a total of 78 net feet of gas pay in three sands between 12,300 and 13,300 feet. Well No. 2 is presently drilling below 12,000 feet. Initial production is expected to begin in 1982. Development of this and other tracts in the trend will utilize multiple 4-well platforms to expedite development and production. On Block A-39, well No. 1 has been drilled to 17,380 feet, and preparations are being made to test several indicated gas-bearing sands. On Block 542 (Mesa 65%), well No. 3 was plugged and abandoned at a total depth of 17,145 feet.

Matagorda Island—On Block 624 (Mesa 32.5%), a gas discovery was announced in September 1981, and development drilling is under way from a 9-well platform installed in December 1981. Production is expected to commence from three wells at a daily rate of 30 million cubic feet of gas in mid-1982.

Onshore—In Livingston Parish, Louisiana, the Crown Zellerbach No. 1 (Mesa 100%) was abandoned due to mechanical problems while testing the Austin chalk formation at 16,000 feet. In Pointe Coupee Parish, Louisiana, the Barton No. 1 (Mesa 16.3%), a 21,500-foot Tuscaloosa test, is drilling below 13,700 feet. Mesa owns a 16.3% interest in approximately 5,300 acres in this area.

A platform jacket under tow to Brazos A-39 (Mesa 50%) offshore Texas.





Permian Basin Division

The Permian Basin division drilled 132 gross wells (54.6 net) during 1981 of which 107 (45.4 net) were producers for an 83% net drilling success.

Four rigs continue drilling in the Pecos Slope area of eastern New Mexico where the Company owns a 33% to 50% interest in approximately 788,000 acres. Mesa drilled 115 Permian Abo formation wells in this area during 1981 and 14 to date in 1982, bringing to 142 the number drilled since 1979. One hundred and twelve of these wells have been successfully completed, nine are in various stages of completion and 21 were dry. Sixty-eight wells are on production at an average daily rate of 270 Mcf of gas, and 44 are awaiting pipeline connection. In June 1981, the Federal Energy Regulatory Commission approved a tight-sand gas designation for the Abo formation covering a significant portion of the Pecos Slope area, increasing the current ceiling price for gas to $5.18 from $3.03 per Mcf. Mesa plans to drill 100 additional Abo wells during 1982.

In Ward County, Texas, the University No. 43-20 (Mesa 40.6%), a development well, tested gas from the Fusselman and the Ellenburger formations below 15,000 feet at daily rates of 7.8 million and 12.2 million cubic feet, respectively. The gas produced from these formations will be sold at a deregulated price of $8.75 per Mcf, including BTU adjustment. This well offsets the University No. 42-20 (Mesa 50%), a 1980 dual Fusselman and Ellenburger discovery. Another development well, the University No. 26-19 (Mesa 40.6%), will commence drilling during the first quarter of 1982. Mesa owns a 40.6% interest in approximately 5,100 acres in this area.

In Pecos County, Texas, the Cerf Ranch No. 1-9 (Mesa 16.3%), is drilling below 26,700 feet toward a 29,500-foot Ellenburger objective after being sidetracked at 25,000 feet.

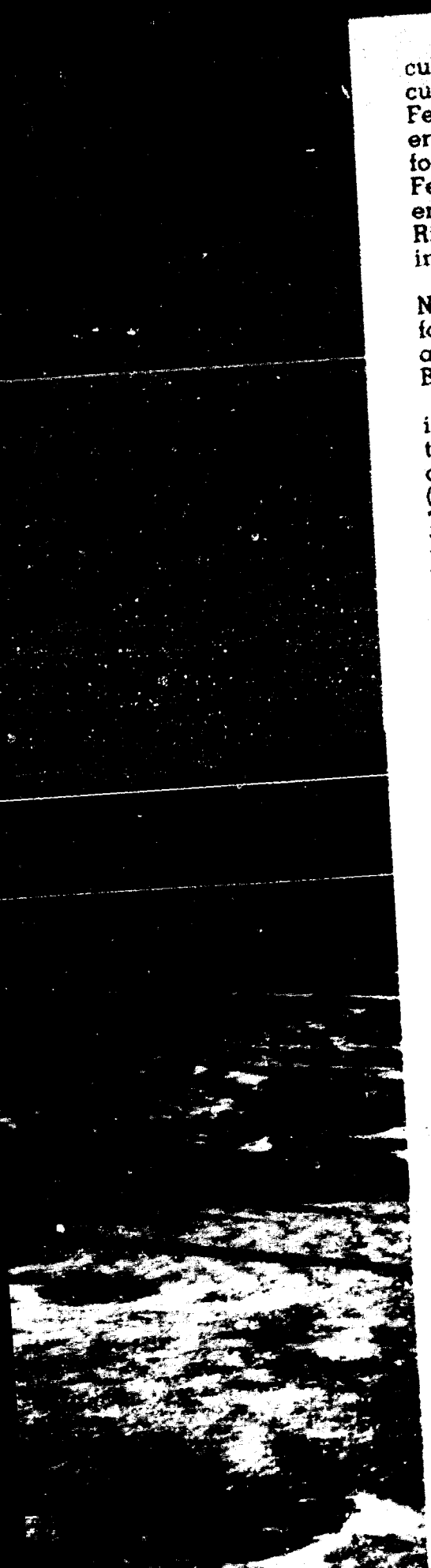
Rocky Mountain Division

The Rocky Mountain division drilled 101 gross wells (62.4 net) during 1981 of which 76 (47.6 net) were producers for a 76% net drilling success.

An oil discovery in the Red River formation of the Williston Basin in Dunn County, North Dakota, was announced in September 1981. The Pelton No. 1-10 (Mesa 65%) flowed at a daily rate of 405 barrels of oil and 1.1 million cubic feet of gas. The Knutson-Werre No. 3 (Mesa 65%), a confirmation well located one mile north of the discovery, has tested 300 barrels of oil and 1.2 million

Drilling on the Roundtop State No. 2 (Mesa 32.5%), one of 115 Permian Abo formation wells drilled in the Pecos Slope of eastern New Mexico during 1981.





cubic feet of gas in the lower Red River formation and is currently testing the upper Red River formation. The Federal 10 No. 1 (Mesa 65%), one mile east of the discovery, has logged 41 net feet of oil pay in the Red River formation, and production casing has been set. The Federal 4 No. 1 (Mesa 65%), two miles north of the discovery, is drilling below 12,200 feet toward a 14,500-foot Red River objective. Mesa owns a 65% interest in 12,565 acres in this area.

In another area of Dunn County, the Hausauer No. 1-22 (Mesa 33.5%) is currently testing the Duperow formation at 10,800 feet. Mesa owns a 55% interest in approximately 8,500 acres in this area of the Williston Basin.

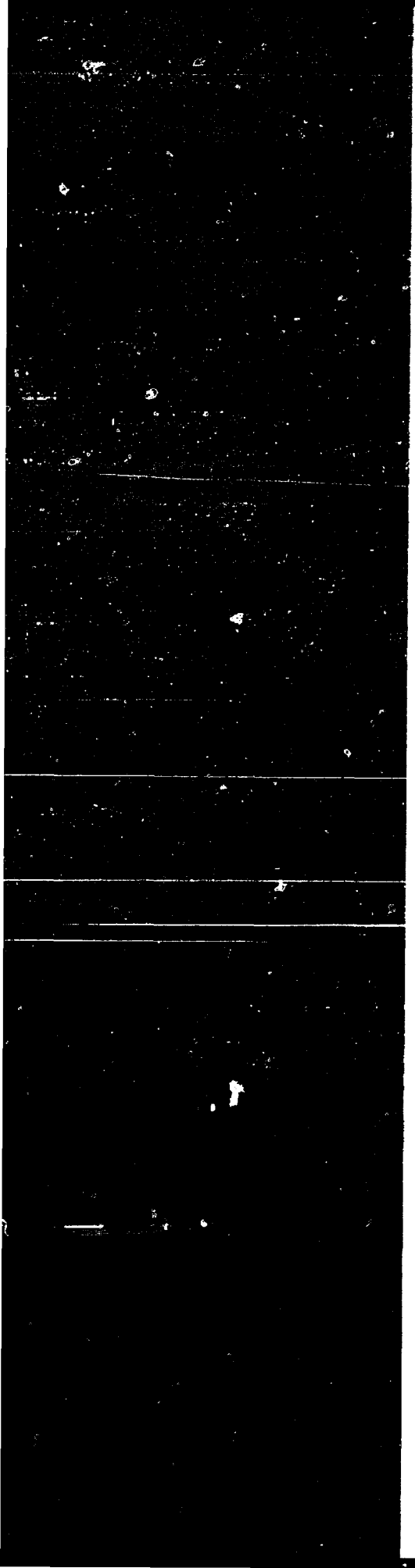
In the Overthrust Belt, the Urroz No. 1-5 (Mesa 32.5%) in Uinta County, Wyoming, is testing the Nugget formation at an interval from 13,050 to 13,950 feet. In another area of Uinta County, the Champlin 404 Amoco "C" No. 1 (Mesa 27%), a 15,500-foot Nugget test, is drilling below 7,200 feet. This is a development well in the Anschutz Ranch-East field which has reserve potential estimated at 1.5 billion barrels of liquids and 3 trillion cubic feet of gas. Mesa owns a similar interest in an adjacent drilling unit to the south and a 65% interest in 640 acres one and one-half miles northeast of the well.

In Sublette County, Wyoming, the Riley Ridge Federal No. 10-14 (Mesa 40%) has been completed in the Madison formation and is shut-in awaiting further development. This well confirms a dual gas discovery, the Riley Ridge Federal No. 8-24 (Mesa 40%), two miles to the west which tested gas containing 19% methane and 70% carbon dioxide from the Madison formation and 1% methane and 92% carbon dioxide from the Bighorn formation. The Riley Ridge Federal No. 17-34 (Mesa 12.7%), one mile south of the discovery, is drilling below 14,900 feet toward 17,000 feet, and the Riley Ridge Federal No. 12-43 (Mesa 40%), located one and one-half miles west, is drilling below 14,000 feet toward 16,000 feet.

In the South Blanco Creek area of northwestern New Mexico, Mesa has completed 32 wells (Mesa 56% average interest) in the 5,600-foot Gallup formation which are currently producing at a combined daily rate of 660 barrels of oil and 1.8 million cubic feet of gas. Twenty- five additional development wells are scheduled to be drilled during 1982.

In the Eckley field of eastern Colorado, 40 Niobrara formation wells have been completed; thirty-six are on production at a combined daily rate of 7 million cubic feet of gas, and four are awaiting pipeline connection. In March 1981, the Federal Energy Regulatory Commission approved the 2,200-foot Niobrara formation in the Eckley field for tight-sand designation, increasing the price of gas to $5.18 per Mcf from $3.03 per Mcf.

Winter drilling on the Urroz No. 1-5 (Mesa 32.5%) in the Overthrust Belt in Uinta County, Wyoming.



Mid-Continent Division

During 1981, the Mid-Continent division drilled 76 gross wells (31.7 net) of which 53 (21.4 net) were producers for a 68% net drilling success.

Intensive drilling activity continues with seven rigs operating in the Anadarko Basin of western Oklahoma. In Beckham County, Oklahoma, five wells are being drilled to objectives below 15,000 feet. Two 26,000-foot Hunton wells, the Cox No. 2-34 (Mesa 57.2%) and the Tipton No. 2-29 (Mesa 51.2%) are drilling below 17,000 and 20,300 feet, respectively. Both are replacements for previous wells which were abandoned due to mechanical problems after encountering substantial flows of gas at depths below 16,000 feet. The Cox No. 2-34 is three miles east of the Crook No. 1-32 (Mesa 63.5%), a 1980 gas discovery, and the Tipton No. 2-29 is one mile north of the discovery well. The Mandrell No. 1-30 (Mesa 12.1%), one mile northwest of the discovery, is drilling below 14,000 feet toward a 20,000-foot Morrow-Springer objective. Drilling recently commenced on the Keathley No. 1-31 (Mesa 13.1%), a 20,000-foot Morrow-Springer development well one mile west of the Crook No. 1-32. In another portion of the county, a 20,000-foot Springer test, the Benton No. 1-21 (Mesa 18.7%), has also commenced drilling.

In Custer County, Oklahoma, the Gholston No. 1-15 (Mesa 38.8%) is drilling below 16,500 feet toward 19,500 feet to test the Morrow-Springer formation. The Baker No. 1-10 (Mesa 5.1%) is drilling below 9,900 feet toward a 13,900-foot Atoka objective.

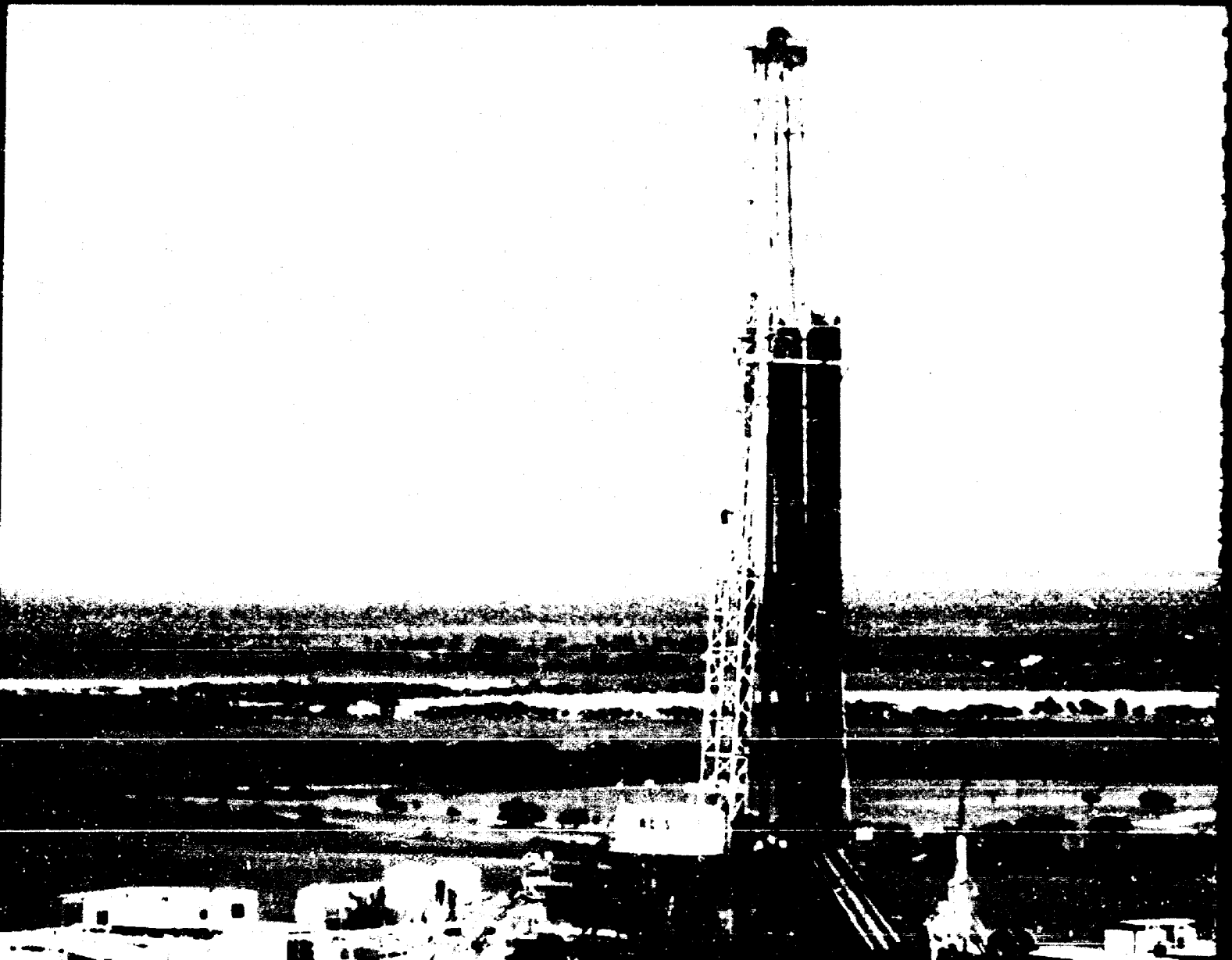
In Clark County, Kansas, seven oil and three gas wells were drilled and completed during 1981. Mesa operates 31 wells in the area (Mesa 74.6% average interest) which are producing at a combined daily rate of 1,350 barrels of oil and 3 million cubic feet of gas. The Company has received state approval to begin waterflood operations in the Morrow formation of the Lexington field during 1982.

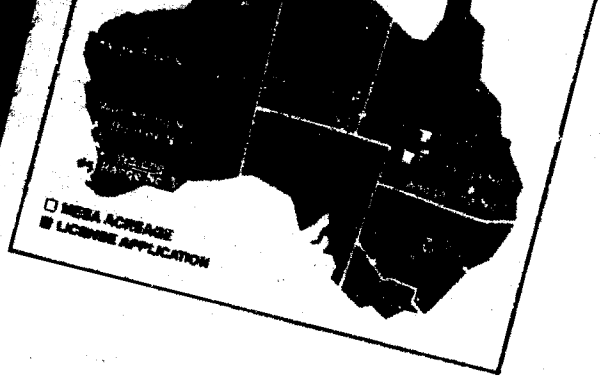
In Meade County, Kansas, which includes the Adams Ranch area, five additional wells commenced production in 1981 including two dual oil-gas wells. Mesa has a total of 42 wells (Mesa 94.6% average interest) producing in the county at a combined daily rate of 7.3 million cubic feet of gas and 200 barrels of oil.

International Division

Mesa Australia Limited, a wholly-owned subsidiary, acquired interests in 5.6 million acres in Australia during 1981 which brings the Company's average interest to 23%

The Benton No. 1-21 (Mesa 18.7%), a 20,000-foot Springer test in Beckham County, Oklahoma.





in 6.5 million acres at year end. The Company
rently earning an 18.5% average interest in sev
covering 19.8 million additional acres and has
tions pending for another 7 million acres (Mesa
average interest).

A gas discovery was made in November in th
Waggamba No. 1 (Mesa 10%) on Permit ATP-145-P,
70,000-acre license in the Surat Basin of Queensla
eastern Australia. The well tested at an estimated
rate of 5 million cubic feet of gas from a 26-foot inte
between 8,573 and 8,599 feet in the Permian Kianga
tion. Mesa is earning an additional 15% interest in th
license by conducting seismic operations and drillin
second well and has the option to earn an additional
10% by drilling a third well.

In Western Australia, the Bootine No. 1 (Mesa 5%) h
reached total depth at 14,200 feet and testing is under-
way. The well is approximately 50 miles north of Perth a
Permit EP-24, a 1.5 million-acre license in the Perth Basi
The Whicher Range No. 3 (Mesa 25%), located on Permit
EP-130 in the Perth Basin, is drilling below 13,200 feet
toward a 14,760-foot objective. The Warradong No. 1
(Mesa 25%), an 11,800-foot test on the 71,700-acre Permit
EP-105 in the Perth Basin, was plugged and abandoned
after encountering noncommercial quantities of gas.
Directional drilling has commenced from an onshore
location on the Yardie East (Mesa 5%), a 13,800-foot test
immediately offshore on Permit WA-24-P.

Canada

Mesa is pursuing the sale of its Canadian oil and
gas royalty interests consisting of a term royalty on cer-
tain producing properties in the principal amount of $425
million (Canadian), bearing interest at 6% per annum,
and a 12.5% gross overriding royalty on 1.2 million net pro-
ducing and nonproducing acres. These royalties were
retained when the Company sold its working interests
in the Canadian properties in October 1979. The royalty
interests had a book value of $274 million (U.S.) as of
December 31, 1981. Collections on the royalties totaled
$41 million (U.S.) during 1981. On the 1.2 million net acres
covered by the overriding royalty interest, 57 out of 84
wells drilled during 1981 were successful for a 68% drill-
ing success. Many of these wells have been drilled in
remote areas which will require additional develop-
ment before production can commence. Reserves for such
wells are not included in Mesa's reserves.

The Bootine No. 1 (Mesa 5%), 50 miles north of Perth in Western Australia, is being tested.

W.N.M.C.F. MICROGRAPHICS



The Gulf Coast shipping lanes are visible from the decks of the production platform on Galveston 102-L (Mesa 100%), offshore Texas.



Production and Reserves

The Company's net daily U.S. oil and condensate production for 1981 averaged 8,417 barrels compared to 8,296 barrels in 1980. This increase was due primarily to new production in the South Blanco Creek area of northwestern New Mexico and higher allowables in the Hartzog Draw field in Wyoming as a result of field-wide unitization for waterflood operations.

Net daily U.S. gas production averaged 281 million cubic feet during 1981 compared to 290 million cubic feet in 1980. Net U.S. natural gas liquids production averaged 1,947 barrels per day in 1981 compared to 2,022 barrels per day in 1980. These reductions primarily resulted from lower pipeline takes from the Hugoton field of Kansas, including the properties of Tema Oil Company.

Statistics

NET PROVED RESERVES
As of December 31

	Natural Gas			Oil, Condensate and Natural Gas Liquids		
	1981	1980	1979	1981	1980	1979
	(Million cubic feet)			(Thousand barrels)		
United States	909,710	856,772	809,400	27,496	25,095	23,400
Canada	8,908	1,916	—	50	20	—
Total	918,618	858,688	809,400	27,546	25,115	23,400

NET PRODUCTION BY DIVISION

Division	Natural Gas		Natural Gas Liquids		Oil and Condensate	
	1981	1980	1981	1980	1981	1980
	(MMcf/day)		(f bls/day)		(Bbls/day)	
Gulf Coast	153	156	384	325	3,002	3,364
Hugoton	18	19	705	758	—	—
Mid-Continent[a]	62	75	669	767	2,178	2,193
Permian Basin	22	19	160	104	849	909
Rocky Mountain	26	21	29	68	2,388	1,830
Total U.S.	281	290	1,947	2,022	8,417	8,296
Canada	1	—	—	—	64	1

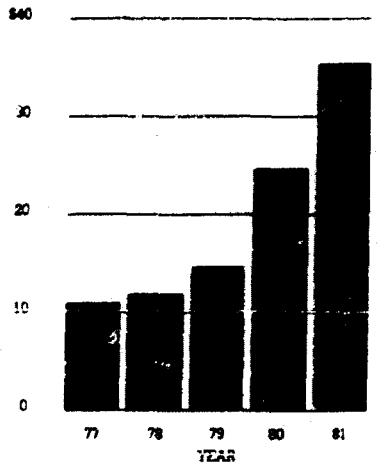
[a]Includes production from Mesa's interest in Tema Oil Company.

PRODUCTION SUMMARY[a]

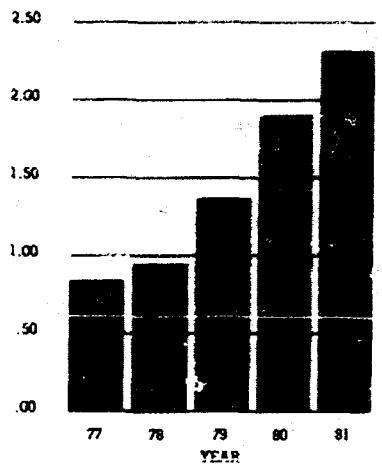
	Year Ended December 31				
	1981	1980	1979	1978	1977
Net Natural Gas Produced (Mcf)					
United States	102,606,330	106,012,863	112,106,598	81,202,411	77,516,623
Canada	141,646	—	19,456,957	28,266,024	23,804,534
Total	102,747,976	106,012,863	131,563,555	109,468,435	101,321,157
Net Natural Gas Liquids Produced (Bbls)					
United States	710,479	740,154	1,161,052	1,160,235	1,158,425
Canada	—	—	215,606	291,425	299,761
Total	710,479	740,154	1,376,658	1,451,660	1,458,186
Net Oil and Condensate Produced (Bbls)					
United States	3,072,457	3,036,549	3,124,155	2,838,890	2,788,688
Canada	23,206	322	394,456	436,694	463,726
Total	3,095,663	3,036,871	3,518,611	3,275,584	3,252,414
Weighted Average Price for Production					
Natural Gas (per Mcf)					
United States	$ 2.31	$ 1.89	$ 1.37	$ .94	$ .83
Canada[b]	1.82	—	1.30	1.27	1.18
Natural Gas Liquids (per Bbl)					
United States	$19.29	$18.97	$10.22	$ 8.22	$ 7.53
Canada[b]	—	—	8.14	8.30	7.14
Oil and Condensate (per Bbl)					
United States	$35.59[c]	$24.15	$14.36	$11.73	$10.85
Canada[b]	13.18	12.47	11.31	11.00	9.67
Average Production Cost per Equivalent Mcf[d]					
United States	$ .41	$ .31	$ .19	$ .15	$ .11
Canada[b]	.19	—	.31	.19	.16

[a]As used throughout this report, net production represents the Company's interest in production after deducting royalties.
[b]Canadian dollar amounts have been converted to U.S. dollars using the weighted average exchange rate during each year.
[c]Excludes $2.01 per barrel of "tertiary incentive" revenues collected in 1981.
[d]Production has been converted to an equivalent Mcf based on approximate relative heating value.

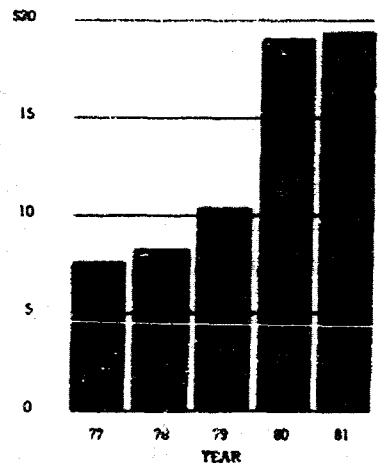
AVERAGE U.S. OIL & CONDENSATE PRICES



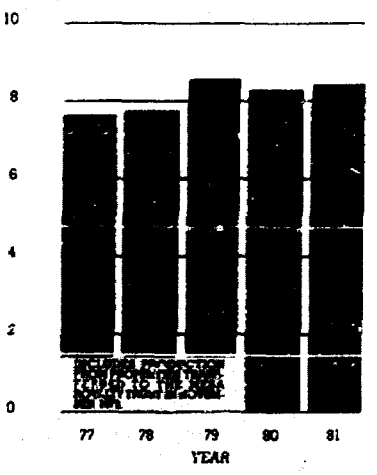
AVERAGE NET U.S. GAS PRICES



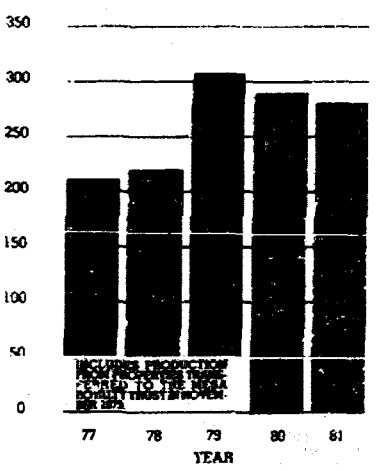
AVERAGE NET U.S. NGL PRICES



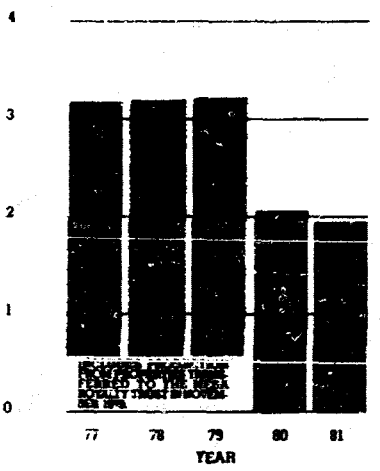
AVERAGE NET U.S. OIL & CONDENSATE PRODUCTION



AVERAGE NET U.S. GAS PRODUCTION



AVERAGE NET U.S. NGL PRODUCTION



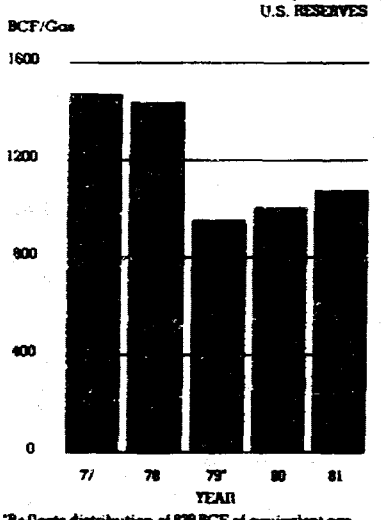
PRODUCING ACREAGE AND WELLS

At December 31, 1981

	Producing Acreage		Producing Wells[a]			
	Gross	Net	Gross		Net	
			Oil	Gas	Oil	Gas
Onshore U.S.						
Colorado	17,338	15,242	4	69	4.0	55.9
Kansas	288,708	201,498	113	708	70.5	603.6
Louisiana	4,793	953	2	4	1.2	.7
Montana	14,755	5,877	16	1	2.3	.6
Nebraska	9,052	7,319	112	—	46.8	—
New Mexico	109,971	74,246	93	1040	43.7	237.5
North Dakota	8,232	3,738	8	3	2.3	1.8
Oklahoma	112,235	51,207	615	333	221.7	81.1
Texas	73,408	48,398	86	170	26.0	114.6
Utah	2,228	2,108	4	2	.3	1.3
Wyoming	26,916	19,687	266	13	48.6	7.4
Total	667,636	440,263	1,319	2,343	467.4	1,104.5
Offshore U.S.						
Louisiana	112,680	31,860	85	177	16.8	40.5
Texas	70,291	18,674	21	111	3.3	30.4
Total	182,771	50,534	106	288	20.1	70.9
Grand Total	850,407	490,797	1,425	2,631	487.5	1,175.4

[a] One or more completions in the same bore hole are counted as one well. Of the listed wells, 8.4 net oil wells and 27.6 net gas wells have multiple completions.

NET PROVED EQUIVALENT U.S. RESERVES



*Reflects distribution of 839 BCF of equivalent gas to the Mesa Royalty Trust in 1979.



Reserves

Mesa's U.S. net proved reserves on December 31, 1981 as estimated by DeGolyer and MacNaughton, independent petroleum engineering consultants, were 27.5 million barrels of oil, condensate and natural gas liquids and 910 billion cubic feet of gas. This compares to 25.1 million barrels and 857 billion cubic feet on December 31, 1980, and represents increases of 10% and 6%, respectively. Net proved reserves associated with the Company 12.5% overriding royalty interest in Canada were 50,000 barrels of oil and condensate and 9 billion cubic feet of gas at December 31, 1981.

The Company replaced 163% and 158% of its 1981 production of liquids and natural gas, respectively. Total oil, condensate and natural gas liquids reserve additions were 6.2 million barrels in 1981 compared to production of 3.8 million barrels. Reserve additions of natural gas amounted to 163 billion cubic feet compared to 1981 production of 103 billion cubic feet.

Development of offshore tracts must be substantially completed before hydrocarbons encountered can be considered proved reserves. Accordingly, the Company's net proved reserves do not include reserves from six tracts in the Gulf of Mexico currently under development from six platforms in which Mesa owns a 42.6% average interest. Included in the Net Proved Reserves Table on page 28 are reserves from the 53 federal and state offshore tracts designated with an asterisk (*) in the listing of offshore blocks on pages 11 and 12.

Additional information on changes in the quantities and present value of reserves is included in Note 17 of the Notes to Consolidated Financial Statements on pages 58-62.

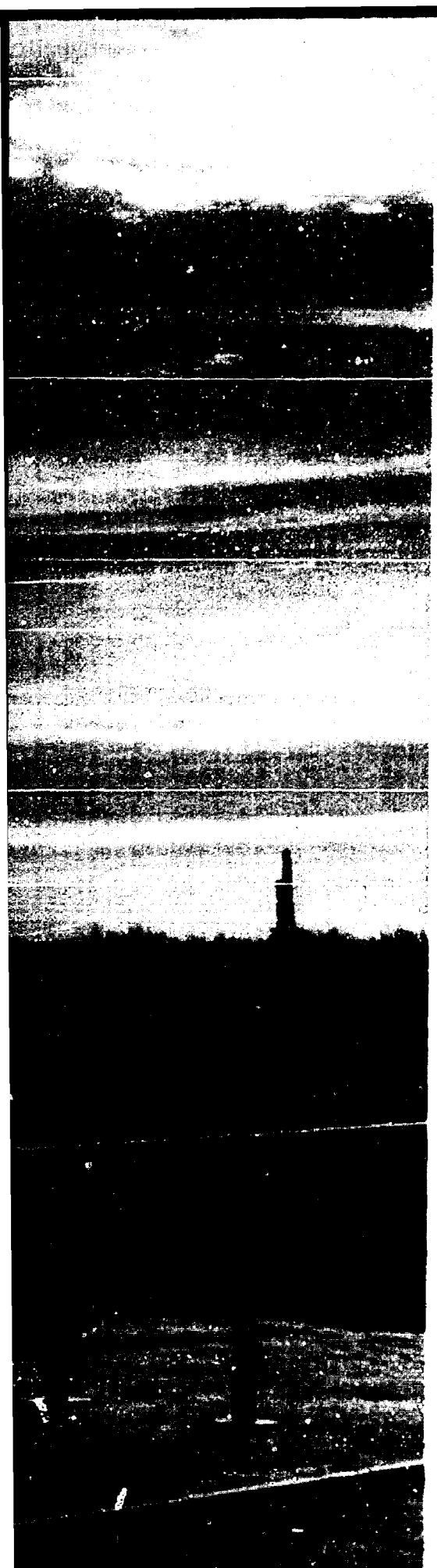
As used throughout this report, all reserves are proved reserves; net reserves represent the Company's interest in reserves after deducting royalties. In accordance with Securities and Exchange Commission guidelines, these reserve estimates are based on existing operating and economic conditions.

Prices

Mesa's average price for gas produced in the U.S. during 1981 was $2.31 per Mcf compared to $1.89 in 1980, a 22% increase. The average U.S. natural gas liquids price was $19.29 per barrel in 1981, a 2% increase over the $18.97 in 1980. The Company's average price for domestic oil and condensate was $35.59, a 47% increase over the $24.15 in 1980.

The increase in the Company's average U.S. natural gas prices in 1981 was due to a larger percentage of Mesa's total gas production qualifying for higher gas price categories under the Natural Gas Policy Act of 1978. The NGPA prescribed higher ceiling prices for new natural gas under Section 102, for new onshore gas production under Section 103, for high cost gas under Section 107 and

Mesa's compressor station in the South Blanco Creek area of northwestern New Mexico.



for stripper well gas under Section 108. The Act further provides for the escalation of Section 102, 107 and 108 gas ceiling prices at approximately 4% per year plus the rate of inflation. Section 103 and Section 104 (old flowing gas under various vintaged categories) gas ceiling prices escalate with inflation.

The increase in average U.S. prices for oil and condensate resulted from the decontrol of crude oil prices.

Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Oil and gas revenues for 1981 were $366 million compared to $288 million in 1980 and $242 million in 1979. Increased revenues resulted primarily from higher average oil and gas prices. Average prices for domestic natural gas production increased from $1.37 in 1979 to $1.89 in 1980 and $2.31 in 1981. This increase is due to higher priced gas production from new properties (including production from properties qualifying for "tight-sand" prices and for unregulated "deep" gas prices), and inflation adjustments on certain categories of gas sold under pricing provisions of the Natural Gas Policy Act of 1978. Average oil prices for domestic production increased from $14.36 in 1979 to $24.15 in 1980 and $35.59 in 1981 due to the phased decontrol of oil prices in 1980 and complete decontrol in January 1981.

Other revenues declined in 1981 due to the discontinuance of refined product sales in the third quarter of 1980 as phased decontrol of crude oil prices narrowed profit margins. Interest income declined from $41 million in 1980 to $33 million in 1981 due to a reduction of the imputed interest rate on the term royalty receivable retained by the Company on the Canadian properties sold in October 1979.

Costs and expenses, excluding the cost of refined product sales in 1979 and 1980, increased from $173 million in 1979 to $182 million in 1980 and $225 million in 1981. Operating and general and administrative expenses increased due to inflation and the growth of the Company's operations. The federal excise tax on oil and condensate sales became effective on March 1, 1980, and added $11 million and $24 million to 1980 and 1981 costs and expenses, respectively.

Interest charges totaled $99 million in 1981 compared to $69 million in 1980 and $56 million in 1979. Interest-bearing debt increased $236 million during 1981, while interest rates were at sharply higher levels throughout 1980

The production unit for the University No. 42-20 (Mesa 50%), a 1980 dual Fusselman and Ellenburger discovery in Ward County, Texas.

and 1981. Interest capitalized also increased substantially during this period. Effective January 1, 1980, Financial Accounting Standards Board Statement No. 34 required the Company to capitalize additional interest costs incurred to finance the acquisition, exploration and development of offshore properties. This change, combined with higher interest rates and offshore expenditures, resulted in interest capitalized of $36 million in 1980 and $70 million in 1981.

Depreciation, depletion and amortization increased significantly during the three years ended December 31, 1981. This increase resulted from the addition of higher-cost properties, primarily offshore, to the reserve and property base combined with an acceleration of the Company's rate of depletion of its oil and gas reserves following the transfer of long-life reserves to the Mesa Royalty Trust in November 1979.

The foreign exchange gain and loss reflect changes in the valuation of the Company's term royalty receivable due to fluctuations in the Canadian/U.S. dollar exchange rate. Pre-tax gains on sales of marketable securities totaled $1.7 million in 1981 and $15.9 million in 1980.

In 1979, the Company recognized pre-tax gains totaling $345 million from the sale of oil and gas properties in Canada and the United Kingdom; income taxes related to such gains totaled $114 million. Excluding the taxes relating to the sales of properties, the provision for income taxes increased from $36 million in 1979 to $65 million in 1980 and $71 million in 1981 due to higher pre-tax income; the overall effective tax rate remained at approximately 40%.

Net income available for common shares (after deducting preferred stock dividends) increased to $106 million in 1981 compared to $95 million in 1980 and $54 million in 1979 before consideration of the gains on sales of properties. This represents increases of 12% in 1981 and 76% in 1980.

CAPITAL RESOURCES AND LIQUIDITY

The Company's expenditures for the acquisition, exploration and development of oil and gas properties historically have exceeded funds provided from operations; accordingly, the Company has utilized borrowings, equity offerings and sales of assets to maintain its level of capital expenditures. Total long and short-term debt (including current maturities) was $886 million at December 31, 1981, compared to $663 million and $647 million at December 31, 1980 and 1979.

Capital expenditures during 1980 totaled $433 million, including interest capitalized of $36 million, compared to funds provided from operations of $220 million. The excess of expenditures over operating cash flow was funded primarily with $160 million withdrawn from the MTS partnership formed in October 1980.

During 1981, capital expenditures totaled $497 million, including interest capitalized of $70 million. In addition, investments in marketable securities increased $154 million. The excess of these expenditures over the

$277 million of funds provided from operations was funded by long-term borrowings and the issuance of $210 million of redeemable preferred stock.

The Company utilized short-term borrowing arrangements during 1981 when interest rates on such borrowings were more favorable than those available under brokers' margin accounts or revolving credit arrangements. Short-term notes totaled $120 million at December 31, 1981. The unused borrowing capacity under the Company's margin accounts at December 31, 1981, as well as the February 1982 increase from $100 to $200 million in the revolving line of credit, are available to refinance the short-term obligations.

Capital expenditures for 1982 are budgeted at approximately $350 million which is expected to exceed cash flow from operations. Required debt service and redemption of preferred stock for 1982 is approximately $80 million. The following alternatives are available to the Company to fund the expected deficit:

(1) project financing for the development of specific properties on which commercial reserves have been established;
(2) sales of assets, including marketable securities with a market value of $303 million at December 31, 1981, and the Canadian term and overriding royalty interests with a book value of $274 million; and
(3) a reduction in working capital, including the $27 million collection of notes receivable in January 1982.

INFLATION AND CHANGES IN PRICES

Inflation, higher levels of activity and competition in the oil and gas industry have caused significant increases in the costs incurred by the Company for the acquisition, exploration and development of oil and gas properties. These increased costs are reflected in the Company's results of operations through higher depreciation, depletion and amortization charges. Inflation also accounts for a portion of the increases in operating and general and administrative expenses.

Oil and gas revenues received by the Company generally increase as a result of inflation. Under the Natural Gas Policy Act of 1978, allowable prices for certain categories of natural gas are adjusted monthly for an inflation factor. Prices for crude oil and condensate are not adjusted directly for inflation; however, inflation does have an indirect impact on free market prices which the Company receives for its production.

Other financial information adjusted for inflation is included in Note 18 to the Consolidated Financial Statements.

MESA PETROLEUM CO. AND SUBSIDIARIES

Five Year Summary of Selected Financial Data

(not covered by auditors' report)

	Year Ended December 31				
	1981	*1980*	*1979*	*1978*	*1977*
	(in thousands, except per share data)				
Total revenues	$ 407,744	$ 372,363	$ 282,851	$167,235	$140,455
Income before other income (expense) and income taxes	$ 182,493	$ 151,415	$ 88,854	$ 68,754	$ 71,797
Foreign exchange gain (loss)	1,566	(6,921)	319	(718)	(398)
Gain on sale of marketable securities	1,730	15,931	684	—	—
Gain on sale of properties	—	—	345,328	—	—
Provision for income taxes	(70,740)	(65,189)	(149,563)	(26,270)	(30,100)
Net income	115,049	95,236	285,622	41,766	41,299
Preferred stock dividends	(8,670)	—	—	—	(2,394)
Net income available for common	$ 106,379	$ 95,236	$ 285,622*	$ 41,766	$ 38,905
Income per common share:					
Primary	$ 1.54	$ 1.39	$ 4.43*	$ .66	$ .67
Fully diluted	$ 1.54	$ 1.38	$ 4.43*	$ .66	$ .64
Cash dividends per common share	$ .12	$ .0525	$ .0975	$ .11	$ .0625
Total assets at year end	$2,069,355	$1,426,850	$1,268,459	$974,963	$800,210
Long-term debt at year end (including production payments and subordinated debentures)	$ 847,067	$ 613,107	$ 579,163	$395,776	$326,113

*Includes $231,410,000 ($3.59 per share) from gain on sale of properties.

Financials

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Consolidated Statements of Capital Surplus and Reinvested Earnings 43
Notes to Consolidated Financial Statements 44

Auditors' Report

To the Stockholders and Board of Directors,

MESA PETROLEUM CO.:

We have examined the consolidated balance sheets of Mesa Petroleum Co. (a Delaware corporation) and subsidiaries as of December 31, 1981 and 1980, and the related consolidated statements of income, capital surplus, reinvested earnings and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Mesa Petroleum Co. and subsidiaries as of December 31, 1981 and 1980, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change (with which we concur) in the method of interest capitalization described in Note 1 to the consolidated financial statements.

ARTHUR ANDERSEN & CO.

Houston, Texas
February 17, 1982 (except with respect
to the matter discussed in Note 14, as
to which the date is March 2, 1982)

MESA PETROLEUM CO. AND SUBSIDIARIES

Consolidated Statements of Income

	Year Ended December 31		
	1981	*1980*	*1979*
REVENUES:			
Natural gas	$236,923,000	$200,351,000	$179,415,000
Oil and condensate	115,834,000	73,341,000	49,308,000
Natural gas liquids	13,707,000	14,041,000	13,371,000
Total oil and gas revenues	366,464,000	287,733,000	242,094,000
Refined products	—	40,564,000	24,745,000
Interest income	33,075,000	40,608,000	14,519,000
Other income	8,205,000	3,458,000	1,493,000
	407,744,000	372,363,000	282,851,000
COSTS AND EXPENSES:			
Operating	51,376,000	39,556,000	32,975,000
Federal excise tax on oil and condensate	24,167,000	10,657,000	—
Refined products	—	38,962,000	21,278,000
General and administrative	19,649,000	14,416,000	11,125,000
Interest	99,407,000	68,978,000	55,796,000
Interest capitalized	(70,075,000)	(36,323,000)	(6,195,000)
Taxes, other than on income	3,714,000	4,354,000	3,366,000
Depreciation, depletion and amortization	97,013,000	80,348,000	75,652,000
	225,251,000	220,948,000	193,997,000
INCOME BEFORE OTHER INCOME (EXPENSE) AND INCOME TAXES	182,493,000	151,415,000	88,854,000
Foreign exchange gain (loss)	1,566,000	(6,921,000)	319,000
Gain on sale of marketable securities	1,730,000	15,931,000	684,000
Gain on sale of properties	—	—	345,328,000
Provision for income taxes	(70,740,000)	(65,189,000)	(149,563,000)
NET INCOME	115,049,000	95,236,000	285,622,000
PREFERRED STOCK DIVIDENDS	(8,670,000)	—	—
NET INCOME AVAILABLE FOR COMMON	$106,379,000	$ 95,236,000	$285,622,000
INCOME PER COMMON SHARE:			
Primary	$1.54	$1.39	$4.43
Fully diluted	$1.54	$1.38	$4.43

(See accompanying notes to consolidated financial statements)

MESA PETROLEUM CO. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1981 and 1980

ASSETS

	1981	1980
CURRENT ASSETS:		
Cash and cash items	$ 15,097,000	$ 8,855,000
Accounts receivable	169,735,000	100,459,000
Notes receivable	28,076,000	3,348,000
Inventories	65,406,000	22,115,000
Prepaid expenses	1,222,000	694,000
Total current assets	279,536,000	135,471,000
MARKETABLE SECURITIES	238,339,000	86,195,000
LONG-TERM NOTES RECEIVABLE	1,377,000	41,316,000
TERM ROYALTY RECEIVABLE	274,059,000	282,322,000
PROPERTY, PLANT AND EQUIPMENT, using full cost accounting:		
Oil and gas properties, wells and equipment	1,073,492,000	624,412,000
Offshore oil and gas properties not yet evaluated	433,897,000	402,652,000
Transportation, office and other properties	38,707,000	21,962,000
	1,546,096,000	1,049,026,000
Less—Accumulated depreciation, depletion and amortization	282,765,000	178,943,000
	1,263,331,000	870,083,000
DEFERRED CHARGES AND OTHER ASSETS	12,713,000	11,463,000
	$2,069,355,000	$1,426,850,000

(See accompanying notes to consolidated financial statements)

LIABILITIES

	1981	1980
CURRENT LIABILITIES:		
Current maturities on long-term debt	$ 37,713,000	$ 48,859,000
Short-term notes payable	1,300,000	1,300,000
Accounts payable	132,424,000	107,905,000
Income taxes payable	1,173,000	5,099,000
Accrued liabilities	22,985,000	16,144,000
Total current liabilities	195,595,000	179,207,000
LONG-TERM DEBT, net of current maturities	594,423,000	393,482,000
PRODUCTION PAYMENTS	176,054,000	143,030,000
8½% SUBORDINATED DEBENTURES	76,590,000	76,595,000
DEFERRED REVENUE	21,588,000	1,875,000
DEFERRED INCOME TAXES	199,660,000	122,886,000
COMMITMENTS AND CONTINGENCIES		
7% REDEEMABLE PREFERRED STOCK	210,000,000	—
STOCKHOLDERS' EQUITY:		
Common stock, $1 par value; authorized 100,000,000 shares; outstanding 66,794,000 and 33,601,000 shares, respectively	66,794,000	33,601,000
Capital surplus	161,428,000	193,530,000
Reinvested earnings	367,223,000	282,644,000
	595,445,000	509,775,000
	$2,069,355,000	$1,426,850,000

(See accompanying notes to consolidated financial statements)

MESA PETROLEUM CO. AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

	Year Ended December 31		
	1981	1980	1979
SOURCE OF FUNDS:			
Net income	$115,049,000	$ 95,236,000	$285,622,000
Depreciation, depletion and amortization	97,013,000	80,348,000	75,652,000
Deferred income taxes	66,565,000	59,975,000	103,994,000
Gain on sale of marketable securities	(1,730,000)	(15,931,000)	(684,000)
Gain on sale of properties, net of related current income taxes of $45,569,000	—	—	(299,759,000)
Funds provided from operations	276,897,000	219,628,000	164,825,000
Long-term borrowings, including production payments and subordinated debentures	405,583,000	308,616,000	266,923,000
Proceeds from issuance of preferred stock	210,000,000	—	—
Decrease in long-term notes receivable	39,939,000	5,208,000	—
Increase in deferred revenue	19,713,000	1,875,000	—
Proceeds from sale of tax benefits	15,937,000	—	—
Decrease in term royalty receivable	8,263,000	2,319,000	—
Proceeds from sale of marketable securities	3,205,000	26,035,000	1,342,000
Cash withdrawn from MTS Limited Partnership	—	159,892,000	—
Proceeds from sale of properties	—	4,500,000	466,930,000
Other	875,000	9,158,000	12,614,000
	$980,412,000	$737,233,000	$912,634,000
USE OF FUNDS:			
Capital expenditures—			
Oil and gas properties, wells and equipment	$478,901,000	$425,235,000	$313,134,000
Other properties	17,603,000	2,087,000	6,036,000
Retirement of long-term debt, including production payments and subordinated debentures	171,623,000	274,674,000	81,006,000
Purchase of marketable securities	153,619,000	35,953,000	12,610,000
Cash dividends	16,710,000	3,524,000	6,267,000
Acquisition of producing properties	—	—	160,399,000
Increase in term royalty receivable	—	—	284,641,000
Increase in long-term notes receivable	—	—	46,524,000
Distribution to Mesa Royalty Trust—			
Oil and gas properties, wells and equipment	—	—	(477,464,000)
Accumulated depreciation, depletion and amortization	—	—	105,864,000
Deferred income tax liability	—	—	170,766,000
Reinvested earnings	—	—	200,834,000
Other	14,279,000	6,977,000	16,128,000
	852,735,000	748,450,000	926,745,000
Increase (decrease) in working capital:			
Cash and cash items	6,242,000	1,414,000	(31,369,000)
Accounts and notes receivable	94,004,000	(54,356,000)	109,753,000
Inventories	43,291,000	3,899,000	5,322,000
Prepaid expenses	528,000	(53,000)	(447,000)
Current maturities on long-term debt	11,146,000	(1,471,000)	8,069,000
Short-term notes payable	—	19,300,000	(20,600,000)
Income taxes payable	3,926,000	44,302,000	(48,471,000)
Accounts payable and accrued liabilities	(31,460,000)	(24,252,000)	(36,368,000)
	127,677,000	(11,217,000)	(14,111,000)
	$980,412,000	$737,233,000	$912,634,000

(See accompanying notes to consolidated financial statements)

MESA PETROLEUM CO. AND SUBSIDIARIES

Consolidated Statements of Capital Surplus and Reinvested Earnings

	Year Ended December 31		
	1981	1980	1979
CAPITAL SURPLUS:			
Balance, beginning of year	$193,530,000	$192,945,000	$180,257,000
Stock options exercised	1,542,000	17,370,000	12,688,000
Transfer to Common Stock in connection with two-for-one stock split	(33,644,000)	(16,785,000)	—
Balance, end of year	$161,428,000	$193,530,000	$192,945,000
REINVESTED EARNINGS:			
Balance, beginning of year	$282,644,000	$190,932,000	$118,204,000
Net income	115,049,000	95,236,000	285,622,000
Cash dividends—			
Common stock	(8,040,000)	(3,524,000)	(6,267,000)
Preferred stock	(8,670,000)	—	—
Retirement of common stock acquired	(13,760,000)	—	(3,774,000)
Distribution to Mesa Royalty Trust	—	—	(200,834,000)
Purchase of warrants	—	—	(2,019,000)
Balance, end of year	$307,223,000	$282,644,000	$190,932,000

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

December 31, 1981, 1980 and 1979

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—

The consolidated financial statements include the accounts of the parent, Mesa Petroleum Co., its wholly-owned subsidiaries and its proportionate interest in partnerships after elimination of intercompany transactions. Certain reclassifications have been made in the prior years' financial statements to conform to current classifications.

Foreign currency translation—

Translation of foreign currency is made in accordance with Statement No. 8 of the Financial Accounting Standards Board. The term royalty receivable is denominated in Canadian dollars and is adjusted at each balance sheet date to reflect the change in value resulting from fluctuations in the Canadian/U.S. dollar exchange rate. The Financial Accounting Standards Board recently issued Statement No. 52 revising certain accounting policies for foreign currency translations. Application of Statement No. 52 will not have a significant effect on the Company.

Inventories—

Inventories are stated at cost, which is lower than market, and consist of materials and supplies, primarily tubular goods.

Sale of tax benefits—

In November 1981, the Company sold tax benefits related to approximately $52 million of property under the "safe harbor leasing" provisions of the Economic Recovery Tax Act of 1981. Cash proceeds from the sale, approximately $15.9 million, were applied as a reduction of the deferred income tax provision to the extent of the investment tax credit benefits sold ($5.2 million), with the balance credited to the deferred tax liability account ($4.4 million) and the property, plant and equipment accounts ($6.3 million).

Earnings per share—

The computations of primary earnings per share were based on the weighted average number of common shares outstanding during each period and, in 1980 and 1981, the assumed exercise of dilutive options. The assumed exercise of options did not have a significant dilutive effect on the per share amounts for 1979. In 1981, the average common and common equivalent shares outstanding were 68,913,000 for both the primary and fully diluted earnings per share computations. The average common and common equivalent shares outstanding during 1980 were 68,532,000 shares for the primary earnings per share computation and 69,208,000 shares assuming full dilution. In 1979, the average common shares outstanding were 64,544,000. The number of shares outstanding have been adjusted for two-for-one stock splits in 1980 and 1981.

Oil and gas properties—

The Company follows the full cost accounting policy of capitalizing all direct costs incurred in the acquisition, exploration and development of oil and gas properties. Interest costs incurred in financing expenditures relating to offshore properties are capitalized until such time as the properties are evaluated by drilling. Effective January 1, 1980, the Company changed its method of capitalizing interest as required by Financial Accounting Standards Board Statement No. 34 whereby interest costs are capitalized on property acquisition, exploration and development expenditures relating to unevaluated offshore properties. Prior to 1980, interest costs were capitalized only on property acquisition expenditures.

In the Company's United States cost center, all capitalized costs and estimated future development and abandonment costs, exclusive of offshore oil and gas properties not yet evaluated ($433,897,000 as of

December 31, 1981), are being amortized on a composite unit-of-production method over the aggregate productive life of all the proved reserves related to such cost center. The costs related to oil and gas properties in offshore areas are excluded from the property pool for depletion and amortization purposes until such time as they are evaluated by drilling. As each offshore lease is evaluated, accumulated costs are transferred to the property pool for depletion and amortization purposes.

An analysis of expenditures for oil and gas properties in the U.S. offshore areas, including capitalized interest and associated drilling and exploration costs, is set forth below:

	Not Evaluated	*Evaluated*	*Total*
		(in thousands)	
Balance, December 31, 1978	$209,368	$345,462	$ 554,830
Additions	157,358	48,455	205,813
Transfers	(126,881)	126,881	—
Distribution (See Note 5)	—	(303,385)	(303,385)
Balance, December 31, 1979	239,845	217,413	457,258
Additions	304,101	36,488	340,589
Transfers	(116,269)	116,269	—
Allocated proceeds from partnership (See Note 7)	(25,025)	—	(25,025)
Balance, December 31, 1980	402,652	370,170	772,822
Additions	224,009	73,613	297,622
Transfers	(192,764)	192,764	—
Balance, December 31, 1981	$433,897	$636,547	$1,070,444

The Company sold all of its property interests in the United Kingdom in June 1979 and all of its producing and nonproducing properties in Canada in October 1979. The properties in the United Kingdom cost center were under development and were not subject to amortization. Capitalized costs in the Canadian cost center were amortized on a composite unit-of-production method through the date of sale. Capitalized costs associated with the Company's other foreign cost centers are not significant and have been partially impaired.

The Company's average sales price and rate of depreciation, depletion and amortization of oil and gas properties per equivalent Mcf for the three years ended December 31, 1981 were as follows:

	Average Per Equivalent Mcf	
	Sales Price	*Depreciation, Depletion and Amortization*
1979	$1.50	$ .46
1980	$2.24	$ .61
1981	$2.92	$ .75

(2) OIL AND GAS PROPERTIES, WELLS AND EQUIPMENT—

Capitalized costs at December 31, 1979, 1980 and 1981 relating to oil and gas producing activities and the costs incurred during the years then ended are set forth below:

	United States	Foreign	Total
		(in thousands)	
CAPITALIZED COSTS			
1979			
Unproved properties	$ 279,534	$ 4,892	$ 284,726
Proved properties	473,819	—	473,819
Total	753,653	4,892	758,545
Accumulated depreciation, depletion and amortization	88,424	3,782	92,206
Net	$ 665,229	$ 1,110	$ 666,339
1980			
Unproved properties	$ 457,652	$11,215	$ 468,867
Proved properties	558,197	—	558,197
Total	1,015,849	11,215	1,027,064
Accumulated depreciation, depletion and amortization	163,411	10,730	174,141
Net	$ 852,438	$ 485	$ 852,923
1981			
Unproved properties	$ 515,761	$19,585	$ 535,346
Proved properties	972,043	—	972,043
Total	1,487,804	19,585	1,507,389
Accumulated depreciation, depletion and amortization	259,113	17,066	276,199
Net	$1,228,691	$ 2,499	$1,231,190

	United States	Canada	United Kingdom	Other Foreign	Total
			(in thousands)		
COSTS INCURRED					
1979					
Lease acquisition	$101,214	$ 7,214	$ 1,065	$ 69	$109,562
Acquisition of producing properties	160,399	—	—	—	160,399
Exploration	88,579	7,148	200	957	96,884
Development	90,834	10,024	9,197	—	110,055
Production (operating)	25,720	7,255	—	—	32,975
Total	$366,746	$31,641	$10,462	$1,026	$509,875
Depreciation, depletion and amortization	$ 61,338	$ 9,398	$ —	$3,381	$ 74,117
1980					
Lease acquisition	$180,277	$ —	$ —	$ —	$180,277
Exploration	109,967	—	—	6,465	116,432
Development	138,893	—	—	—	138,893
Production (operating)	39,556	—	—	—	39,556
Total	$468,693	$ —	$ —	$6,465	$475,158
Depreciation, depletion and amortization	$ 71,811	$ —	$ —	$6,948	$ 78,759
1981					
Lease acquisition	$ 77,456	$ —	$ —	$ —	$ 77,456
Exploration	156,379	—	—	8,385	164,764
Development	247,871	—	—	—	247,871
Production (operating)	51,376	—	—	—	51,376
Total	$533,082	$ —	$ —	$8,385	$541,467
Depreciation, depletion and amortization	$ 88,553	$ —	$ —	$6,257	$ 94,810

A summary of offshore properties excluded from capitalized costs being amortized at December 31, 1981 follows:

Status	No. of Tracts		Lease Bonus	Exploration and Development Expenditures	Total
	Federal	State		(in thousands)	
Platforms installed, development in progress	5	–	$ 55,912	$100,884	$156,796
Platforms ordered, development planned	7	–	148,094	52,970	201,064
Tracts drilled, exploration continuing	3	1	15,144	17,624	32,768
Tracts undrilled	7	53	42,117	1,152	43,269
Total	22	54	$261,267	$172,630	$433,897

At December 31, 1981, the Company had accumulated costs of $156,796,000 associated with five unevaluated offshore tracts on which five platforms have been installed (Brazos A-7, High Island 315, 499, 567 and 582). Drilling on these tracts has indicated commercially recoverable hydrocarbons and development drilling is continuing from the platforms. Initial production is expected from four of these platforms in 1982 and one in 1983.

Accumulated costs of $201,064,000 have been incurred through December 31, 1981 on seven tracts for which six platforms have been ordered (Brazos A-39, Eugene Island 337 and 351, Main Pass 74, and Vermilion 381, 392 and 407).

The Company has incurred acquisition costs of $15,144,000 and exploration costs of $17,624,000 on four federal and state offshore tracts on which exploration is continuing. Exploratory drilling to date on these tracts has not discovered sufficient hydrocarbons to justify development.

Costs of $43,269,000 have been incurred on an additional 60 federal and state offshore tracts which have not been tested by drilling as of December 31, 1981.

Until a determination is made as to the quantities of proved reserves and related future development costs attributable to the preceding tracts, the Company cannot accurately assess the future impact on the amortization rate. However, in prior years the evaluation of offshore tracts generally increased the Company's overall amortization rate.

(3) INCOME TAXES—

Set forth below is a reconciliation of the reported income tax expense and the amount of tax computed by multiplying the income before federal income tax by the United States income tax rate.

	1981		1980		1979	
	(dollar amounts in thousands)					
Tax computed by applying statutory rate	$85,463	46.0%	$73,795	46.0%	$200,185	46.0%
Investment tax credit	(6,187)	(3.3)	(6,076)	(3.8)	(4,675)	(1.1)
Sale of tax benefits	(5,240)	(2.8)	—	—	—	—
Dividend exclusion	(2,260)	(1.2)	(817)	(.5)	(446)	(.1)
Application of capital gains tax rate on sale of properties and marketable securities	(593)	(.3)	(1,629)	(1.0)	(44,941)	(10.3)
Other	(443)	(.3)	(84)	(.1)	(560)	(.1)
Income taxes as reported	$70,740	38.1%	$65,189	40.6%	$149,563	34.4%

Deferred taxes are provided by the Company to the extent taxes are currently reduced due to timing differences between taxable and financial income. The following table summarizes the current and deferred portions of income tax expense and provides the primary differences between taxable and financial income considered in the deferred income tax provision.

	1981	1980	1979
		(in thousands)	
Current income taxes—			
Canada	$ 4,175	$ 5,214	$ 36,000
United Kingdom	—	—	9,569
Total	4,175	5,214	45,569
Deferred U.S. income taxes—			
Excess of intangible drilling and exploration costs deducted for tax purposes over amortization for financial purposes	95,802	67,741	53,546
Leasehold costs deducted for tax purposes, including interest capitalized on offshore leases	39,298	21,466	13,996
Tax loss carryforwards utilized (generated)	(52,255)	32,242	12,363
Gain on installment sale of properties	(7,434)	(50,221)	25,832
Difference between book and tax depreciation of plant and equipment	(5,675)	(10,758)	(9,052)
Other	(3,171)	(495)	7,309
Total	66,565	59,975	103,994
Income taxes as reported	$70,740	$65,189	$149,563

At December 31, 1981, the Company had investment tax credit carryforwards of $24 million, foreign tax credit carryforwards of $57 million and a tax net operating loss carryforward of $85 million. The tax benefits from such carryforwards will be credited to the deferred income tax liability account when utilized. The foreign tax credit carryforwards are available to offset, with certain limitations, future foreign source taxable income.

The Company's federal income tax returns for 1976 through 1979 are presently being examined by the Internal Revenue Service. The Company believes that the adjustments, if any, which may result from the examinations would not be material to its financial position or results of operations.

(4) MARKETABLE SECURITIES—

The Company's investment in marketable securities consisted of the following at December 31, 1981:

Common Stocks	Number of Shares	Percent of Class	Cost	Market Value
			(in thousands)	
Sunlite Oil Company Limited	540,680	16.1%	$ 3,670	$ 3,109
General American Oil Company of Texas (GAO)	1,940,936	7.4	31,722	68,115
Equity Oil Company	632,000	5.4	3,137	6,320
Cities Service Company	4,100,000	5.3	181,543	188,600
Supron Energy Corporation (Supron)	920,300	4.5	8,707	30,025
Louisiana Land and Exploration Company	215,600	0.5	9,454	6,333
Other	—	—	106	106
			$238,339	$302,608

The GAO common stock is held in escrow pending redemption or exchange of the Company's subordinated debentures (see Note 10). The Company's other investments are pledged on margin account with brokerage firms. The aggregate cost and market value of the Company's marketable securities at December 31, 1980 were $86,195,000 and $175,928,000, respectively. The costs for marketable securities sold are determined on a first-in, first-out basis.

In February 1982, another company offered to purchase the outstanding common stock of Supron at $35 per share. Mesa has tendered its Supron holdings to the acquiring company. On February 17, 1982, the aggregate market value of the marketable securities owned by the Company at December 31, 1981 was $232,556,000.

(5) DISTRIBUTION TO MESA ROYALTY TRUST—

In November 1979, the Company created the Mesa Royalty Trust, an independently administered trust, to which it transferred an overriding royalty interest from its existing interests in certain producing oil and gas properties. The royalty consists of 90% of the excess of gross revenues from production over operating, development and other related charges. The net book value of oil and gas properties, wells and equipment in the Company's U.S. cost center (excluding costs related to unevaluated offshore properties) was apportioned between the royalty interests transferred to the Trust and the property interests retained by the Company based on their relative estimated fair values. The difference between the financial accounting basis assigned to the Trust properties ($371,600,000) and the related reversal of deferred income taxes ($170,766,000) was charged to reinvested earnings.

(6) SALES AND ACQUISITIONS OF PROPERTIES—

On April 30, 1979, Tema Oil Company, a partnership owned 50% by the Company and 50% by Tenneco Oil Company, acquired the mid-continent region oil and gas producing properties of Ashland Exploration, Inc. for $321 million. The purchase price was financed by equity contributions of $35.8 million by each partner and proceeds from a nonrecourse production payment of $250 million. The Company consolidates its proportionate interest in the Tema partnership.

In June 1979, the Company sold all its assets in the United Kingdom for cash of $26.4 million and promissory notes bearing interest at 8% of $1,941,000, $10,000,000 and $27,000,000 due on January 1, 1980, 1981 and 1982, respectively. The sale resulted in a gain of $31,195,000, before related income taxes.

In October 1979, the Company sold all of its producing and nonproducing oil and gas properties in

Canada for total consideration as follows (in Canadian dollars): cash and interest-bearing obligations aggregating $230.1 million; term royalty on the producing properties in the principal amount of $446.5 million, bearing interest at 6%, payable from 75% of production proceeds after royalties; and the reservation by the Company of a 12.5% gross overriding royalty on the nonproducing properties. The term royalty was discounted at an imputed interest rate of 12% at the date of sale. The sale resulted in a gain of $314,133,000 (U.S. dollars), before related income taxes.

Subsequent to the sale of the Canadian properties in 1979, the Canadian government and certain provincial governments enacted legislation affecting prices to be received for oil and gas production in Canada and imposing royalty taxes on production receipts. At December 31, 1980, the Company estimated that the combined effect of the change in prices and the royalty tax would result in an ultimate yield on the term royalty of approximately 10.5%. Further pricing and royalty tax changes during 1981 have reduced the estimated ultimate yield to 8%; accordingly, in future periods the imputed interest rate will be adjusted to reflect the current estimated ultimate yield of the term royalty. In October 1981, the Company announced its intention to sell the Canadian term royalty and overriding royalty interests. In management's opinion, the fair value of the term royalty and the gross overriding royalty exceeds the carrying cost of these assets.

(7) FORMATION OF MTS LIMITED PARTNERSHIP—

On October 1, 1980, Mesa, Texaco Inc. (Texaco), and Sequoia Petroleum Inc. (Sequoia) formed MTS Limited Partnership (MTS), a partnership to explore for oil and gas on substantially all of the Company's undeveloped oil and gas leases in the United States. Mesa, as general partner, contributed 1.9 million net acres of leaseholds to the partnership for its 65% interest. Texaco and Sequoia, as limited partners, contributed cash of approximately $178 million and $71 million for interests of 25% and 10%, respectively. Ongoing exploration costs are shared in these proportions.

The Company consolidates its proportionate interest in MTS. Mesa withdrew its share ($160 million) of cash contributed to the partnership and applied the receipt as a reduction of oil and gas property costs.

(8) LONG-TERM DEBT—

Long-term debt at December 31, 1981 and 1980, and current maturities are as follows:

	1981	1980
	(in thousands)	
Interest-bearing notes—		
8¼% to 10⅞% secured notes, Series A through F, due in installments through 1995	$180,228	$190,798
13.21% unsecured revolving credit note, due 1987	100,000	—
13¾% to 14¼% secured margin accounts with brokers	121,122	5,446
13.79% to 13.875% short-term notes to be refinanced	120,000	30,000
9.72% to 16¾% notes payable from production, if any, or due in 1985 and 1989	26,089	23,303
17½% unsecured notes due in 1983 and 1984	22,196	33,316
16⅛% term loan	—	75,000
Various other	21,942	17,732
	591,577	375,595
Noninterest-bearing notes—		
Secured notes payable from production, if any, or in installments through 1985	22,855	47,973
Unsecured notes payable from production, if any, or in installments through 1985	17,704	18,773
	40,559	66,746
Total long-term debt	632,136	442,341
Less—current maturities	37,713	48,859
Long-term debt, net of current maturities	$594,423	$393,482

Under the terms of the above secured notes, a substantial portion of the Company's oil and gas properties, as well as its marketable securities and the term royalty receivable, are pledged.

The Series "A" through "F" notes were issued to institutional lenders and are currently repayable, in the aggregate, in semi-annual installments of $6,185,000. The weighted average interest rate for these notes at December 31, 1981 was 9.9%.

At December 31, 1981, the Company had a $100 million unsecured revolving credit agreement with several banks due in 1987. Subsequent to year end, the credit agreement was increased to $200 million. Borrowings under the agreement bear interest at the bank's prime rate or, at the Company's option, at the London Interbank Offering Rate plus three-eighths of one percent. The agreement stipulates, among other things, that the Company will not, without the bank's written consent, (a) permit the ratio of its consolidated liabilities to net worth, as defined, to be at any time greater than 2 to 1; (b) permit the amount of its consolidated net worth, as defined, to be less than $400 million; and (c) purchase or redeem any shares of its common stock, declare or pay any dividends (other than stock dividends) thereon, make any distribution to stockholders, or set aside any funds for any such purpose, if the aggregate amount of such transactions after June 1980 exceeds 20% of the Company's aggregate net income, as defined, for the same period.

Borrowings under margin account arrangements with brokers are secured by certain of the Company's marketable securities and are subject to customary margin requirements. Such borrowings bear interest at the brokers' call rate plus one-quarter of one percent.

During 1981, the Company utilized short-term borrowings to obtain more favorable interest rates than were available under its margin account or revolving credit arrangements. Such borrowings did not, however, exceed the Company's unused borrowing capacity under long-term arrangements considering, during the fourth quarter, the increased borrowing limit of $200 million under the revolving credit facility. Accordingly, the short-term borrowings have been classified as long-term debt in the Company's consolidated balance sheet at December 31, 1981.

The 17½% unsecured notes are payable to a gas transmission company and bear interest at prime plus 1¾%. One of the notes in the principal amount of $13.3 million is repayable in quarterly installments of $2,656,000. The remaining $8.9 million is repayable in annual installments of $495,000, with the balance due January 1, 1984.

The noninterest-bearing notes are payable to gas transmission companies over a five-year period beginning one year after initial production from certain dedicated properties or after a specified date if no production is established.

The amounts payable on all long-term debt as of December 31, 1981 for the next five calendar years are as follows: 1982, $37,713,000; 1983, $28,892,000; 1984, $46,053,000; 1985, $25,642,000; and 1986, $16,431,000.

(9) PRODUCTION PAYMENTS—

Production payments represent notes that are repayable from the Company's share of production from certain dedicated properties. Of the balance outstanding at December 31, 1981, $112.5 million represents the Company's 50% share of the production payment used by Texas to finance the acquisition of producing properties in 1979. The note is repayable from 95% of net lease income, as defined, and bears interest at 107% of prime rate. In January 1982, the Company purchased its 50% share of the production payment from the lending institutions. Funds for the purchase transaction were borrowed from a bank and are repayable in 1983. The borrowing bears interest at the bank's prime rate and is secured by the Company's term royalty receivable.

Of the remaining $63.6 million of production payments, $13.1 million was non-interest bearing and $50.5 million had a weighted average interest rate of 15.5% at December 31, 1981.

(10) SUBORDINATED DEBENTURES—

In May 1980, the Company issued $76.6 million of 8½% subordinated debentures exchangeable for the shares of General American Oil Company of Texas (GAO) common stock owned by the Company. The debentures may be exchanged for shares of GAO at the ratio of 24.01 shares per $1,000 principal amount of debentures. Unless previously redeemed or exchanged, the debentures will be retired through annual sinking fund payments of $6.1 million from 1991 to 1999, with the balance to be retired in the year 2000.

(11) REDEEMABLE PREFERRED STOCK—

In connection with the formation of the MTS partnership, Texaco and Sequoia Ventures Inc. (the parent company of Sequoia), agreed to purchase at the Company's option $210 million of 7% cumulative preferred stock. The Company issued $150 million of the preferred stock to Texaco in May 1981 and the remaining $60 million to Sequoia in August 1981.

The preferred stock is non-voting and is entitled to preferential payments over common stock in the event of liquidation or dissolution of the Company. Dividends are paid annually on October 1; additionally, the preferred stock is subject to annual mandatory redemption requirements of $42 million beginning October 1, 1982.

(12) COMMON STOCK—

Changes in the number of shares of the Company's common stock during the three years ended December 31, 1981 are as follows:

	1981	1980	1979
		(in thousands)	
Shares outstanding, beginning of year	33,601	16,304	15,901
Stock options exercised	68	512	403
Two-for-one stock split	33,644	16,785	—
Retirement of common stock acquired	(519)	—	—
Shares outstanding, end of year	66,794	33,601	16,304

At the Company's annual meeting in April 1980, shareholders approved an increase in authorized shares from 20 million to 100 million shares. In May 1980, the Company effected a two-for-one stock split by issuing additional shares of common stock to shareholders of record on April 25, 1980. In April 1981, the Company effected another two-for-one stock split by issuing additional shares of common stock to shareholders of record on March 12, 1981. In connection with each stock split, the Company transferred from the Capital Surplus account to the Common Stock account an amount equal to the aggregate par value of the additional shares issued.

In May 1981, the Company acquired 519,240 shares of its common stock from various officers for $14,279,000 (market value on the date of purchase) as repayment of loans previously granted for the exercise of stock options. Such shares were subsequently retired.

(13) STOCK OPTIONS—

At December 31, 1981, the Company had 9,453,000 shares of common stock reserved for issuance to executives and key employees under its stock option plans, as adjusted for stock splits. The stock option plans authorize the granting of options at prices equivalent to market value at date of grant. The options become exercisable in four annual installments commencing one year after the date granted and, if not exercised, expire five years after the date of grant if granted from a qualified stock option plan and 10 years after the date of grant if granted from a nonqualified stock option plan. Upon the exercise of options, the Company credits the Common Stock account with the par value of the shares issued and credits the balance of the cash received to Capital Surplus.

As of December 31, 1981, 97 of the Company's employees held options covering 6,439,000 shares of common stock, including a 6,000,000 share option granted to the Company's Chief Executive Officer in 1979. This option, at an exercise price of $11.50 per share, is exercisable as to 2,400,000 shares in 1984, with an additional 720,000 shares becoming exercisable each succeeding year. The remaining 439,000 shares covered by options are outstanding under three option plans and have exercise prices ranging from $4.68 to $34.03 (weighted average exercise price of $18.73). Of the 439,000 option shares outstanding, 161,000 were exercisable at December 31, 1981, with the remaining shares becoming exercisable as follows: 1982, 100,000; 1983, 101,000; 1984, 53,000; and 1985, 24,000.

As of December 31, 1981, the Company had notes receivable aggregating $2,379,000 from certain of its officers and employees relating to the exercise of stock options.

(14) COMMITMENTS AND CONTINGENCIES—

The Company has a profit sharing plan and a stock purchase plan for the benefit of its U.S. employees. Employees are eligible to participate in the profit sharing plan immediately upon employment and may participate in the stock purchase plan on the first calendar quarter following employment. Company contributions to all plans totaled $1,808,000, $2,611,000 and $4,491,000 for the years ended December 31, 1979, 1980 and 1981, respectively.

The minimum rental commitments under long-term noncancelable leases for office space, data processing and other equipment are $2,154,000, $2,109,000, $2,742,000, $2,255,000 and $1,947,000, respectively, for the five years ended December 31, 1986, and $5,587,000 for the five-year period ending December 31, 1991.

Event subsequent to date of Auditors' Report —

On March 2, 1982, the Company received notice from the Internal Revenue Service (IRS) concerning certain tax aspects relating to the creation of the Mesa Royalty Trust to which Mesa transferred 90% net overriding royalty interests in certain of its oil and gas producing properties in November 1979 (see Note 5). The IRS has taken the position that three of the four overriding royalty conveyances to the Trust did not transfer an "economic interest" in the oil and gas in place; therefore, the royalty income attributable to the three conveyances (approximately $70 million through December 31, 1981) would be included in Mesa's taxable income. Any taxes resulting therefrom through December 31, 1981 would be offset against the Company's $85 million tax net operating loss carryforward.

Mesa and its legal counsel maintain the opinion that the amounts payable to the Trust pursuant to the royalty interests conveyed will not be includable in the income of the Company for federal income tax purposes. Should these issues not be settled administratively with the IRS, the Company will seek resolution through litigation. The Company's legal counsel has expressed its opinion that the Company would prevail in any such litigation.

(15) SEGMENT INFORMATION—

	United States	Canada	Other Foreign	Consolidated
		(in thousands)		
Year Ended December 31, 1979				
Net revenues from production of oil and gas reserves	$ 184,930	$ 24,189	$ —	$ 209,119
Total revenues	$ 238,455	$ 44,396	$ —	$ 282,851
Operating income	$ 124,088	$ 27,161	$(3,016)	$ 148,233
General corporate expenses				(9,778)
Interest expense, net of interest capitalized				(49,601)
Foreign exchange gain				319
Gain on sale of marketable securities				684
Gain on sale of properties				345,328
Income before income tax				$ 435,185
Identifiable assets at December 31, 1979	$ 692,643	$294,641	$ 1,175	$1,268,459
Year Ended December 31, 1980				
Net revenues from production of oil and gas reserves	$ 237,516	$ 4	$ —	$ 237,520
Total revenues	$ 337,533	$ 34,830	$ —	$ 372,363
Operating income	$ 169,610	$ 34,830	$(5,757)	$ 198,683
General corporate expenses				(14,613)
Interest expense, net of interest capitalized				(32,655)
Foreign exchange loss				(6,921)
Gain on sale of marketable securities				15,931
Income before income tax				$ 160,425
Identifiable assets at December 31, 1980	$1,143,972	$282,322	$ 556	$1,426,850
Year Ended December 31, 1981				
Net revenues from production of oil and gas reserves	$ 290,409	$ 512	$ —	$ 290,921
Total revenues	$ 378,432	$ 29,312	$ —	$ 407,744
Operating income	$ 210,613	$ 29,259	$(3,612)	$ 236,260
General corporate expenses				(24,435)
Interest expense, net of interest capitalized				(29,332)
Foreign exchange gain				1,566
Gain on sale of marketable securities				1,730
Income before income tax				$ 185,789
Identifiable assets at December 31, 1981	$1,792,679	$274,059	$ 2,617	$2,069,355

Net revenue from production represents revenue after royalties, production costs and, in 1980 and 1981, the federal excise tax on oil and condensate. Operating income is defined as income before other income (expense) and income taxes and excludes corporate general and administrative expenses and interest. Identifiable assets in the United States include general corporate assets of $104,787,000, $122,050,000 and $280,436,000 at December 31, 1979, 1980 and 1981, respectively, consisting of cash, certain receivables and marketable securities.

Sales to customers which individually comprise 10% or more of total revenues during the three years ended December 31, 1981 are as follows:

	1981		1980		1979	
	Revenues	%	Revenues	%	Revenues	%
	(dollar amounts in thousands)					
Koch Industries, Inc.	$52,500	13%	$73,701	20%	$46,556	16%
United Gas Pipeline Company	*	*	50,539	14%	*	*

*Sales to this customer were less than 10% of total revenues for the year shown.

Concurrent with the formation of MTS, Mesa granted Texaco a preferential right to purchase all of its available crude oil, condensate and natural gas liquids which are produced, owned or controlled by Mesa in the United States, until such time as Texaco has purchased 40 million barrels. The prices to be paid by Texaco will be determined based on the prices then being paid by other purchasers of such petroleum liquids in bona fide, arm's-length transactions in the area.

(16) QUARTERLY RESULTS (Unaudited)—

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share data)			
1980				
Revenues	$106,930	$ 94,949	$ 83,737	$ 86,747
Income before other income (expense) and income taxes	$ 40,289	$ 29,951	$ 35,632	$ 45,543
Foreign exchange gain (loss)	(5,481)	8,907	(5,055)	(5,292)
Gain on sale of marketable securities	516	815	—	14,600
Provision for income taxes	(15,411)	(15,021)	(13,885)	(20,872)
Net income	$ 19,913	$ 24,552	$ 16,692	$ 33,979
Income per common share	$.29	$.36	$.24	$.49
1981				
Revenues	$103,624	$100,911	$103,810	$ 99,399
Income before other income (expense) and income taxes	$ 48,826	$ 47,494	$ 46,242	$ 39,931
Foreign exchange gain (loss)	1,437	(3,380)	(1,454)	4,963
Gain on sale of marketable securities	3	—	—	1,727
Provision for income taxes	(20,425)	(18,040)	(17,479)	(14,796)
Net income	29,841	26,074	27,309	31,825
Preferred stock dividends	—	(1,611)	(3,354)	(3,705)
Net income available for common	$ 29,841	$ 24,463	$ 23,955	$ 28,120
Income per common share	$.43	$.35	$.35	$.41

All per share data have been adjusted to reflect the two-for-one stock splits in 1980 and 1981.

(17) SUPPLEMENTAL RESERVE INFORMATION (Unaudited)—

Mesa's net proved oil and gas reserves as of December 31, 1981, 1980, 1979 and 1978 have been estimated by DeGolyer and MacNaughton, independent petroleum engineering consultants, except that reserves in Canada at December 31, 1981 were estimated by the Company. In accordance with guidelines established by the Securities and Exchange Commission (SEC), the reserve estimates were based on economic and operating conditions existing at the end of the respective years.

For sales of natural gas, prices currently received were used except in those instances where the sale of gas is covered by contract, in which case the applicable contract prices including fixed and determinable escalations were used for the duration of the contract, and thereafter the last contract price was used. Where applicable, prices and periodic adjustments as provided by the Natural Gas Policy Act of 1978 were used, except for the annual inflation adjustment factor. For sales of oil and condensate, prices then being received were used in 1978, 1979 and 1981. In 1980, the prices used reflect the phased decontrol of domestic crude oil prices in effect at that time. Prices used in 1980 and 1981 also reflect the related federal excise tax on oil and condensate. Prices currently being received were used for sales of natural gas liquids. Operating costs, production and ad valorem taxes and future development costs were based on current costs with no escalation as of each report date.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting the future rates of production and timing of development expenditures. The following reserve data represent estimates only and should not be construed as being exact. Moreover, the present values should not be construed as the current market value of the Company's oil and gas reserves or the costs that would be incurred to obtain equivalent reserves. A market value determination would include many additional factors including (i) anticipated future increases in oil and gas prices and production and development costs; (ii) federal income taxes on the future net revenues; (iii) an allowance for return on investment; (iv) the value of additional reserves, not considered proved at present, which may be recovered as a result of further exploration and development activities; and (v) other business risks.

The following schedules set forth (i) the estimated quantities of the Company's net proved and proved developed oil (including condensate and natural gas liquids) and natural gas reserves; (ii) the estimated future net revenues from production of the reserves; (iii) the present value, discounted at 10% per year, of the future net revenues, all as provided by DeGolyer & MacNaughton (except for reserves located in Canada as of December 31, 1981); and, as prepared by the Company, (iv) the nature of the changes during 1979, 1980 and 1981 in the present value of the future net revenues; and (v) the summary of oil and gas producing activities on the basis of reserve recognition accounting. Data for all periods include the Company's proportionate interests in the Tema and MTS partnerships, and all dollar amounts are in U.S. dollars.

Estimated Quantities of Reserves

	United States		Canada		United Kingdom	Total	
	Oil (Mbbl)	Gas (MMcf)	Oil (Mbbl)	Gas (MMcf)	Oil (Mbbl)	Oil (Mbbl)	Gas (MMcf)
Proved Reserves:							
January 1, 1979	29,047	1,265,083	5,866	354,554	37,124	72,037	1,613,637
Purchase of reserves-in-place[a]	1,348	357,647	—	—	—	1,348	357,647
Revisions of previous estimates	1,361	(36,881)	(315)	(8,522)	—	1,046	(45,403)
Extensions, discoveries and other additions	3,917	126,989	1,107	12,979	—	5,024	139,968
Production	(4,285)	(112,107)	(610)	(19,457)	—	(4,895)	(131,564)
Sale of reserves-in-place[a]	—	—	(6,048)	(339,554)	(37,124)	(43,172)	(339,554)
Distribution to Mesa Royalty Trust[a]	(7,988)	(791,331)	—	—	—	(7,988)	(791,331)
December 31, 1979	23,400	809,400	—	—	—	23,400	809,400
Revisions of previous estimates	1,597	28,965	—	—		1,597	28,965
Improved recovery	967	287	—	—		967	287
Extensions, discoveries and other additions	2,908	124,133	20	1,916		2,928	126,049
Production	(3,777)	(106,013)	—	—		(3,777)	(106,013)
December 31, 1980	25,095	856,772	20	1,916		25,115	858,688
Revisions of previous estimates	1,238	46,003	—	—		1,238	46,003
Extensions, discoveries and other additions	4,946	109,541	53	7,134		4,999	116,675
Production	(3,783)	(102,606)	(23)	(142)		(3,806)	(102,748)
December 31, 1981	27,496[b]	909,710	50	8,908		27,546	918,618
Proved Developed Reserves:							
January 1, 1979	28,880	1,244,862	5,414	328,909	—	34,294	1,573,771
Net Change	(5,552)	(456,906)	(5,414)	(328,909)	—	(10,966)	(785,815)
December 31, 1979	23,328	787,956	—	—	—	23,328	787,956
Net Change	1,206	43,061	20	1,916		1,226	44,977
December 31, 1980	24,534	831,017	20	1,916		24,554	832,933
Net Change	2,794	48,249	30	6,992		2,824	55,241
December 31, 1981	27,328[b]	879,266	50	8,908		27,378	888,174

[a] See Notes 5 and 6 to the Consolidated Financial Statements.
[b] Includes natural gas liquids reserves of 6,695 Mbbl, attributable to processing plant interests, primarily in the Hugoton field.

Future Net Revenues from Production of Reserves

	United States		Canada
	Proved	Proved Developed	Proved
		(in thousands)	
Future Net Revenues:			
1982	$ 324,984	$ 329,124	$ 314
1983	302,047	282,286	691
1984	231,129	213,377	735
Remainder	1,376,204	1,321,642	15,537
Total	$2,234,364	$2,145,429	$17,277

Present Value, Discounted at 10%, of the Future Net Revenues

	United States		Canada		United Kingdom
	Proved	Proved Developed	Proved	Proved Developed	Proved
			(in thousands)		
January 1, 1979	$ 853,452	$ 839,539	$217,881	$203,616	$52,636
Net Change	(99,530)	(99,255)	(217,881)	(203,616)	(52,636)
December 31, 1979	753,922	740,284	—	—	$ —
Net Change	279,527	265,099	2,251	2,251	
December 31, 1980	1,033,449	1,005,383	2,251	2,251	
Net Change	250,140	222,278	4,477	4,477	
December 31, 1981	$1,283,589	$1,227,661	$ 6,728	$ 6,728	

Changes in the Present Value, Discounted at 10%, of Future Net Revenues of Proved Oil and Gas Reserves

	Year Ended December 31		
	1981	1980	1979
		(in thousands)	
Present value at beginning of year	$1,035,700	$ 753,922	$1,123,969
Acquisition of producing properties	—	—	145,487
Additions and revisions, net of related estimated future development and production costs[a]	524,063	508,620	604,354
Projected development costs incurred	21,475	10,678	34,188
Sales of oil and gas, net of related production costs and federal excise tax on oil and condensate	(290,921)	(237,520)	(209,118)
Proceeds from sale of reserves-in-place—			
Canada	—	—	(395,756)
United Kingdom	—	—	(63,655)
Distribution to Mesa Royalty Trust	—	—	(485,547)
Present value at end of year	$1,290,317	$1,035,700	$ 753,922

[a] See following schedule for details of additions and revisions.

Summary of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting

	Year Ended December 31		
	1981	1980	1979
		(in thousands)	
Additions and revisions to present value of estimated future net revenues:			
Discoveries, extensions and other additions, net of related future development and production costs	$323,659	$258,576	$258,846
Revisions of reserves proved in prior years—			
Increase in price	104,871	209,938	152,712
Gain on sale of Canadian reserves-in-place	—	—	161,439
Gain on sale of U.K. reserves-in-place	—	—	1,841
Other	(8,037)	(35,286)	(74,363)
Accretion of discount	103,570	75,392	104,079
Total additions and revisions	524,063	508,620	604,954
Evaluated acquisition, exploration and development costs incurred, including impairments	(407,019)	(223,749)	(264,044)
Excess purchase cost on acquisition of producing properties	—	—	(14,912)
Additions and revisions over evaluated costs	117,044	284,871	325,398
Gain on sale of Canadian undeveloped acreage	—	—	21,461
Cash withdrawn from partnership in excess of cost of undeveloped acreage contributed	—	79,787	—
RRA results before tax	117,044	364,658	346,859
Provision for income taxes	(41,843)	(159,067)	(121,280)
Results of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting	$ 75,201	$205,591	$225,579

The following accounting policies have been followed in preparing the Reserve Recognition Accounting (RRA) Summary.

Discoveries, extensions and other additions represent the present value at year end of reserve additions from exploration and development activities, net of future development and production costs. The amount has been computed in accordance with the SEC pricing, costing and discounting guidelines previously described. The 1979 amount includes additions of $14,251,000 associated with the Company's Canadian properties prior to the sale in October 1979. The 1980 and 1981 amounts include additions of $2,251,000 and $4,764,000, respectively, attributable to the 12½% gross overriding royalty interest retained by the Company on Canadian undeveloped acreage sold in 1979.

Revisions of proved reserves include (i) the approximate effect of the increase of oil and gas prices, net of the related federal excise tax on oil and condensate, used to value the Company's proved reserves; (ii) the excess of the actual proceeds from the sale of the Company's Canadian and U.K. properties over the related discounted present value at the date of sale; and (iii) other revisions comprised primarily of changes in estimated quantities of proved reserves, timing of production and future costs.

Accretion of discount was computed by applying the 10% discount factor to the present value at the beginning of the respective years.

Property acquisition costs are charged to expense at the time the property is determined to have proved reserves, or when evidence of impairment is ascertained. Exploration costs are charged to expense during the period incurred, except for uncompleted exploratory wells and exploration costs associated with offshore blocks prior to ascertaining the quantities of proved reserves attributable to the properties. Summarized below are the costs charged to expense during the three years ended December 31, 1981, and the costs deferred as of each year end:

	1981	1980	1979
		(in thousands)	
Acquisition costs—			
Charged to expense	$ 45,136	$ 23,218	$111,378
Deferred at year end	284,400	252,661	168,164
Exploration and development costs—			
Charged to expense	361,883	200,531	152,666
Deferred at year end	205,623	160,118	112,667

In addition to the gain on sale of reserves-in-place in 1979, the Company realized a gain of $21,461,000 on the sale of its undeveloped acreage in Canada. In 1980, the Company contributed substantially all of its undeveloped leases to the MTS partnership. The Company's 65% share of the cash contributed by the other partners exceeded the cost of the leases contributed by $79,787,000 (see Note 7).

The 1981 and 1980 RRA results before tax of $117,044,000 and $364,658,000, respectively, compare to pre-tax profit contributions from oil and gas producing activities of $193,908,000 and $157,172,000, respectively, in the primary financial statements.

The 1979 RRA results before tax of $346,859,000 consists of $162,118,000 from oil and gas producing activities and $184,741,000 from the sale of assets. These amounts compare to a pre-tax profit contribution in the primary financial statements of $478,795,000, consisting of $133,467,000 from oil and gas producing activities and $345,328,000 from the sale of assets.

The provision for income taxes is computed using the liability method and includes income taxes currently payable and a deferred provision. Set forth below is a reconciliation of the RRA provision for income taxes and the amount of tax computed by applying the statutory income tax rate to the RRA results before tax.

	1981		1980		1979	
	(dollar amounts in thousands)					
Tax computed by applying statutory rate	$53,840	46.0%	$167,743	46.0%	$159,555	46.0%
Investment tax credit, including amounts attributable to future development costs	(11,554)	(9.9)	(7,775)	(2.1)	(4,337)	(1.2)
Decrease in taxes resulting from statutory depletion in excess of cost depletion	(443)	(.4)	(901)	(.3)	(1,006)	(.3)
Decrease in taxes resulting from application of capital gains tax rate on sale of properties	—	—	—	—	(16,253)	(4.7)
Decrease in taxes resulting from change in statutory tax rate from 48% to 46%	—	—	—	—	(16,679)	(4.8)
RRA provision for income taxes	$41,843	35.7%	$159,067	43.6%	$121,280	35.0%

(18) INFLATION ACCOUNTING (Unaudited)—

The following information presents the effect of changing prices on the Company's assets, liabilities and net income for 1981, 1980 and 1979. "Constant dollar" information represents a restatement of historical cost amounts for increases in general inflation as measured by the Consumer Price Index. "Current cost" information represents a restatement of historical cost amounts for inflationary increases in the oil and gas industry as measured by the Oil Field Machinery and Tools Index. All amounts except the 1980 current cost amounts are stated in average 1981 dollars. The 1980 current cost amounts are stated in average 1980 dollars.

	Current Cost		Constant Dollar		
	1981	1980	1981	1980	1979
	(in thousands, except per share data)				
Net income available for common	$ 55,892	$ 49,819	$ 77,234	$ 54,517	$169,916
Income per share, fully diluted	$ .96	$ .72	$ 1.12	$ .79	$ 2.63
Net assets at year end	$1,194,406	$ 909,104	$999,639	$856,912	$681,814
Gain from decline in purchasing power of net amounts owed			$ 57,061	$ 53,182	$ 76,054
Amount of property, plant and equipment at year end	$1,805,199	$1,238,255			
Increase in specific prices of property, plant and equipment over increase in general price level	$ 125,444	$ 132,814			

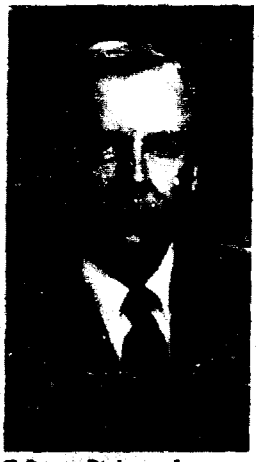
Current cost net income, as compared to historical cost net income, reflects additional depreciation, depletion and amortization of $40.5 million in 1981 and $45.4 million in 1980. No adjustment was made to the provision for income taxes as reported in the primary financial statements.

Constant dollar net income reflects additional depreciation, depletion and amortization expense of $29.1 million, $40.7 million and $44 million in 1981, 1980 and 1979, respectively, and in 1979, an increase of $71.7 million in the net book value of properties sold. No adjustment was made to the provision for income taxes as reported in the primary financial statements. Net assets were adjusted to constant dollars using the average level of the Consumer Price Index for 1981 of 272.4.

Certain additional financial data adjusted for general inflation (constant dollars) for the five years ended December 31, 1981 stated in average 1981 dollars is as follows:

	1981	1980	1979	1978	1977
Total revenues (in thousands)	$407,744	$410,987	$354,409	$233,136	$210,799
Cash dividends per common share	$ .12	$ .058	$ .122	$ .153	$ .094
Market price per common share at year end	$ 20.38	$ 35.04	$ 18.52	$ 11.42	$ 14.54
Average consumer price index	272.4	246.8	217.4	195.4	181.5

The constant dollar and current cost disclosures represent a substantial departure from historical accounting principles and are of limited usefulness in evaluating the Company's results of operations or financial position.



T. Boone Pickens, Jr.
President and
Chairman of the Board
of Directors of the
Company since 1964.



Robert L. Stillwell
Partner in Baker & Botts
(attorneys), Houston,
Texas. Served as a
director since 1969.



Michael A. Nicolais
President of The Clark
Estates, Inc. (estate
management), New
York, New York. Served
as a director since 1969.



Jack K. Larsen
Executive Vice President
of the Company.
Served as a director
since 1974.



Wales H. Madden, Jr.
Attorney and
businessman,
Amarillo, Texas.
Served as a director
since 1964.

Directors and Officers

DIRECTORS

T. Boone Pickens, Jr.
President and Chairman of the Board of Directors of the Company

Jack K. Larsen
Executive Vice President of the Company

Wales H. Madden, Jr.
Attorney and businessman
Amarillo, Texas

Michael A. Nicolais
President of The Clark Estates, Inc. (estate management)
New York, New York

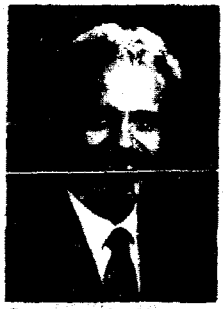
Robert L. Stillwell
Partner of Baker & Botts (attorneys)
Houston, Texas



John F. Boros
Vice President, Treasurer and Secretary since 1974. Joined Mesa in 1964.



T. Boone Pickens, Jr.
President and Chairman of the Board of Directors since founding the Company in 1964.



Gaines L. Godfrey
Vice President-Finance since 1974. Joined Mesa in 1973.



Jesse P. Johnson
Vice President-Operations since joining Mesa in March 1982.



Jack K. Larsen
Executive Vice President since 1980. Joined Mesa in 1969.



James O. Upchurch
Vice President-Engineering since 1971. Joined Mesa in 1969.



Bill R. Alexander
Vice President-Personnel and Administration since 1980. Joined Mesa in 1971.



David H. Batchelder
Controller since 1980. Joined Mesa in 1978.



James G. Blankenship
Vice President-Gulf Coast since 1980. Joined Mesa in 1974.



Marion E. Causey
Vice President-Permian Basin since 1980. Joined Mesa in 1973.



Robert W. King
Vice President-Rocky Mountain since 1980. Joined Mesa in 1973.

OFFICERS

T. Boone Pickens, Jr.
President and Chairman of the Board of Directors
Jack K. Larsen
Executive Vice President
Bill R. Alexander
Vice President-Personnel and Administration
James G. Blankenship
Vice President-Gulf Coast
John F. Boros
Vice President, Treasurer and Secretary
Marion E. Causey
Vice President-Permian Basin
Gaines L. Godfrey
Vice President-Finance
Jesse P. Johnson
Vice President-Operations
Robert W. King
Vice President-Rocky Mountain
James O. Upchurch
Vice President-Engineering
David H. Batchelder
Controller

General Information

Auditors

Arthur Andersen & Co.
Houston, Texas

Special Counsel

Baker & Botts
Houston, Texas

Transfer Agents

The Chase Manhattan Bank (N.A.)
The First National Bank of Amarillo

Registrars

The Chase Manhattan Bank (N.A.)
First City National Bank of Houston

Principal Offices

EXECUTIVE OFFICES
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GULF COAST DIVISION
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601 Jefferson Street
Houston, Texas 77002

MID-CONTINENT DIVISION
Jed W. Lemmons, division manager
6 Broadway Executive Park
6600 North Harvey
Oklahoma City, Oklahoma 73116

PERMIAN BASIN DIVISION
Marion E. Causey, vice president
1000 Vaughn Building
400 West Texas Avenue
Midland, Texas 79701

ROCKY MOUNTAIN DIVISION
Robert W. King, vice president
2800 Lincoln Center Building
1660 Lincoln Street
Denver, Colorado 80264

INTERNATIONAL DIVISION
George M. Edmond, executive vice president
Mesa Australia Limited
Australia Mutual Provident Building
140 St. Georges Terrace
Perth, Western Australia 6000



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 Western Reserves Oil Company has not been registered in the State of New Mexico as a Foreign Limited Partnership.

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MESA EXHIBIT NO. 16
CASE NO. 7564

Given under my hand and the Great Seal of the State of New Mexico, in the City of Santa Fe, the Capital on this 26th *day of* May *A.D.* 1982

Secretary of State

Dockets Nos. 16-82 and 17-82 are tentatively set for June 9 and June 23, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 26, 1982

9 A.M. - MORGAN HALL, STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

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

CASE 7588: Application of Caulkins Oil Company for a non-standard gas proration unit, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 320-acre non-standard gas proration unit for Blanco Mesaverde production, comprising the NW/4, N/2 NE/4, and N/2 SW/4 of Section 16, Township 26 North, Range 6 West.

CASE 7589: Application of BTA Oil Producers for a non-standard oil proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 90-acre non-standard oil proration unit, Northeast Lovington Penn Pool, comprising the SE/4 NE/4 and the NE/4 SE/4 of Section 11, Township 16 South, Range 36 East, to be dedicated to a well to be drilled at a standard location thereon.

CASES 7554 and 7555: (Continued and Readvertised)

Application of Morris R. Antweil 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 Drinkard formation underlying the lands specified in each case to form a standard 40-acre oil 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 7554: NW/4 SW/4 Section 5, Township 20 South, Range 38 East

CASE 7555: SW/4 NW/4 Section 5, Township 20 South, Range 38 East

CASE 7590: Application of Consolidated Oil & Gas, Inc. for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Basin Dakota and Flora Vista-Gallup production in the wellbore of its Payne 1-E, located in Unit P, Section 35, Township 31 North, Range 13 West.

CASE 7519: (Continued from April 28, 1982, Examiner Hearing)

Application of S & J Oil Company for special pool rules, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Seven Lakes-Menafee Oil Pool to provide for well to be located not nearer than 25 feet to the quarter-quarter section line nor nearer than 165 feet to lands owned by an offset operator.

CASE 7573: (Continued from May 12, 1982, Examiner Hearing)

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 7591: Application of Texaco, Inc. for a tertiary oil recovery project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to convert its Vacuum Grayburg-San Andres Pressure Maintanance Project to a polymer-augmented waterflood and, pursuant to Section 212.78 of the U. S. Dept. of Energy Regulations and Section 4993 of the Internal Revenue Code, seeks certification of said project as a qualified tertiary oil recovery project.

CASE 7592: Application of OXOCO for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Mesa Verde formation underlying the E/2 of Section 20, Township 32 North, Range 8 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7593: Application of Western Reserves Oil Company 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 NW/4 of Section 30, Township 6 South, Range 25 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 7562: (Continued from April 28, 1982, Examiner Hearing)

Application of Northwest Exploration Company for pool creation and special pool rules, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Gallup-Dakota oil pool for its Gavilan Well No. 1 located in Unit A of Section 26, Township 25 North, Range 2 West, with special rules therefor, including provisions for 160-acre spacing.

CASE 7564: (Continued from April 28, 1982, Examiner Hearing)

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 from the surface down through the Abo formation underlying the NW/4 of Section 30, Township 6 South, Range 25 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 7582 thru 7585: (Continued from May 12, 1982, Examiner Hearing)

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

CASE 7594: Application of Harvey E. Yates Company for statutory unitization, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purposes of a secondary recovery project, all mineral interests in that portion of the Bone Spring formation described as the Carbonate unit between the first and second Bone Spring Sands underlying the Young Deep Unit, encompassing 560 acres, more or less, of Federal lands underlying portions of Sections 3, 4, 9 and 10, Township 18 South, Range 32 East.

CASE 7595: Application of Harvey E. Yates Company for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a pilot waterflood project in the North Young-Bone Spring Pool by the injection of water into the perforated interval from 8444 feet to 8488 feet in its Young Deep Unit Well No. 2, located in Unit C of Section 10, Township 18 South, Range 32 East.

CASE 7445: (Continued from April 28, 1982, Examiner Hearing)

Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the San Andres formation for its Fulton Collier Well No. 1 in Unit G of Section 1, Township 18 South, Range 28 East.

CASE 7596: Application of Yates Drilling Company for statutory unitization, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purposes of a secondary recovery project, all mineral interests in the interval described below underlying the Loco Hills (Grayburg) Unit, encompassing 1060 acres, more or less, of Federal lands underlying portions of Sections 19, 20, 29 and 30, Township 18 South, Range 29 East.

The unitized interval would be from the top of the Grayburg formation to a point 30 feet below the base of the Loco Hills Sand formation, being the interval from 2,272 feet to 2,429 feet in the Yates Alscott Federal Well No. 1 located in Unit A of said Section 30.

CASE 7597: Application of Yates Drilling Company for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a secondary recovery project on its South Loco Hills (Grayburg) Unit Area by the injection of water into the Grayburg formation through eight wells located in Sections 19, 20, 29, and 30, Township 18 South, Range 29 East.

CASE 7571: (Continued from May 12, 1982, Examiner Hearing)

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 7590: Application of AMR Production Company and Yates Petroleum Corporation for designation of a tight formation in San Miguel, Torrance, Guadalupe, De Baca, Lincoln and Chaves Counties, New Mexico.

Pursuant to Section 107 of the Natural Gas Policy Act of 1978 and 18 CFR Section 271. 701-705, applicants, in the above-styled cause, seek the designation as a tight formation of the Abo formation underlying the following described lands in the above-named counties.

All of:

Townships 1 thru 4 North, Ranges 14 thru 27 East;

Townships 5 thru 11 North, Ranges 14 thru 26 East;

Township 1 South, Ranges 14 thru 27 East;

Townships 2 thru 5 South, Ranges 14 thru 21 East;

Townships 6 thru 11 South, Ranges 15 thru 21 East;

Township 12 South, Ranges 17 thru 21 1/2 East; and

Townships 13 and 14 South, Ranges 17 thru 21 East;

containing 5,168,563 acres, more or less, but excluding the not yet defined Capitan Wilderness Area.

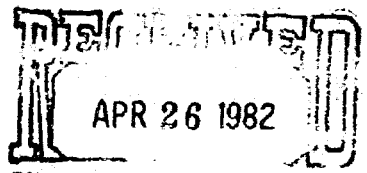
CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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April 26, 1982

File



Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of Energy
& Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Case 7564: Application of Mesa Petroleum Company for Compulsory Pooling, Chaves County, New Mexico

Dear Mr. Ramey:

On April 23, 1982 I was contacted by Jim Jennings, attorney for Western Reserves Oil Company concerning the above-referenced case. Mr. Jennings advised me on that date that he will be filing an application for Western Reserves requesting a hearing pooling the NW 1/4 of Section 30, Township 6 South, Range 25 East which will be heard before an examiner on May 26, 1982.

Mesa, therefore, requests that the above-referenced be continued to the May 26 examiner hearing to enable the Division to consider both applications at the same time.

You attention to this request is appreciated.

Very truly yours,

William F. Carr

WFC:jh
cc: James T. Jennings, Esquire (w/enc. App.)

Docket No. 11-82

Dockets Nos. 13-82 and 14-82 are tentatively set for May 12 and May 26, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - THURSDAY - APRIL 22, 1982

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 7509: (Continued and Readvertised)

Application of Supron Energy Corporation for a non-standard proration unit or compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard proration unit for the Dakota and Mesaverde formations comprising the SW/4 of Section 2, Township 31 North, Range 8 West, or in the alternative, an order pooling all mineral interests from the surface down through the Dakota formation underlying the S/2 of said Section 2, 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 7535: (Continued and Readvertised)

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 the Abo formation underlying the SW/4 of Section 17, Township 6 South, Range 25 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 7553: (Continued from April 14, 1982, Examiner Hearing)

Application of Fred Pool Drilling Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Abo formation underlying the SW/4 of Section 17, Township 6 South, Range 25 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.

****

Docket No. 12-82

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 28, 1982

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

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

CASE 7560: 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 7469: (Continued from March 31, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit H. M. Bailey & Associates, Commercial Union Insurance Company, and all other interested parties to appear and show cause why the following wells on the H. M. Bailey Lease, Township 21 South, Range 1 West, Dona Ana County, should not be plugged and abandoned in accordance with a Division-approved plugging program: In Section 10: Nos. 9 in Unit A, 9, 11, 12, and 13 in Unit B, 10 and 14 in Unit C; and No. 15 in Unit C of Section 9.

MICROGRAPHICS

ILABLE COPY

CASE 7458: (Continued from March 3, 1982, Examiner Hearing)

Application of Marks & Garner Production Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of salt water into the Bough C formation in the perforated interval from 9596 feet to 9616 feet in its Betenbough Well No. 2, located in Unit M of Section 12, Township 9 South, Range 35 East.

CASE 7561: Application of Franks Petroleum, Inc. 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 North line and 1980 feet from the West line of Section 9, Township 21 South, Range 32 East, Hat Mesa-Morrow Gas Pool, the W/2 of said Section 9 to be dedicated to the well.

CASE 7565: 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 7544: (Continued and Readvertised)

Application of Dinero Operating Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow-Ellenberger well to be drilled 660 feet from the North and East lines of Section 20, Township 22 South, Range 28 East, the N/2 of said Section 20 to be dedicated to the well.

CASE 7562: Application of Northwest Exploration Company for pool creation and special pool rules, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Gallup-Dakota oil pool for its Gavilan Well No. 1 located in Unit A of Section 26, Township 25 North, Range 2 West, with special rules therefor, including provisions for 160-acre spacing.

CASE 7519: (Continued from March 31, 1982, Examiner Hearing)

Application of S & J Oil Company for special pool rules, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Seven Lakes-Menafee Oil Pool to provide for well to be located not nearer than 25 feet to the quarter-quarter section line nor nearer than 165 feet to lands owned by an offset operator.

CASE 7563: Application of Marathon Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in all Permian formations underlying the NE/4 NE/4 of Section 26, Township 16 South, Range 38 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 7457: (Continued from March 16, 1982, Examiner Hearing)

Application of E. T. Ross for nine non-standard gas proration units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval for nine 40-acre non-standard gas proration units in the Bravo Dome Carbon Dioxide Area. In Township 19 North, Range 30 East: Section 12, the NW/4 NW/4 and NE/4 NW/4; Section 14, the NW/4 NE/4, SW/4 NE/4, and SE/4 NE/4. In Township 20 North, Range 30 East: Section 11, the NE/4 SW/4, SW/4 SE/4, SE/4 SW/4, and NW/4 SE/4.

CASE 7564: 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 from the surface down through the Abo formation underlying the NW/4 of Section 30, Township 6 South, Range 25 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 7445: (Continued from March 16, 1982, Examiner Hearing - This Case will be continued to May 26, 1982)

Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the San Andres formation for its Fulton Collier Well No. 1 in Unit G of Section 1, Township 18 South, Range 28 East.

CASES 7524 THRU 7534: (Continued from March 31, 1982, Examiner Hearing)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following 11 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 7524: SE/4 Section 2, Township 5 South, Range 24 East

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

. MICROGRAPHICS

VAILABLE COPY

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

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April 7, 1982

APR 08 1982

Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of Energy
& Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Case 7564

Re: Application of Mesa Petroleum Company for Compulsory Pooling, Chaves County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Mesa Petroleum Company in the above-referenced matter.

The applicant requests that this matter be included on the docket for the examiner hearing scheduled to be held on April 28, 1982.

Very truly yours,

William F. Carr

WFC:jh
w/enc.
cc: Steven C. James, Esquire

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

APR 08 1982

IN THE MATTER OF THE APPLICATION OF MESA PETROLEUM COMPANY FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO

CASE 7564

APPLICATION

Comes now, MESA PETROLEUM COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests from the surface through the Abo formation in and under the NW/4 of Section 30, Township 6 South, Range 25 East, N.M.P.M., Chaves County, New Mexico, and in support thereof would show the Division:

1. Applicant is the owner of 25% of the working interest in and under the NW/4 of said Section 30, and applicant has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to a well to be drilled at an orthodox location in the NW/4 of said Section 30.

3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the NW/4 of said Section 30 except Western Reserves Oil Company owner of a 50% working interest.

4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and assessing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By _____
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

Memo

From

FLORENE DAVIDSON
ADMINISTRATIVE SECRETARY

To Called in by Bill Carr
4/6/82

Mesa Petroleum Company
Compulsory Pooling
Chaves County
Surface down thru Abo
NW/4 Section 30, T 6 S, R 25 E

OIL CONSERVATION COMMISSION-SANTA FE

CASES

STATE OF NEW MEXICO

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION

BH

MS.

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

CASE NO. 7564

Order No. R-7050

APPLICATION OF MESA PETROLEUM
COMPANY FOR COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 26, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of August, 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 April 8, 1982, the applicant in the instant case, Mesa Petroleum Company ("Mesa"), filed with the Division application for hearing seeking an order pooling all mineral interests from the surface down through the Abo formation underlying the NW/4 of Section 30, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico.

(3) That on May 3, 1982, the applicant in Case No. 7593, Western Reserves Oil Company ("Western"), filed with the Division application for hearing seeking an order pooling all mineral interests from the surface through the Abo formation underlying the same lands, i.e., the NW/4 of Section 30, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico.

(4) That Case No. 7564, the Mesa case, was originally set for hearing at 9 a.m. April 28, 1982, but was continued to May 26 so that it and Case No. 7593, the Western case, could be heard at the same time.

(5) That at the hearing of the instant case, counsel for Western moved for the dismissal of Mesa's application on the grounds that without prior approval of a communization agreement or prior approval to pool by the Secretary of Interior, the Division cannot pool federal lands, and supported his argument by citing a recent decision by the United States Tenth Circuit Court of Appeals, Kirkpatrick Oil Company vs. United States of America. Ruling on the motion was postponed pending the filing of briefs on the motion.

(6) That from said briefs it would appear that in the Kirkpatrick case, as well as in other cases cited in the briefs, that prior approval by the Secretary of Interior is not a required prerequisite to the Division hearing a compulsory pooling case involving federal lands and entering an order pooling such lands.

(7) That the motion to dismiss Case No. 7564 should be denied, and said case should be decided on its merits.

(8) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

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

(10) That the proposed unit contains 153.79 acres, and of this, Mesa presently controls 76.88 acres, or 49.9902 percent of the unit.

(11) That Mesa actually owns only 50 percent of the aforesaid 76.88 acres, and Corona Oil Company ("Corona") owns the remaining 50 percent.

(12) That Mesa has a long-term non-consent operating agreement with Corona whereby it controls Corona's interest in the subject unit until payout of costs plus penalty at which time Corona's interest reverts to Corona and Mesa's interest in the subject unit would reduce to 24.9951 percent.

(13) That of the proposed unit's 153.79 acres, Western holds a lease on 76.91 acres, or 50.0098 percent.

(14) That although Mesa's application for hearing in the instant case preceded Western's application for hearing in Case No. 7593, Western apparently made the first effort to voluntarily pool the subject lands, having transmitted an AFE to Mesa on February 23, 1982, whereas Mesa transmitted an AFE to Western on March 18, 1982.

(15) That each company's AFE appears to represent a reasonable estimate of well costs.

(16) That both Mesa and Western have drilled and completed several Abo wells in the immediate area, and have demonstrated their competence by past performance.

(17) That considering the factors described in Findings Nos. (10) through (16) above, it would appear that Western has a higher stake in the proposed proration unit than does Mesa, will drill and operate the proposed well in a competent manner, and should be approved as operator of the unit in Case No. 7593, whereas Mesa's application in the instant case should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Mesa Petroleum Company for an order pooling all mineral interests from the surface down through the Abo formation underlying the NW/4 of Section 30, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico, is hereby denied.

(2) 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