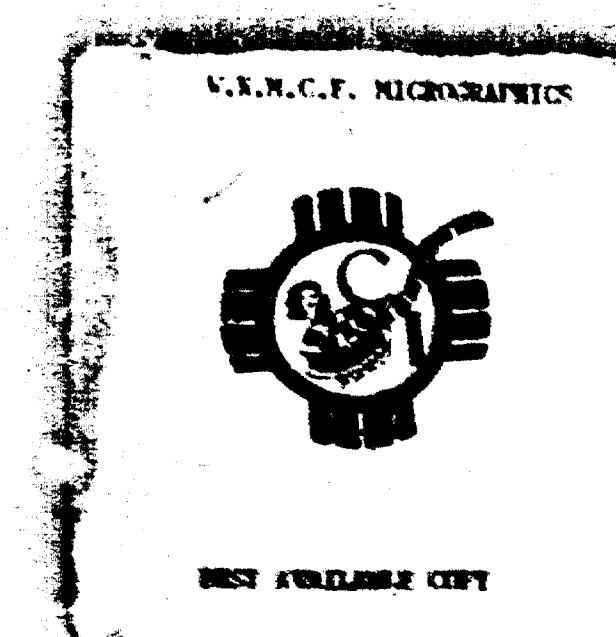
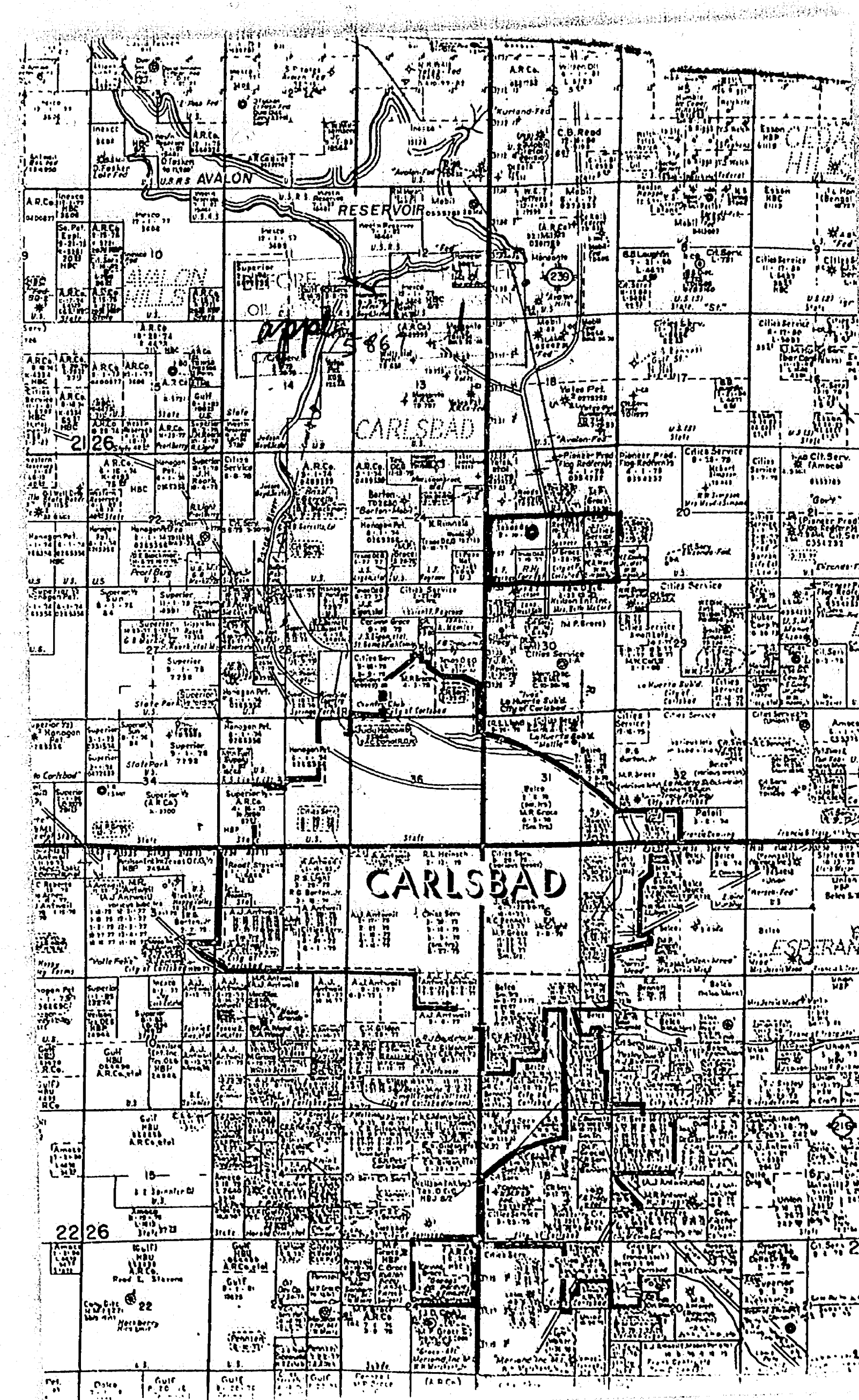
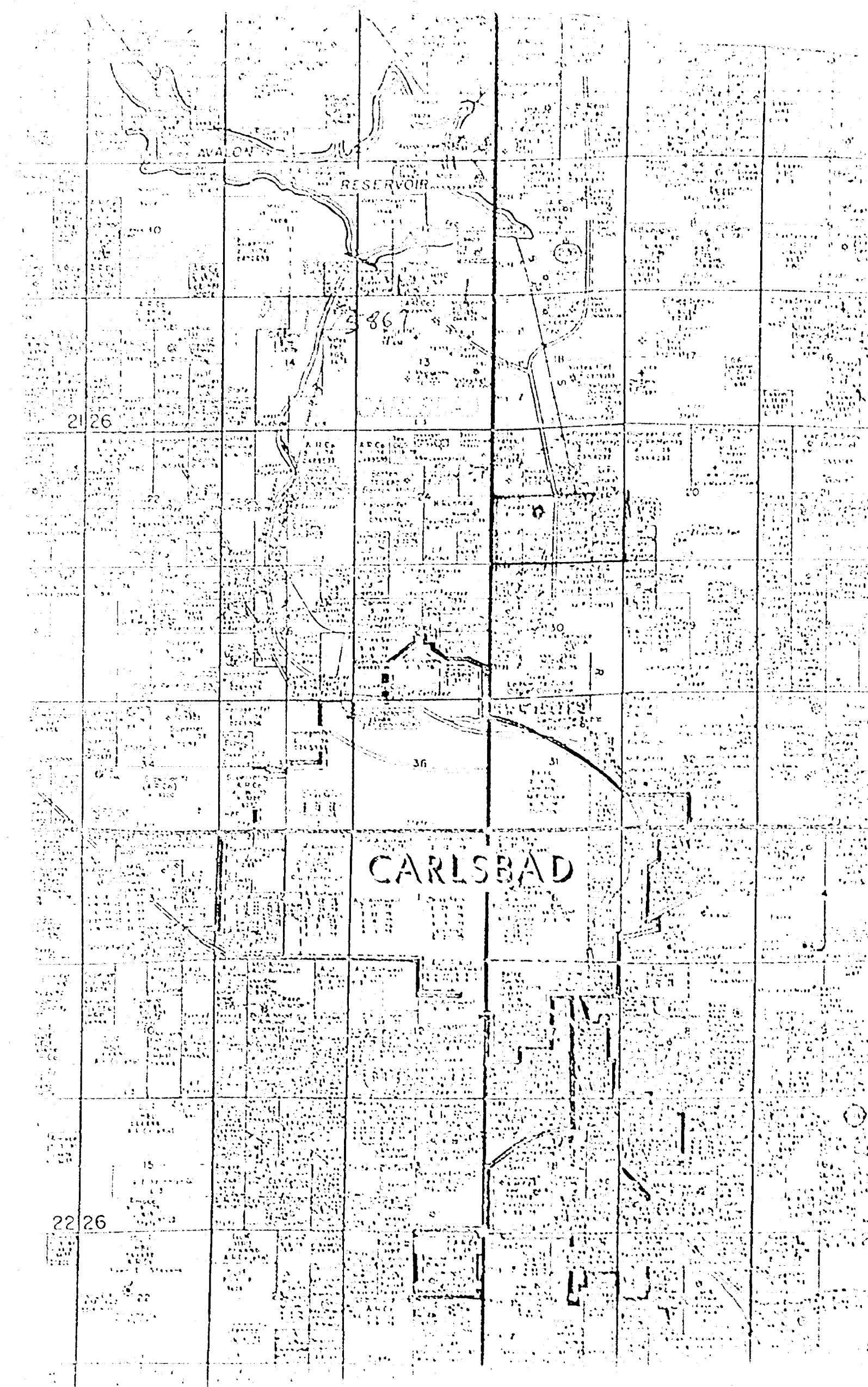


Case No
5867

Large Exhibits



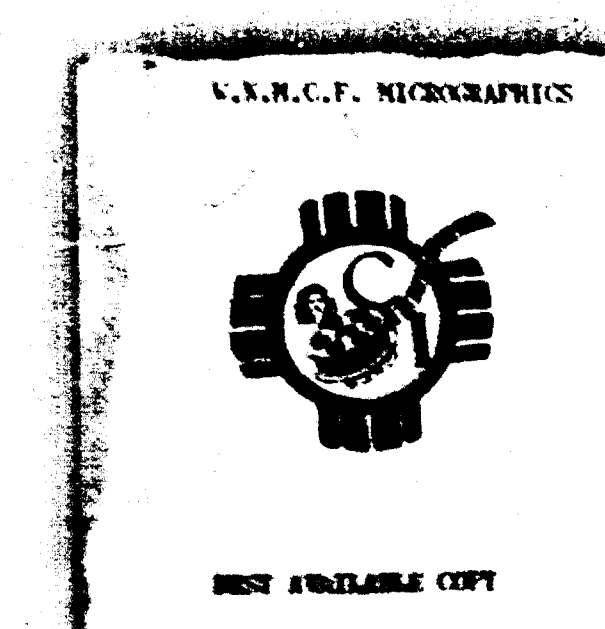
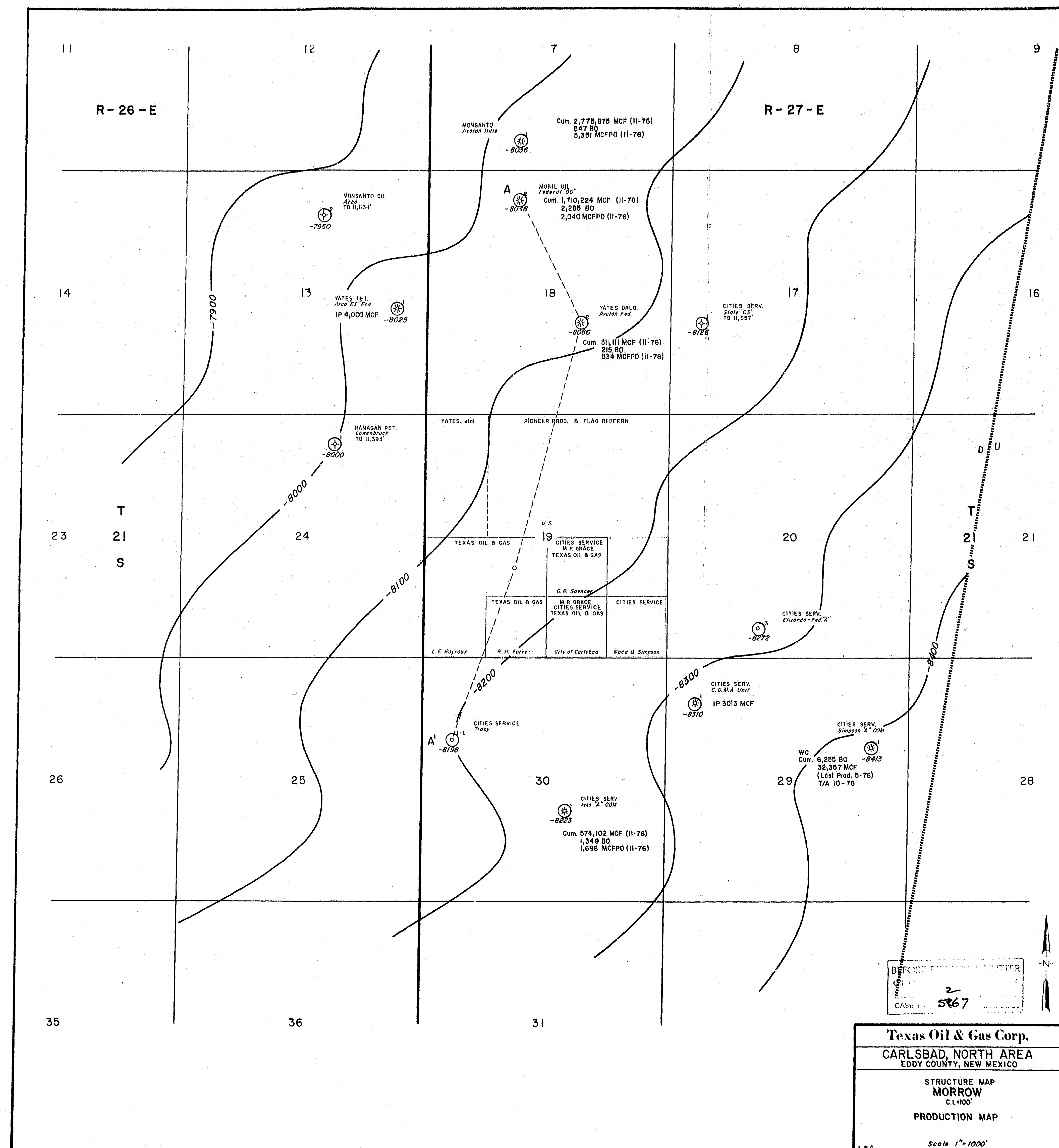


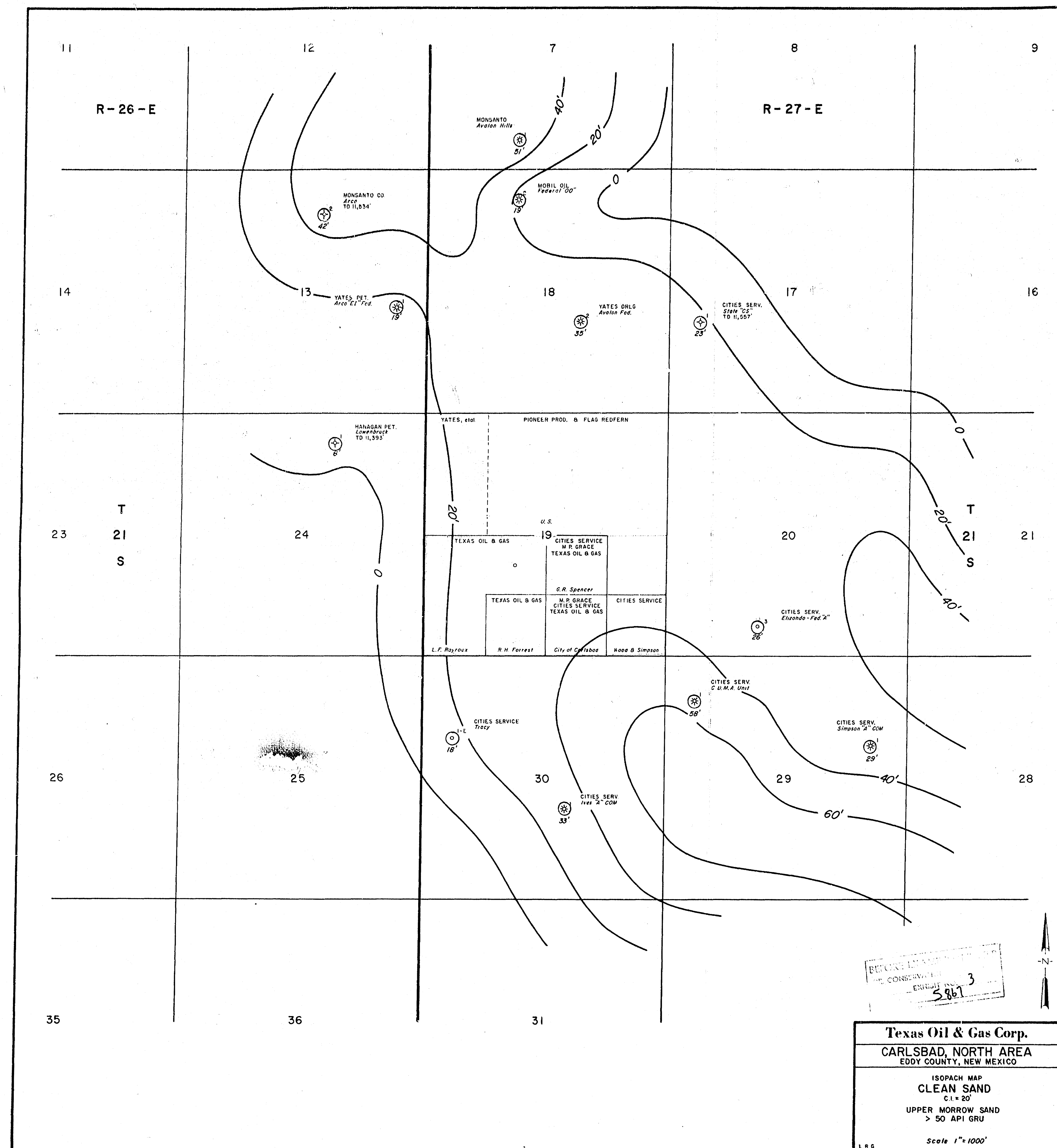


AMERICAN MAP COMPANY



NEW ORLEANS, LA





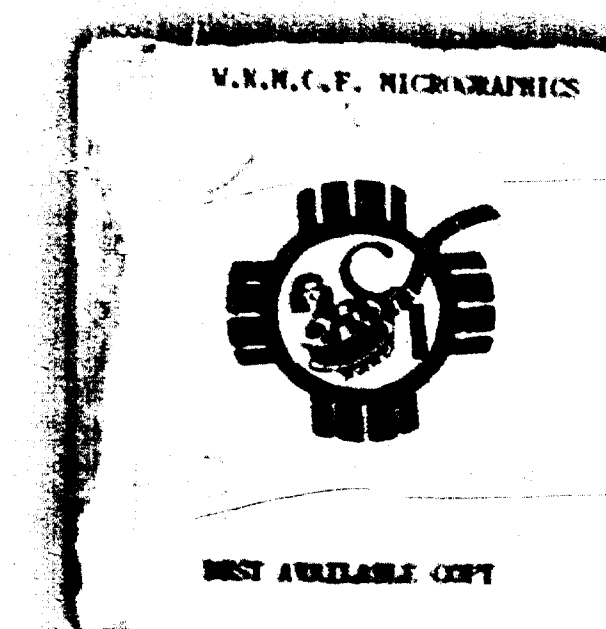
Form 21
Rev. 7/1/75

DRILLING WELL

Owner West Texas Date 12-30-76
 Lease No. 1 Well No. 1 Depth 11,500'
 Field N. Carlshad County Edley State New Mexico
 Requested By George Sutherland Approved By [Signature]

NATURE OF EXPENDITURE	QUANTITY	PRICE	ESTIMATED COST	ACTUAL COST
DRILLING				
243 Location, Roads, Dirt Work			10,000	
244 Drilling Contract - 311 Footage	11,500	12.75	146,625	
265 Daywork WOP	3	2800	8,400	
266 Daywork WOP	2	2800	5,600	
267 Turnkey				
102 Casing			105,000	
104 Casinghead			8,000	
233 Cementing Service & Supplies			34,000	
242 Rentals			10,000	
230 Fuel & Electricals			60,000	
234 Testing & Logging			25,000	
204 Supervision			3,000	
299 Other			10,000	
TOTAL DRILLING			395,025	
COMPLETION				
241 Pig (Incl. Day Work)	3	700	2,100	
102 Casing			25,000	
233 Cementing Service & Supplies			9,000	
242 Rentals			2,000	
103 Tubing			29,375	
108 Sub-Surface Equipment			4,000	
234 Testing, Logging & Perforating			4,500	
235 Stimulation			5,000	
104 Wellhead			6,500	
204 Supervision			500	
299 Other			5,000	
TOTAL COMPLETION			98,375	
PRODUCTION EQUIPMENT				
105 Pumping Unit				
105 Engine & Motors				
107 Pads				
110 Flow Lines			2,000	
111 Installation			3,000	
115 Storage			4,000	
117 Separators, Heaters, Treators			12,000	
119 Other Equipment			2,000	
TOTAL PRODUCTION EQUIPMENT			23,000	
TOTALS			517,000	

OWNER NAME COLUMBIA GAS DEVELOPMENT CORP. DATE 1/14/77 APPROVED [Signature]
 INTEREST 2962427 BY [Signature]
 APE No. _____ Lease No. 10,500



A.A.P.L. FORM 610
MODEL FORM OPERATING AGREEMENT—1956
Non-Federal Lands

OPERATING AGREEMENT
DATED
January 20, 1977
FOR UNIT AREA IN TOWNSHIP 21-South RANGE 27-East
COUNTY, STATE OF New Mexico
Eddy
Rayroux No. 1
TXO Lease No. 10,580

AMERICAN ASSOCIATION OF PETROLEUM LANDGRABERS
APPROVED FORM
MAY BE GUARDED STRICTLY AND THE FOLLOWING
INAPPROPRIATE PRODUCTS, DON'T USE THEM ANYMORE

BEFORE EXAMINATION
FOR CONFORMANCE
DATE 1/20/77
CWS NO. 5867

Rayroux 21 303 of 1/20/77
Printed on "Form" 1/20/77

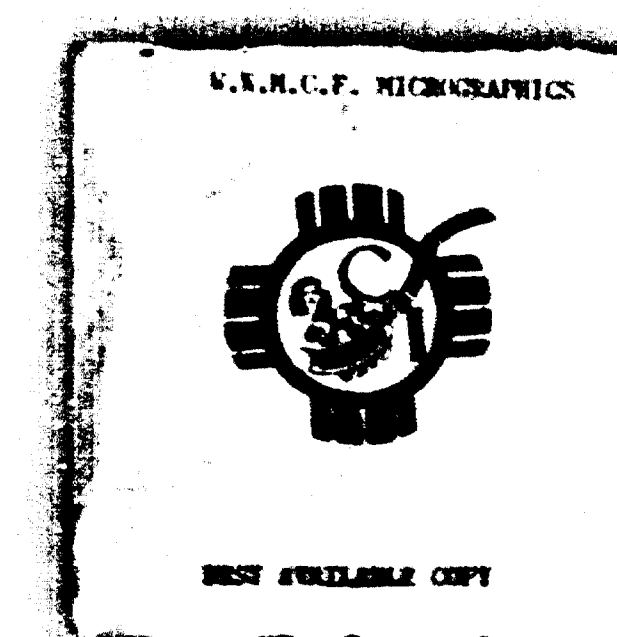
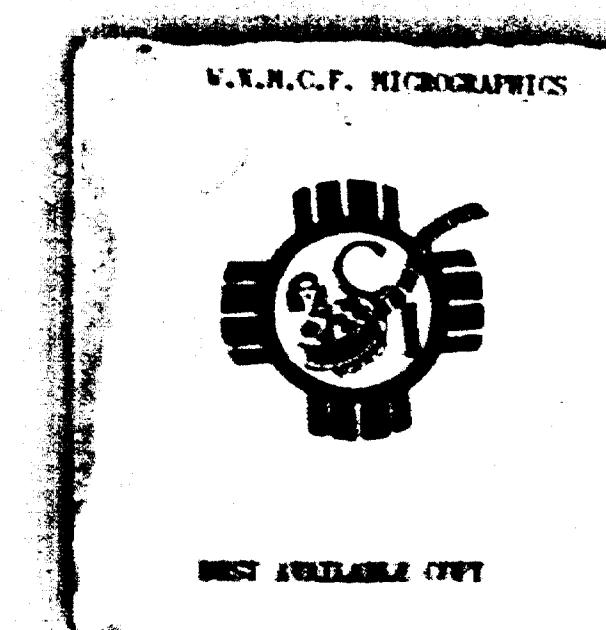


TABLE OF CONTENTS

Page	Title	Page
1	Definitions	1
2	Title Examination, Loss of Leases and Oil and Gas Interests	1
3	Unleased Oil and Gas Interests	2
4	Interests of Parties	2
5	Operator of Unit	3
6	Employees	3
7	Test Well	3
8	Costs and Expenses	3
9	Operator's Lien	4
10	Term of Agreement	4
11	Limitation on Expenditures	4
12	Operations by Less Than All Parties	5
13	Right to Take Production in Kind	5
14	Access to Unit Area	7
15	Drilling Contracts	7
16	Abandonment of Wells	7
17	Delay Rentals and Shut-in Well Payments	8
18	Notice of Sale	8
19	Selection of New Operator	8
20	Maintenance of Unit Ownership	9
21	Resignation of Operator	9
22	Liability of Parties	9
23	Renewal or Extension of Leases	9
24	Surrender of Leases	10
25	Average or Cash Contributions	10
26	Provision Concerning Taxation	10
27	Insurance	11
28	Claims and Liabilities	11
29	Force Majeure	11
30	Severability	11
31	Other Provisions	12



OPERATING AGREEMENT

THIS AGREEMENT, entered into this 20th day of January, 1977, between TEXAS OIL & GAS CORP. hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless as intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include 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".
- (6) 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 Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

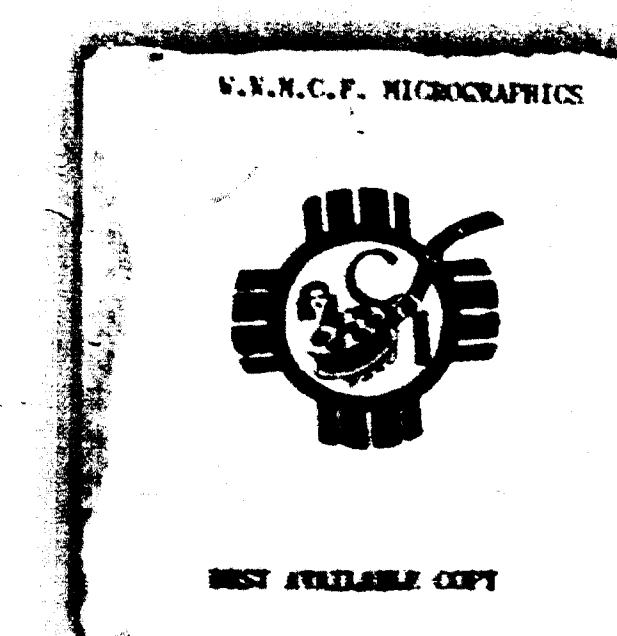
A. Title Examination:

There shall be no examination of title to leases, or to oil and gas interests, except that title to the lease covering the land upon which the exploratory well is to be drilled in accordance with Section 7, shall be examined on a complete abstract covered by Operator's attorney, and the title to both the oil and gas lease and to the fee title of the leases must be approved by the examining attorney, and accepted by all parties. A copy of the examining attorney's opinion shall be sent to each party immediately after the opinion is written, and, also, each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining attorney's requirements shall be made by the party owning the lease covering the driftable.

If title to the proposed driftable is not approved by the examining attorney or the lease is not acceptable for a material reason, and all the parties do not accept the title, the parties shall select a new driftable for the first exploratory well; provided, if the parties are unable to agree upon another driftable, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new driftable is selected, title to the oil and gas lease covering it and to the fee title of the lease shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the driftable first selected. If title to the oil and gas lease covering the second chosen driftable is not approved or accepted, other driftables shall be successively selected and title examined, until a driftable is chosen

— 1 —

"Individual Lease"
Revised 12/67



to which title is approved or accepted, or until the parties fail to select another drillable. As in the case of the drillable first selected, so also with successive choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillable, the contract shall, in that case and at that time, come to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the lease covering the lands upon which such well is to be located has been examined by Operator's attorney, and (2) the title has been approved by the examining attorney and the title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Failure of Title

Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

(1) The party whose 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 by reason of such title failure; and

(2) 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 Unit Area by the amount of the interest lost; and

(3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit 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 operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(4) 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 location, development, or equipment, or equipment previously paid under this agreement, such amount shall be proportionately paid in the party or parties hereto who in the first instance paid the costs which are so refunded; and

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

C. Loss of Leases for Causes Other Than Title Failure

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein be lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area.

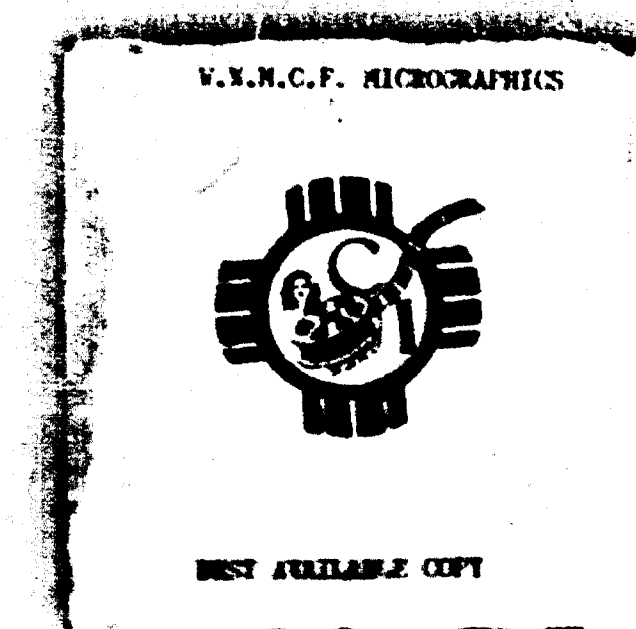
5. UNLEASED OIL AND GAS INTERESTS

If any party owns an undivided oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the terms of all oil and gas lease attached as "Exhibit 'D'" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "D". Such party shall, however, be subject to all of the provisions of this agreement relating to leases, to the extent that it covers the lease interest.

4. INTERESTS OF PARTIES

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 contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

- 2 -
"Individual Lease"
Revised 1947



The undersigned hereby agree to the terms and conditions hereof and to be bound by the same as if they had signed the same in person. The undersigned hereby agree to be bound by the same as if they had signed the same in person. The undersigned hereby agree to be bound by the same as if they had signed the same in person.

3. OPERATOR OF UNIT

Texas Oil & Gas Corp. shall be the Operator of the Unit Area, and shall conduct and have full control of all operations on the Unit Area, as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a prudent and economical manner, but it shall have no liability to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from breach of the provisions of this agreement.

4. EMPLOYEES

The number of employees and their selection and the hours of labor and the compensation for services performed shall be determined by Operator. All employees shall be the employees of Operator.

Subject to Section 2 hereof, and as far as is practicable, the Operator shall commence the drilling of a well for oil and gas in the following location:

1900 feet FSL and 1900 feet FSL,
Section 19, T-21-S, R-27-E, Eddy
County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Permian formation, expected at approximately 11,500 feet.

unless another or other practically insurmountable obstacle is encountered at a lesser depth or unless all parties agree to complete 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 test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

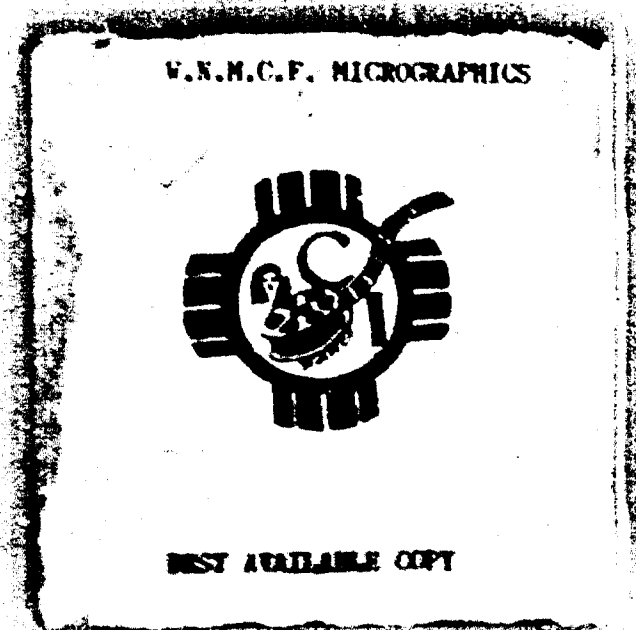
5. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provision in the body of this agreement shall prevail.

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 cost of the work to be required in operations hereunder during the next succeeding month, which right may be exercised only by submission to each other party of an itemized statement of such estimated costs, together with an invoice for its share thereof. If such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the fifth day of the next succeeding 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 as so estimated within said time, the amount of the cost of the work to be performed shall be increased by the amount of the cost of the work to be performed. The amount of the cost of the work to be performed shall be increased by the amount of the cost of the work to be performed. The amount of the cost of the work to be performed shall be increased by the amount of the cost of the work to be performed.

Page 1 of 2

Raymond, 21 JDA of 1/20/77
Page 1 of 2



A.A.P.L. FORM 610

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds therefrom ^{from the sale} and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

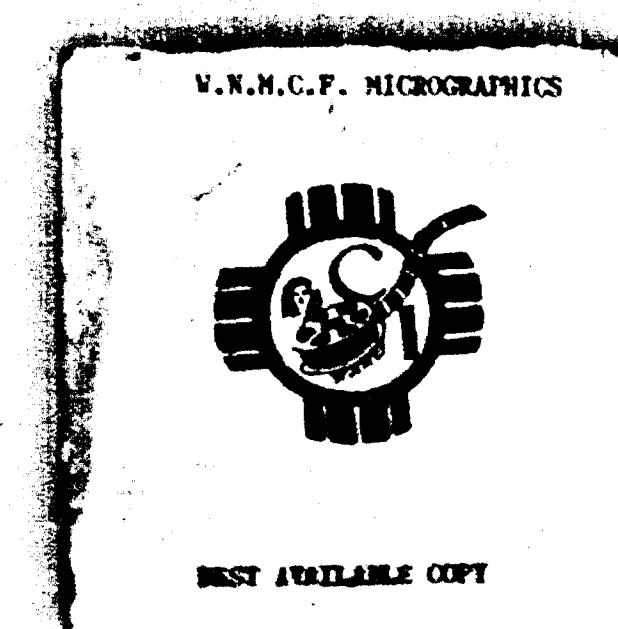
10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, operation, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. It is agreed, however, that the termination of this agreement shall not relieve any party herein from any liability which has accrued or attached prior to the date of such termination.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary toolage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary toolage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten Thousand and 00/100 Dollars (\$10,000.00) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 5,000.00.

-4-



12. OPERATIONS BY LESS THAN ALL PARTIES

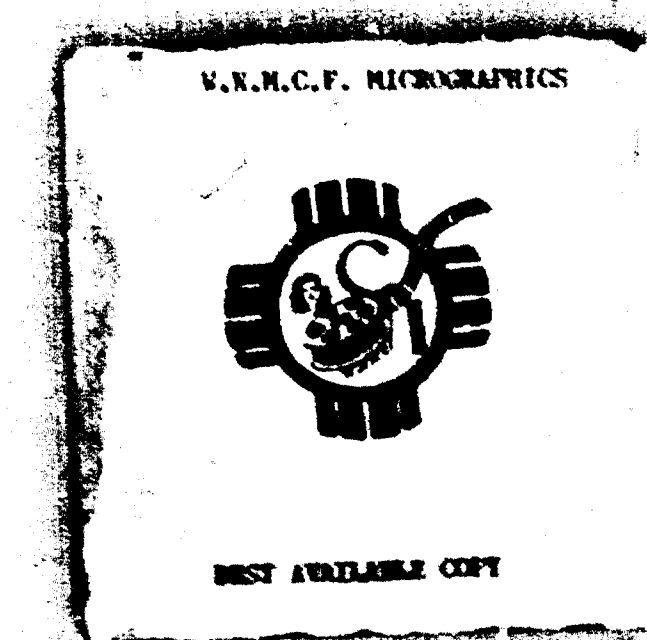
If all the parties do not mutually agree upon the drilling of any well on the Unit ¹/₂ acre or less than the lot well provided for in Section 7, or upon the reworking, deepening or plugging back on a dry hole drilled at the joint expense of any parties or a well jointly owned by all the parties and then proceeding to pay for maintenance on the Unit, then, any party or parties who have not agreed to or consented to such a well, shall be deemed to have agreed to the proposed operation specifying the well to be drilled or plugged back on the location, proposed depth, objective formation and the like. The party or parties who have agreed to reworking such a well after thirty (30) days (except as to reworking, plugging back or drilling deeper, than a drilling unit in an oil location, the period shall be limited to forty-four (44) hours exclusive of Saturday or Sunday) and the receipt of the notice within which to notify the parties wishing to do the work whether they desire to rework or plug in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to the notice within the above fixed shall constitute an assent by that party to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as a "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 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.

The entire cost and of conducting such operations shall be borne by the Consenting Parties in the proportion that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the Incumbent Parties involved in such operations, free and clear of all claims, liens, taxes, and other obligations, and shall not be liable for any such operations. In any case, the Incumbent Parties shall plug and abandon the well of their sole exit, exit and expense. If any well drilled, reworked, deepened or plugged back above the provision of this section results in a production of any oil or gas in paying quantities, the Consenting Parties shall complete and maintain the well in accordance with the provisions of the Leasehold Agreement. The Incumbent Parties shall not be obligated by this section and for the account of the Consenting Parties. Upon commencing operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties and the Incumbent Parties, the Incumbent Parties shall be deemed to have agreed to the terms and conditions of this section. The Incumbent Parties shall not be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Parties' share of the well, its leasehold operation title, and share of production thereunder until the present or mature value thereof (after deducting production costs) is paid to the Incumbent Parties. The Incumbent Parties shall not be entitled to receive, in such well sharing with respect to such interest until it reversely 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 its under other provisions of this section, 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 production and

(11) ²⁰⁰⁸ ~~2009~~ 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 Section 23, and ²⁰⁰⁸ ~~2009~~ of that portion of the cost of newly acquired equipment in the well (ta and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.



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.

Within sixty (60) days after the completion of any operation under this section, 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 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. Any amount realized from the sale or other disposition of equipment newly required in connection with any such operation which would have been owned by a Non-Consenting Party shall be credited against the total overhead 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; 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 operating rights and working interest therein, the material and equipment in or pertaining therein, and the production therefrom as such Non-Consenting Party would have owned 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 schedule, Exhibit "C", attached hereto.

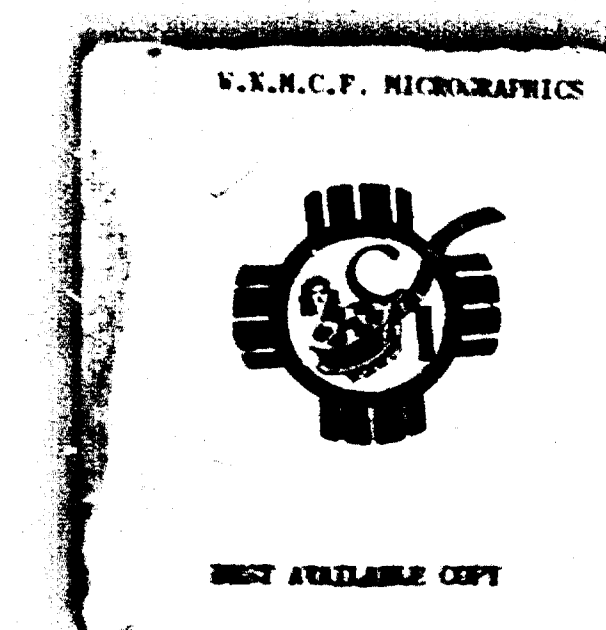
Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

12. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall ^{have the right to} ~~be entitled to~~ separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating ^{and marketing} ~~and marketing~~ purposes and production unavailably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. 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.

Each party shall execute ^{and may be required, for the sale of} ~~and may be required, for the sale of~~ division orders and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.



AMERICAN OIL & GAS

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 Unit Area, Operator shall have the right, subject to revocation at will by the party owing it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. 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. Notwithstanding the foregoing, Operator shall not make a sale to any third party of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale. Oil well gas and gas well gas production shall be governed by Exhibit "E", gas balancing agreement for gas production, attached hereto.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit 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 shall, upon request, furnish each of the other parties with copies of all 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 Unit Area.

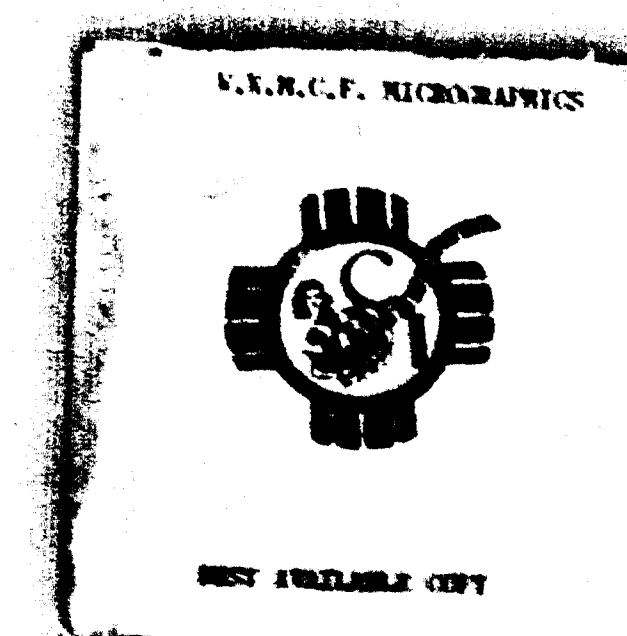
15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, then, failing to exercise its option shall render to each of the other parties its proportionate share of the value of the well's salvageable 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 abandonment. Each abandoning party shall then 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 its equipment, together with its interest in the leasehold estate so far, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encumber the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignees shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by the agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.



11. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. First of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its lease. Any party may request, but shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well 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 pay a rental or shut-in well payment reserves a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, the interests of the parties shall be voided on an average 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 entitled with an interest in the Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well 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 average basis, for the development and operating costs thereafter paid on account of such interest, it shall be reimbursed for unrecovered actual costs thereafter 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:

- (1) Proceeds of oil and gas, less operating expenses, therefrom accrued to the credit of the lost interest, on an average basis, up to the amount of unrecovered costs;
- (2) proceeds, less operating expenses therefrom, incurred attributable to the lost interest on an average basis, of that portion of oil and gas therefrom produced and marketed (excluding production from one well thereafter drilled) which would, in the absence of such lease termination, be attributable to the lost interest on an average 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
- (3) any money, 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 Unit Area or becoming a party to this contract.

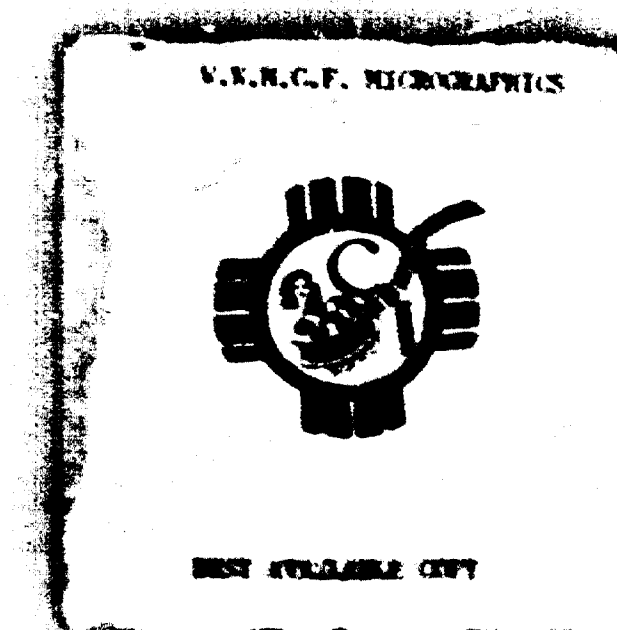
Operator shall attempt to notify all parties when a gas well is shut-in or returned to production, but assumes no liability whatsoever for failure to do so.

12. NOTICE OF SALE

Should any party desiring sell all or any part of its interests under this contract, or its rights and interests in the Unit Area, it shall promptly give written notice to the other parties, which notice must contain 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 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 purchase interest in the proportions that the interest of each bears to the total interest of all participating parties. However, there shall be no preferential right to purchase in those cases where a party wishes to maintain its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a minority interest.

13. SELECTION OF NEW OPERATOR

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the existing Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the date of its rights and interests has been completed.



20. MAINTENANCE OF UNITY OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, 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 Unit 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 in the Unit Area;
 - (2) an equal undivided interest in all leases and equipment and production in the Unit 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 rights 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 may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive killings 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 contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select, by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is 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 them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

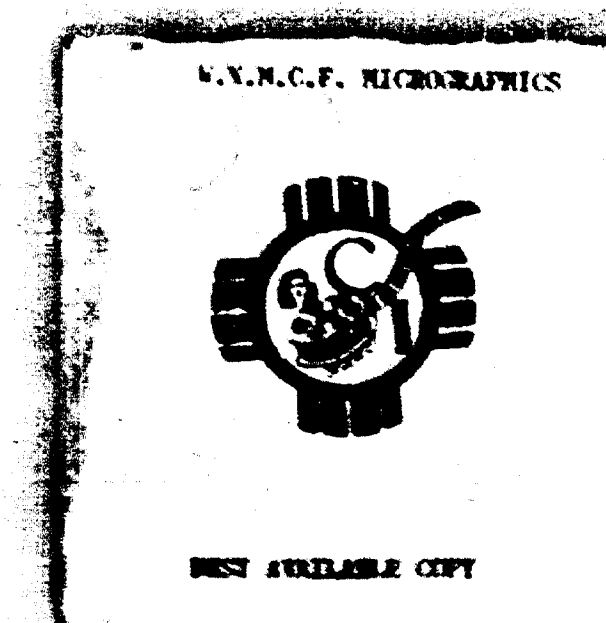
If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit 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 unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the 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 section shall apply to renewal leases whether they are for the entire interest covered by the existing 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 section.

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



ARTICLE FOUR

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, 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 therefrom secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not thereafter secured, 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. 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, 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 proportion 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 Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

25. ACREAGE OR CASH CONTRIBUTIONS

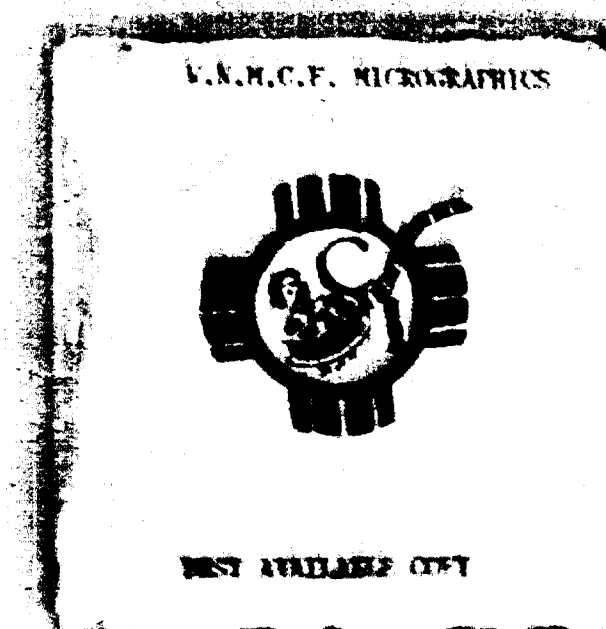
If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. 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 Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 781(a) of the Internal Revenue Code of 1954, as he is excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be executed. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator to do so, each party agrees to execute and join in such an election.

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. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation 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. When any such protested valuation shall have been finally determined, Operator shall pay the statement for the Unit account, together with interest and penalty assessed, and the total cost shall then be entered against the parties, and be paid by them, as provided in Exhibit "C".



17. 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. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit 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.

18. CLAIMS AND LITIGATIONS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties. If outside counsel is employed, their fees and expenses shall be considered Unit Area expenses and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator as long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the same paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

19. FORCE MAJEURE

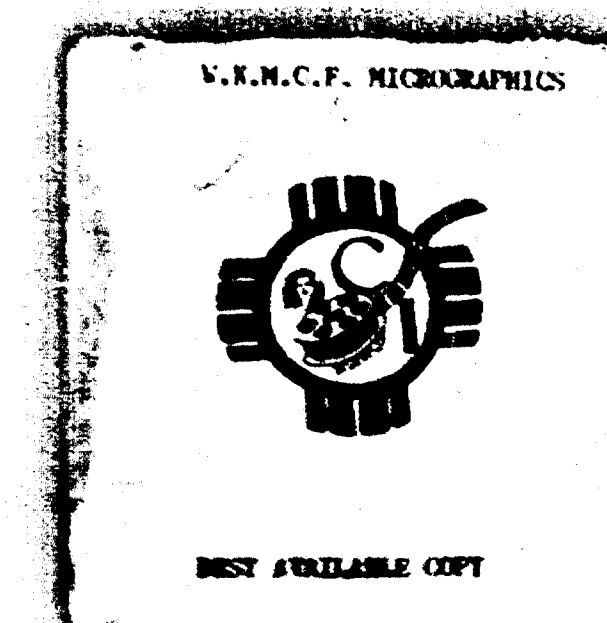
If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

20. NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

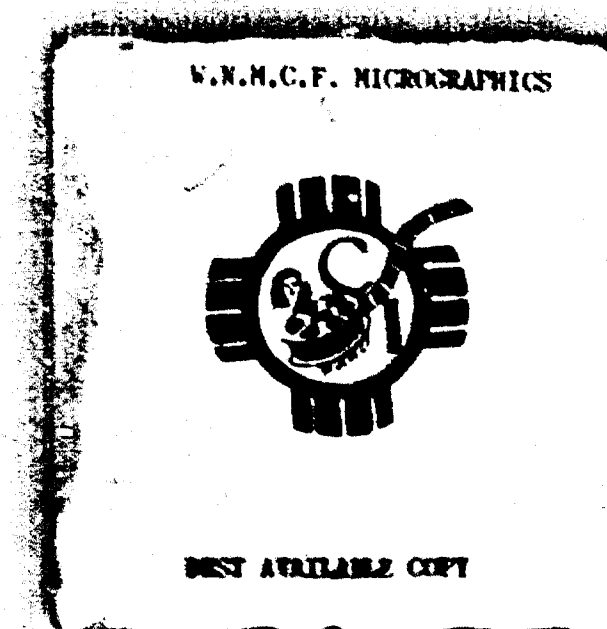


ADDENDUM 1, FORM 618

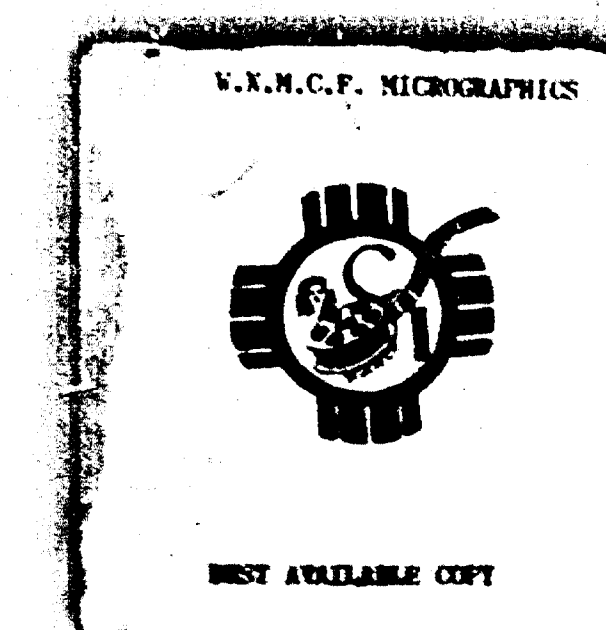
addressee listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. 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. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

31. OTHER CONDITIONS, IF ANY, ARE:

- (a) In spite of any provision to the contrary appearing hereof, consent to the drilling of a well shall not be deemed an consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operators. The party receiving such notice shall have forty-eight (48) hours exclusive of Saturdays, Sundays, and legal holidays, in which to elect whether or not they desire to set casing and to participate in a completion attempt. 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 a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties.
- (b) If any party hereto hereafter should create any overriding royalty, production payment, or other burden against its working interest production and if any other party or parties should conduct non-consent operations pursuant to any provisions of this agreement and, as a result, become entitled to receive the working interest production otherwise belonging to the non-participating party, the party or parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of burdens against such production which may have been created subsequent to this agreement and the non-participating party creating such subsequent burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.
- (c) Notwithstanding anything to the contrary in Sections 12 and 31(b) of this Joint Operating Agreement (JOA), if less than all of the parties to this JOA approve a particular operation (including an operation proposed under the terms and provisions of Section 31(b) of this JOA), approval of the operation shall not constitute such approving party a "Consenting" party (as defined in Section 12 and 31(b) of this JOA) to the operation until such approving party has been notified that less than all parties to this JOA have approved the operation, and the approving party or parties to such operation shall then have fifteen (15) days (twenty-four (24) hours exclusive of Saturdays, Sundays, or legal holidays in the event of notice in accordance with Section 31(b) of this JOA) from receipt of such notice in which to elect to:
 - (1) Be a "Consenting" party (as defined in Section 12 and 31(b) of this JOA) to such operation as an operation participated in by less than all parties to this JOA where such "Consenting" party pays its proportionate share of the "Non-Consenting" parties' interest or such larger interest as is mutually agreeable between all "Consenting" parties, or
 - (2) Continue as a "Consenting" party but pay based only on its exact working interest percentage specified in Exhibit "A" of this JOA.



- Failure of a party to reply within such fifteen (15) day period (twenty-four (24) hours exclusive of Saturdays, Sundays, or legal holidays in the event of notice in accordance with Section 31(6) of this JOA) shall be deemed an election by that party to be a "Consenting" party in accordance with the above subparagraph 1 of this Section 31(c).
- (d) If a purchaser of any oil, gas or other hydrocarbons produced from the Unit Area declines to make disbursements of all royalties, overriding royalties and other payments out of, or with respect to, production which are payable on the Unit Area, Operator will, if any Non-Operator so desires, make such disbursements on behalf of said Non-Operator at his direction, provided, Non-Operator shall execute such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas or other hydrocarbons directly from said purchaser. In that event, Operator will use its best efforts to make disbursements correctly, but will be liable for incorrect disbursement only in the event of gross or willful negligence.
- (e) If the assigning party or parties under any applicable section in this agreement shall be the owner or owners of an unleased oil and gas interest, such party or parties shall execute an oil and gas lease in lieu of an assignment as therein provided, using in so doing, the form of lease attached hereto as Exhibit "B" which lease shall be for a primary term of one (1) year from the date of execution thereof and so long thereafter as oil or gas or either of them is produced from said land by the Lessee in paying quantities.
- (f) If a well is completed on the Unit Area as a well capable of commercial production, then, unless otherwise mutually agreed that Operator shall have same prepared, each party hereto shall have a division order title opinion prepared covering such party's interest in the drilling or spacing unit for such well. Title examination shall be on a complete abstract or search of the county records by the attorney preparing such opinion. Each such title opinion shall contain a list of fee and royalty owners and their interests, shall state the attorney's opinion concerning validity of their interests or oil and gas interests is contingent. The title opinions respectively shall also contain a specific description of the oil and gas leases being subjected to this contract, with a statement of their unusual drilling obligations and of excess royalty, oil payments and other special burdens. A copy of said title opinions and applicable curative material shall be sent to all other parties hereto as soon as available. Unless otherwise agreed as aforesaid, each party shall pay its own costs of such title examinations.
- (g) Title failure or loss of a lease or unleased oil and gas interest shall not relieve any party from paying its proportionate share of the cost of (1) drilling, testing, completing and equipping, or plugging and abandoning the test well, or (2) operations then being conducted on a well in the Unit Area, provided it has previously agreed to participate in said test well or operations.
- (h) In the event the owner of any interest within the Unit Area should elect not to join in this agreement, said interest shall be carried by Texas Oil & Gas Corp.



- (1) Each Non-Operator shall have a lien on the working interest of Operator in the Unit Area and on the oil and gas produced therefrom and on the proceeds thereof to secure the payment of any amount that may at any time become due and payable by Operator to such Non-Operator under the terms of this agreement, together with the same interest thereon as herein provided for Operator in the Accounting Procedure attached hereto as Exhibit "C".
- (2) This agreement is subject to all applicable laws, rules, regulations and orders of any governmental agency having jurisdiction. In the event this agreement, or any of its provisions, or any of the operations contemplated hereby are found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this contract shall be regarded as modified accordingly, and as so modified shall continue in full force and effect.



A.A.P.L. FORM 410

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

OPERATOR

TEXAS OIL & GAS CORP.

ATTEST:

By: Charles L. Canfield, Vice President, Agent and Attorney-in-Fact

NON-OPERATORS

COLUMBIA GAS DEVELOPMENT CORPORATION

ATTEST:

By: CITIES SERVICE OIL COMPANY

ATTEST:

By: PIONEER PRODUCTION CORPORATION

ATTEST:

By: FLAG-REDFERN OIL COMPANY

ATTEST:

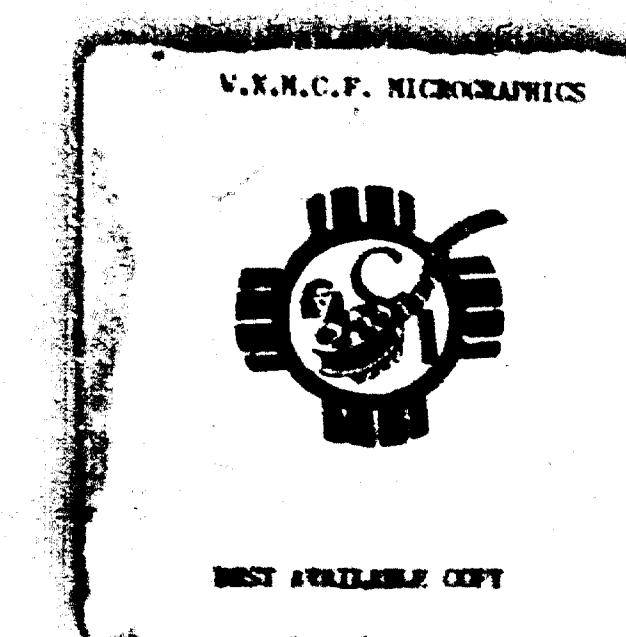
By: ROSALIND REDFERN

ATTEST:

By: JOHN J. REDFERN

CLAREMONT CORPORATION

By: RICHARD P. GRANT



AA-1, FORM 610

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

OPERATOR

TEXAS OIL & GAS CORP.

ATTEST:

By: Charles L. Canfield
Charles L. Canfield, Vice
President, Agent and
Attorney-in-Fact

NON-OPERATORS

COLUMBIA GAS DEVELOPMENT CORPORATION

ATTEST:

By:

CITIES SERVICE OIL COMPANY

ATTEST:

By:

PIONEER PRODUCTION CORPORATION

ATTEST:

By:

FLAG-REDFERN OIL COMPANY

ATTEST:

By:

ROSALIND REDFERN

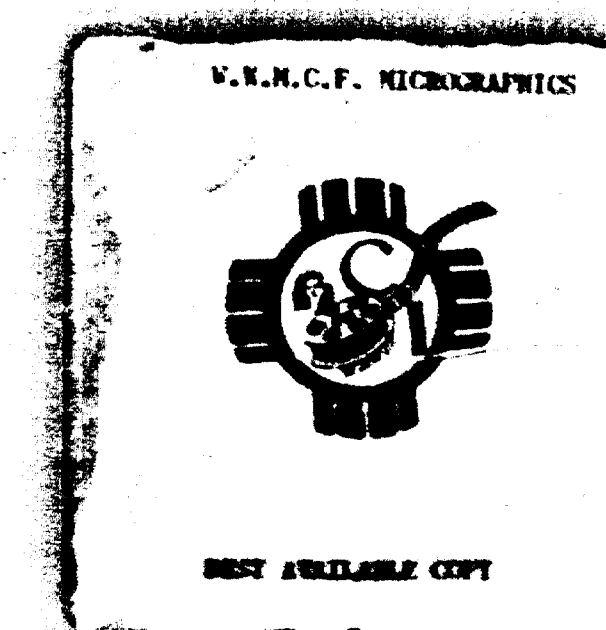
ATTEST:

JOHN J. REDFERN

CLAREMONT CORPORATION

By:

RICHARD P. THORP



This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

OPERATOR

ATTEST: _____

By: Charles E. Canfield
 Charles E. Canfield, Vice
 President, Agent and
 Attorney-In-Fact

NON-OPERATORS

COLUMBIA GAS DEVELOPMENT CORPORATION

ATTEST: _____

By: _____

CITIES SERVICE OIL COMPANY

ATTEST: _____

By: _____

PIONEER PRODUCTION CORPORATION

ATTEST: Bowdley

By: _____
 FLAG-REDDEN OIL COMPANY

ATTEST: _____

By: _____

NOEXLINS REFINERY

ATTEST: _____

By: _____

JOHN H. REDDEN

ATTEST: _____

By: _____

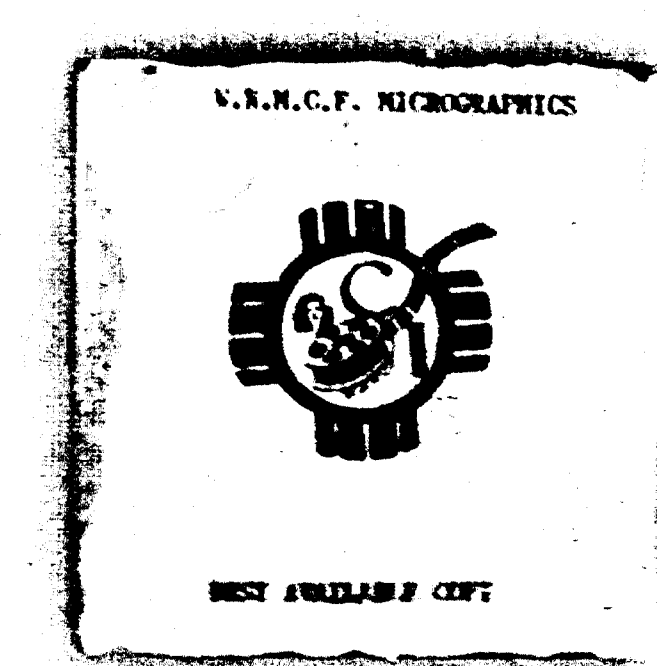
MICHAEL F. REDDEN

ATTEST: _____

By: _____

WITNESSES

By: _____



ACKNOWLEDGMENTS

STATE OF TEXAS
COUNTY OF MIDLAND

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared CHARLES L. CAMPFIELD, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said TEXAS OIL & GAS CORP., a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 24th day of January, 1977.

My Commission Expires: 12/1/77

Notary Public in and for Midland County, Texas

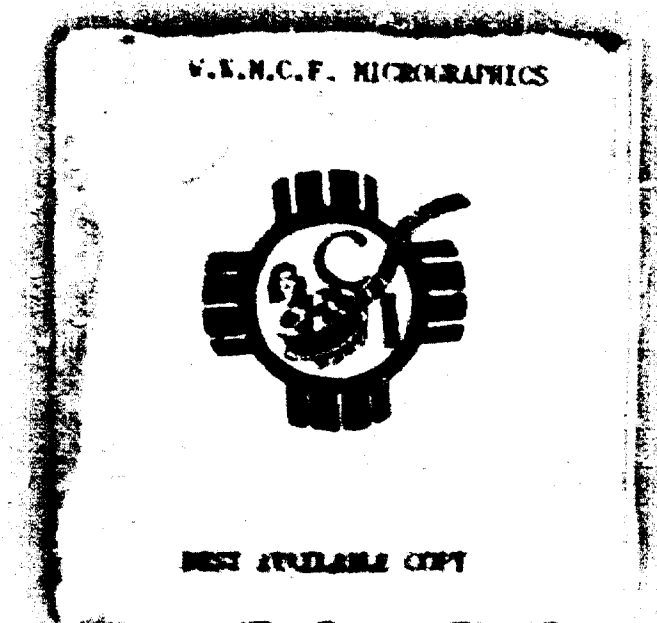
STATE OF TEXAS
COUNTY OF

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared _____ known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said COLUMBIA GAS DEVELOPMENT CORPORATION, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the ____ day of _____, 1977.

My Commission Expires:

Notary Public in and for _____



STATE OF I
COUNTY OF I

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared John H. [illegible], known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said CIVIL SERVICE OF TEXAS, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day of February, 1977.

My Commission Expires: 12/31/77

Notary Public in and for

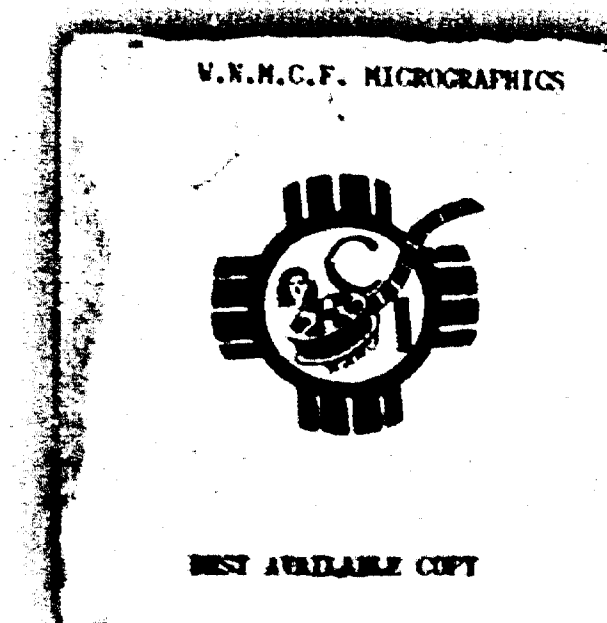
STATE OF Texas
COUNTY OF Fort Bend

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared John H. [illegible], known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said PIONEER PRODUCTION CORPORATION, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day of February, 1977.

My Commission Expires: 12/31/77

John H. [illegible]
Notary Public in and for



STATE OF TEXAS I
COUNTY OF MIDLAND I

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said PLAC-BEFORE OIL COMPANY, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____, 1977.

Notary Public in and for Midland County, Texas

My Commission Expires: _____

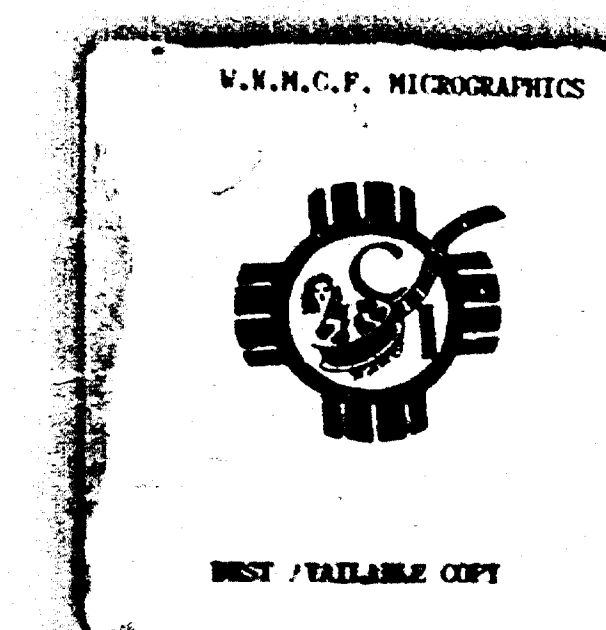
STATE OF TEXAS I
COUNTY OF MIDLAND I

BEFORE ME, the undersigned authority, on this day personally appeared JOHN J. REDFERN AND WIFE, ROSALIND REDFERN, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____, 1977.

Notary Public in and for Midland County, Texas

My Commission Expires: _____



STATE OF I
COUNTY OF I

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared Frank M. Padgugan, President, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said CLABOUNTY CORPORATION, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 7th day of February, 1977.

Notary Public in and for
Rogers County, Oklahoma

My Commission Expires:
Feb. 6, 1978

STATE OF I
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared MICHAEL P. CRACE, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the ____ day of _____, 1977.

Notary Public in and for

My Commission Expires:

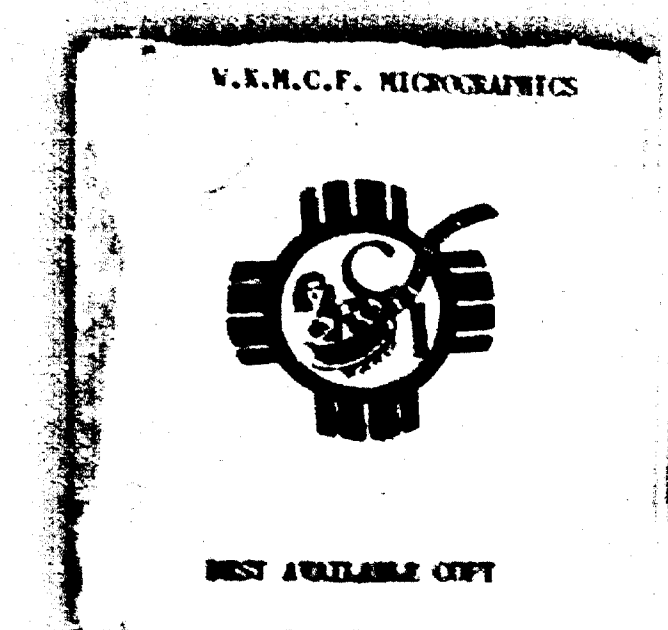


EXHIBIT "A"

Attached to and made a part of Operating Agreement dated January 20, 1977, between Texas Oil & Gas Corp., Operator, and Cities Service Oil Company, et al, Non-Operators.

1. Unit Area

S/2 Section 19, T-21-S, R-27-E, Eddy County, New Mexico, comprising a total of 315.08 acres, more or less.

2. Interest of Parties

Texas Oil & Gas Corp.	.2923688
Columbia Gas Development Corporation	.2525088
Cities Service Oil Company	.1547607
Pioneer Production Corporation	.0634755
Flag-Redfern Oil Company	.0365701
John J. Redfern and wife, Rosalind Redfern	.0297321
Claremont Corporation	.0011139
Michael P. Grace	.0395314
Unleased interests	~~0.0000000~~ 0.008188
	1.0603000

Texas Oil & Gas Corp. is currently acquiring unleased interests. A revised Exhibit "A" will be furnished reflecting Texas Oil & Gas Corp.'s corrected working interest.

3. Leasehold and Mineral Interest of Parties shown in Part II of this Exhibit "A".

4. Addresses of Parties

Texas Oil & Gas Corp.
500 Wilco Building
Midland, Texas 79701
Attention: Mr. Darrell F. Smith

Columbia Gas Development Corporation
P. O. Box 1350
Houston, Texas 77001
Attention: Mr. Paul Rupert

Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701
Attention: Manager - Land

Pioneer Production Corporation
401 Gibbs Tower West
Midland, Texas 79701
Attention: Mr. R. E. Nivens



Flag-Redfern Oil Company
P. O. Box 23
Midland, Texas 79701
Attention: Mr. R. Wm. Cone

Mr. John J. Redfern
Mrs. Rosalind Redfern
P. O. Box 23
Midland, Texas 79701

Claremont Corporation
P. O. Box 549
Claremore, Oklahoma 74017
Attention: Mr. Frank W. Podpehan

Mr. Michael P. Grace
National Parks Highway
Carlsbad, New Mexico 88220

- 2 -

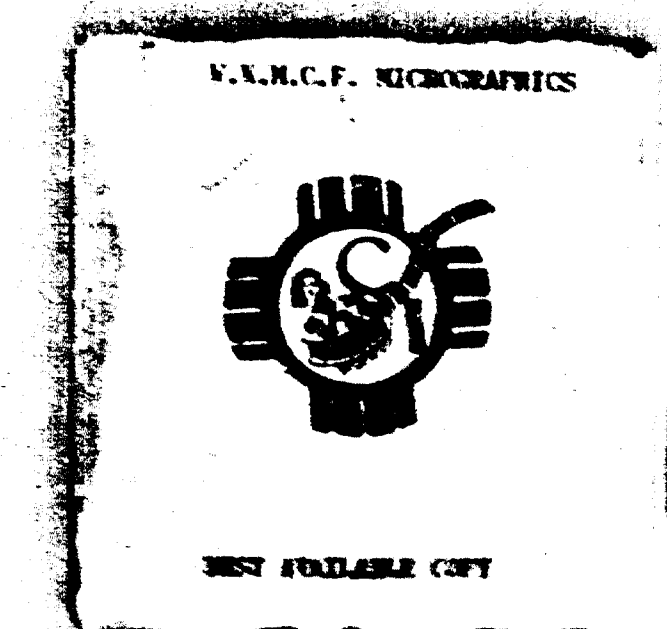
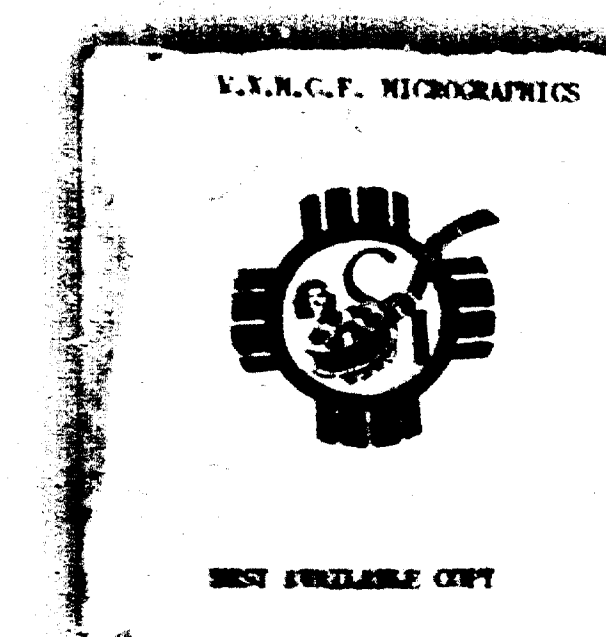


EXHIBIT "A"						
PART II						
Lease No.	Lessor	Lessee	Date of Lease	Expiration Date	QDR	Net Acres
8799	Richard Forrest et al	Texas Oil & Gas Corp.	6-13-72	6-12-77	None	74.5061920
10580	L. P. Rayroux Ent.	Texas Oil & Gas Corp.	8-10-72	8-9-77	None	88.0300000
40458	Raymond Spencer et al	Texas Oil & Gas Corp.	10-27-76	10-26-79	None	21.7030000
15051	Max Naleway et ux	Cities Service Oil Company			31	.4247010
14940	James R. Duffington et ux	Cities Service Oil Company			31	.3185256
15047	Myrdell Wilson	Cities Service Oil Company			31	.4476580
15049	Jim C. Lewis et ux	Cities Service Oil Company			31	.6714870
14974	Richard C. Throne et ux	Cities Service Oil Company			31	.3414830
15043	H. C. Stripling et ux	Cities Service Oil Company			31	.4017440
15189	Oscar L. Groom et ux	Cities Service Oil Company			31	.3013080
15214	Lloyd H. Garner et ux	Cities Service Oil Company			31	2.1307000
15205	Herbert J. Groom et ux	Cities Service Oil Company			31	.2926990
15130	James C. Allen et ux	Cities Service Oil Company			31	.5853990
15200	Traders of Carlsbad Inc.	Cities Service Oil Company			31	.3377650
15106	Elzie V. Stuffsings	Cities Service Oil Company			31	.9351000
15959	Glen W. Nears et ux	Cities Service Oil Company			31	2.5306470
15664	Asper G. Pittman et ux	Cities Service Oil Company			31	.5475000
15663	E. J. Hodges et ux	Cities Service Oil Company			31	.5640000



Lease No.	Lessor	Lessee	Date of Lease	Expiration Date	ORR	Net Acres
14872	Harvey Hicks	Cities Service Oil Company			3%	4.3691000
14857	Charles Hicks et ux	Cities Service Oil Company			3%	2.1846000
14870	Charles Skipper	Cities Service Oil Company			3%	1.5204000
15597	Frontier Builders	Cities Service Oil Company			3%	.7518000
15026	Clarice C. Rogers	Cities Service Oil Company			3%	.6070000
15024	H. C. Bronnenberg	Cities Service Oil Company			3%	.3960000
15223	Ernest G. Jowers et ux	Cities Service Oil Company			3%	1.2797000
14589	William A. Wood	Cities Service Oil Company			3%	40.0000000
Leases Contributed by Pioneer Production Corporation (50%), John J. Redfern and Rosalind Redfern (23.42%), Flag-Redfern Oil Company (24.08%), and Claremont Corporation (2.5%)						
US 0354232	U. S. A.	Joan Chorney	4-1-63		3%	40.0000000
Leases Contributed by Michael P. Grace						12.4455491
Unleased Mineral Interests						17.0201470



THIS AGREEMENT made this 22nd day of November 1997 between the undersigned, **THE NATIONAL TRADING STANDARDS BOARD**, of the first part, and **THE ROYAL CANADIAN MOUNTED POLICE**, of the second part, in and to the effect following, namely:

© 2006 The Authors
Journal compilation © 2006 Blackwell Publishing Ltd

begin called lower (suborder one or more) and

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of one (1) year from this date (called "primary term"), and

On the mouth of the well of one-eighth of the gas was sold on land, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized upon each sale; let and at any time when this lease is not validated by other production found and there is a gas and/or condensate well on said land, or land pooled therewith, such well or wells underdevelopment, in fact, but not in law, shall be deemed to be in compliance with the above conditions, then no additional gas shall be sold.

Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

it to both parties, unless on or before any (1) year from this date lessee shall pay or tender to the lessor a rental of \$_____ which shall cover the purchase of deferred commencement of such operations for a period of twelve (12) months, in like manner not upon any payments or tenders. If the purchase of such operations shall be further deferred for successive periods of twelve (12) months each during the estimate term. Payment

1 _____, which bank, or any necessary thereof, shall

Any timely payment or tender of rental or abatement liability which is made in a bona fide attempt to make prompt payment, but which is erroneous in whole or in part as to parties, amounts, or depositaries shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a correct payment had been made. Notwithstanding, however, that any such payment or tender is made in good faith, it shall not constitute a waiver of any right to recover the full amount of the rental or abatement liability.

[illegible]

12. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled interests over the portion of said land covered hereby and included in said well in the same manner as though produced from said land under the terms of this lease, any pooled unit designated by lease, as provided herein, may be dissolved by lease by recording an appropriate instrument in the County where the land is situated.

operator and diligently prosecutes the same, or if it be within the primary term commences or resumes the payment of imputed royalty or production payments for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said well or hole or the cessation of production, if at the expiration of the primary term oil or gas is not being produced but lease is then engaged in operations

7. Lessee shall have free use of oil, gas and water from said land, surface water from lessee's wells and tanks, for all operations hereunder, and the royalty

5. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators,

under any treaty, republic or passport to the credit of the depositor or his estate in the depository bank until such time as there has been furnished with evidence satisfactory to issue as to the person entitled to said sum. In the event of an assignment of this loan as to a registered position of said land, the same shall be subject to the provisions of the law relating to the same.

It is to be for as it covers a part of land upon which there is or may be any building there shall so comply or make such payments. Estate as used in this paragraph shall include abutting property.

1182 or reasonable equivalents do or from producing oil or gas hereunder; and the time while lease is so recorded shall not be counted against term, unless in this lease to the contrary notwithstanding.

11. Lessee hereby warrants and agrees to defend the title to said land and covenants that Lessee, at its option may discharge any tax, assessment or other

where payments, if any, according to my part as to which this lease carries less than such full interest, shall be paid only in the proportion which the several thereto, if any, covered by this lease, bears to the whole and undivided fee simple estate thereto. Should any one or more of the parties named above become full or co-lease this lease, it shall nevertheless be binding upon the party or parties executing the same.

with, royalty payable hereunder shall be reduced in the proportion that the advance received hereby is reduced by said release or releases.

© 2011 Pearson Education, Inc. All rights reserved. This publication is protected by copyright. Any unauthorized distribution or reproduction of this work is illegal. All trademarks are the property of their respective owners. Printed in the United States of America. 10 9 8 7 6 5 4 3 2 1

Downloaded from <http://www.jstor.org/stable/2346022> on Tue, 20 Jun 2016 12:00:00 UTC
All use subject to <http://about.jstor.org/terms>

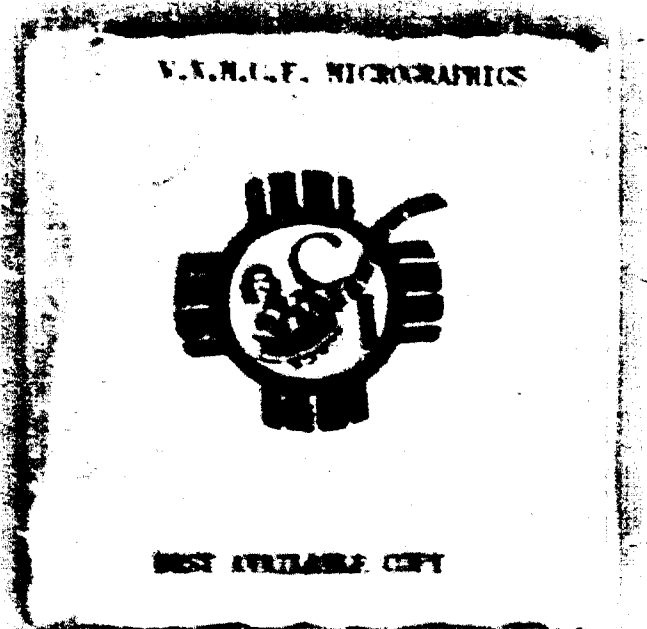


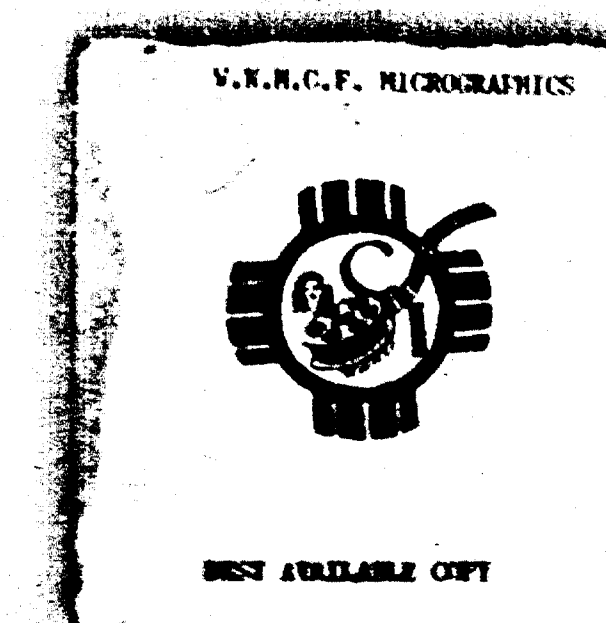
EXHIBIT "C"

Attached is and made a part of that certain Operating Agreement, dated January 26, 1977, between Texas Oil & Gas Corp., Operator, and Cities Service Oil Company, et al, Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

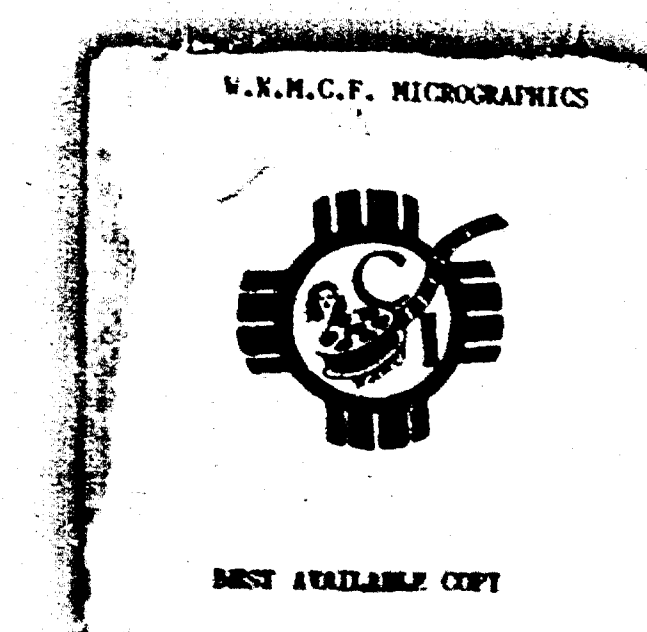
1. GENERAL PROVISIONS

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.
"Field Level Supervisors" shall mean those employees whose primary function is Joint Operations in 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.
"Controlable 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 expenditures, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controlable 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 advance received from the Non-Operators.
Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lower, plus attorney's fee, 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 Controlable 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 amounts as provided for in Paragraph 4 of this Section 1. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.
6. Approval by Non-Operators
Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions to the contrary, 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 in excess of twenty per cent (20%).
 4. **Material**
Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operation. 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 large terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
B. If 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 large 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 2000 or less excluding accessorials charges.
 6. **Services**
The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 8 of Section II and Paragraph 1, 4 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, after 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 the case of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 25%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.
 8. **Damages and Losses to Joint Property**
All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
 9. **Legal Expense**
Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operation under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.



10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operations 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 Workers' Compensation and/or Employers' Liability under the respective state 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 rate.

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

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

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

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

B. 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 \$ 3,620.

Producing Well Rate \$ 2,225.

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

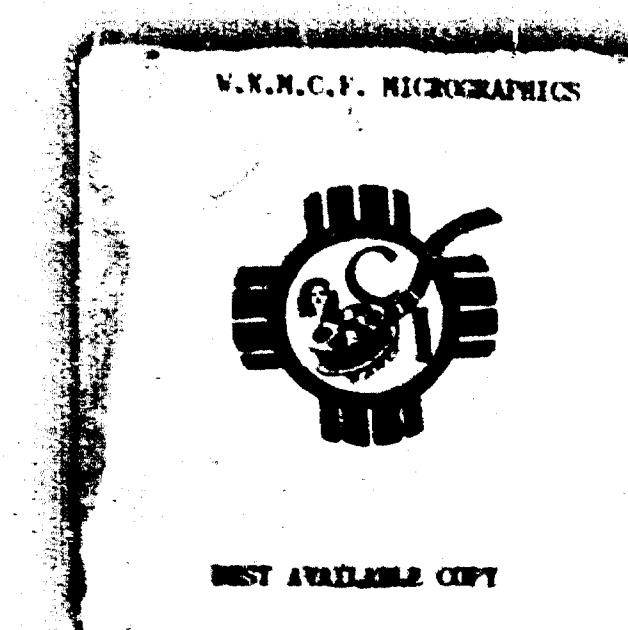
(2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge provided each completion is considered a separate well by the governing regulatory authority.

(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 involving the gas well is directly connected to a permanent rate 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 in which this document becomes a contract. 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 in the base calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Field 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 3 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 2 of Section II, all salvage credits, the value of injected substances purchased for regular 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 1(b) of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening or any successful 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 1 of this Section II. 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 charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$25,000:

A. 3% of total costs if such costs are more than \$25,000 but less than \$100,000; plus

B. 2% of total costs in excess of \$100,000 but less than \$1,000,000; plus

C. 1% 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 derrick 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 inequitable 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, in Operator's sales, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of the and for surplus Material, such disposal shall be made either through sale to Operator or Non-Operator, division in kind, or sale to outside. Operator may, however, not be under any 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 basis 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 trucking yard or large land weight basis, regardless of quantity transferred, equivalent to the lowest published price for such railway receiving point or recognized large 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 local railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

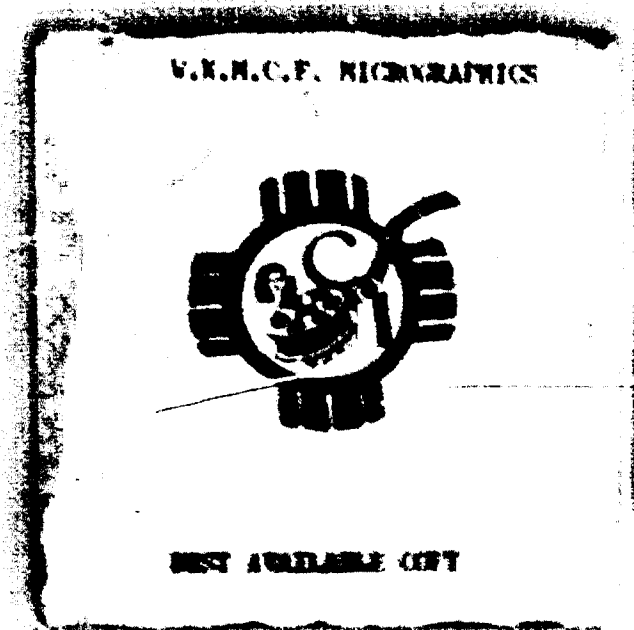
Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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



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

The cost of reconditioning, if any, shall be charged to 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 as 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 bulkular goods movements, in lieu of loading and unloading costs sustained, when actual handling cost of such bulkular goods are equalled under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knock-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 at 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 the share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

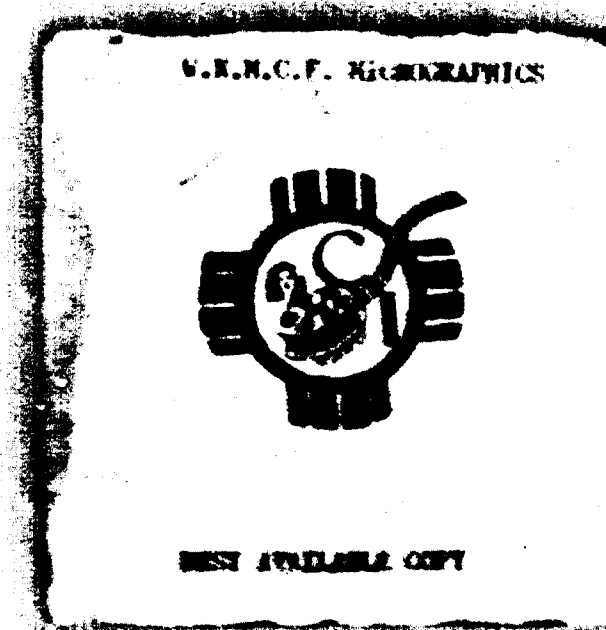


EXHIBIT "D"

Attached to and made a part of Operating Agreement dated January 20, 1977, between Texas Oil & Gas Corp., Operator, and Cities Service Oil Company, et al, Non-Operators.

SCHEDULE OF INSURANCE

Unit Operator shall carry and require its contractor and sub-contractors to carry the following insurance at the expense and for the benefit of the parties hereto covering its operations under the terms of this agreement, to-wit:

1. Workmen's Compensation Insurance as required by the laws of the State of New Mexico.
2. Employer's Liability Insurance with minimum limits as required by the laws of the State of New Mexico.
3. Contractor's or Comprehensive General Public Liability Insurance with minimum limits of at least \$100,000.00 for injuries to one person; \$300,000.00 for injury in one accident, and \$100,000.00 for property damage in one accident.
4. Automobile-Public Liability and Property Damage Insurance (with an endorsement covering non-owned and hired cars) with minimum limits of at least \$100,000.00 for injuries to one person; \$100,000.00 for injuries in one accident, and \$100,000.00 for property damage in any one accident.
5. Insurance coverage on equipment as the Operator deems necessary for the protection of the joint account.

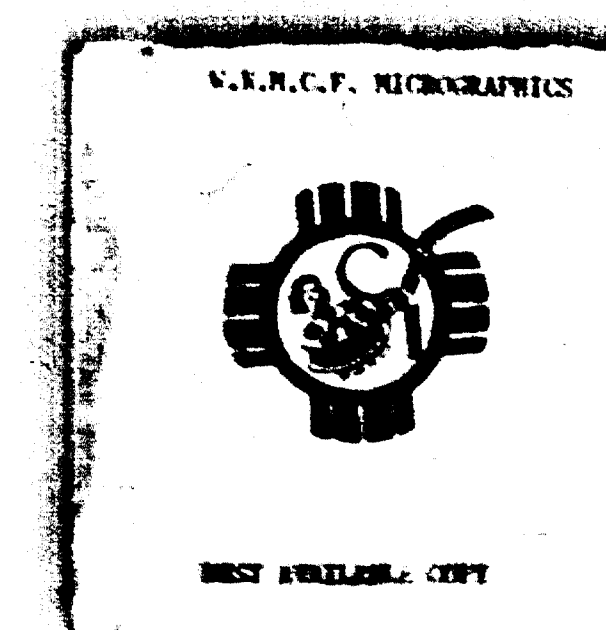


EXHIBIT "E"

Attached to and made a part of Operating Agreement dated January 20, 1977, between Texas Oil & Gas Corp., Operator, and Cities Service Oil Company, et al, Non-Operators.

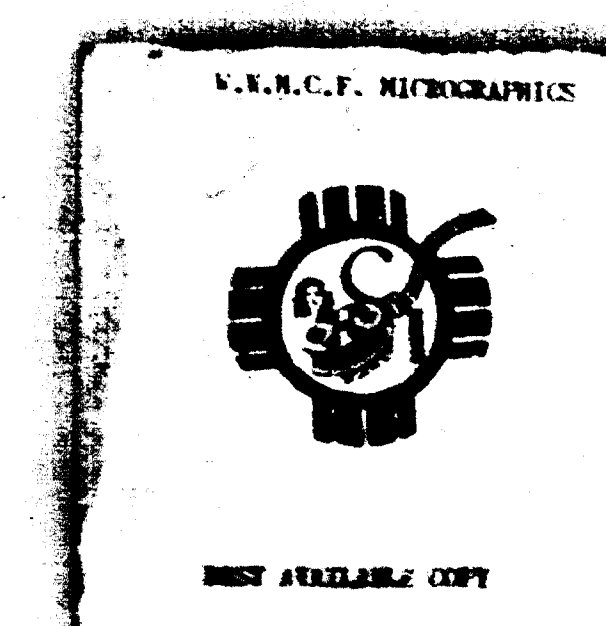
GAS STORAGE AND BALANCING AGREEMENT

During the period or periods when any party hereto has no market for, or its purchaser is unable to take or if any party fails to take its share of gas, the other parties shall be entitled to produce each month one hundred percent of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and each of such parties shall take its prorata share. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced, less its share of gas used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto monthly statements showing the total quantity of gas produced, used in lease operations, vented or lost, and the total quantity of condensate recovered.

After notice to Operator, any party may begin taking or delivering its share of the gas produced. In addition to its share, each party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five percent of each overproduced party's share of gas produced. If more than one party is entitled to the additional gas produced, then it shall divide such additional gas in accordance with Unit participation.

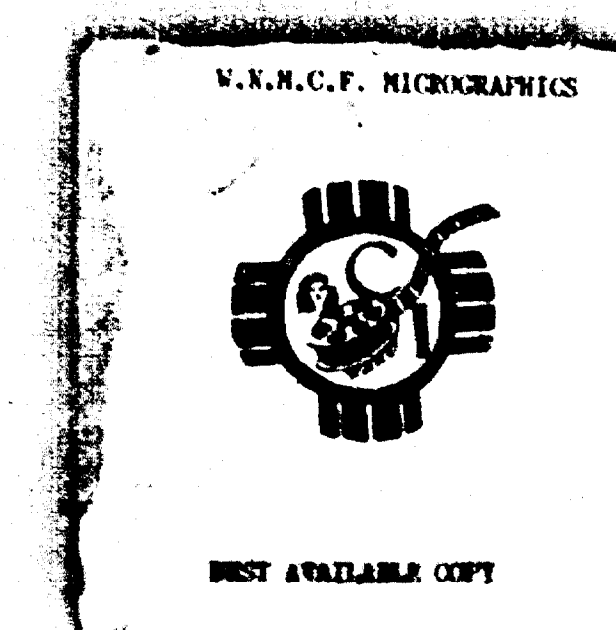
In the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, a complete balancing shall be accomplished by a money settlement. Such settlement shall be based upon the weighted average price received by each overproduced party for its share of gas produced and sold.

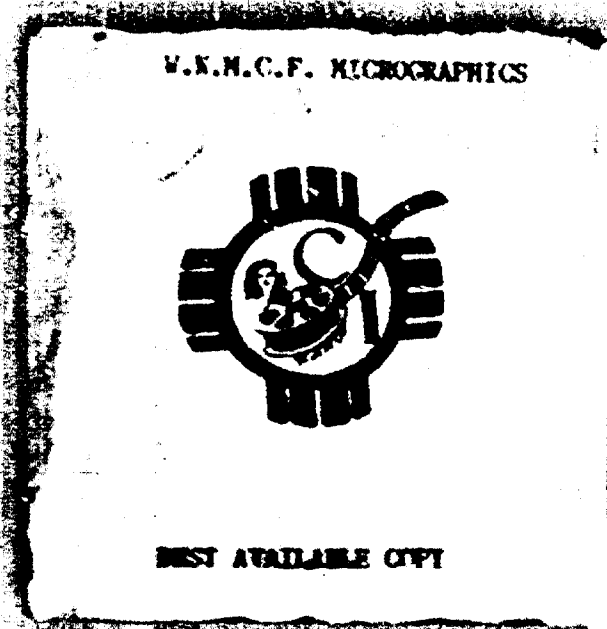
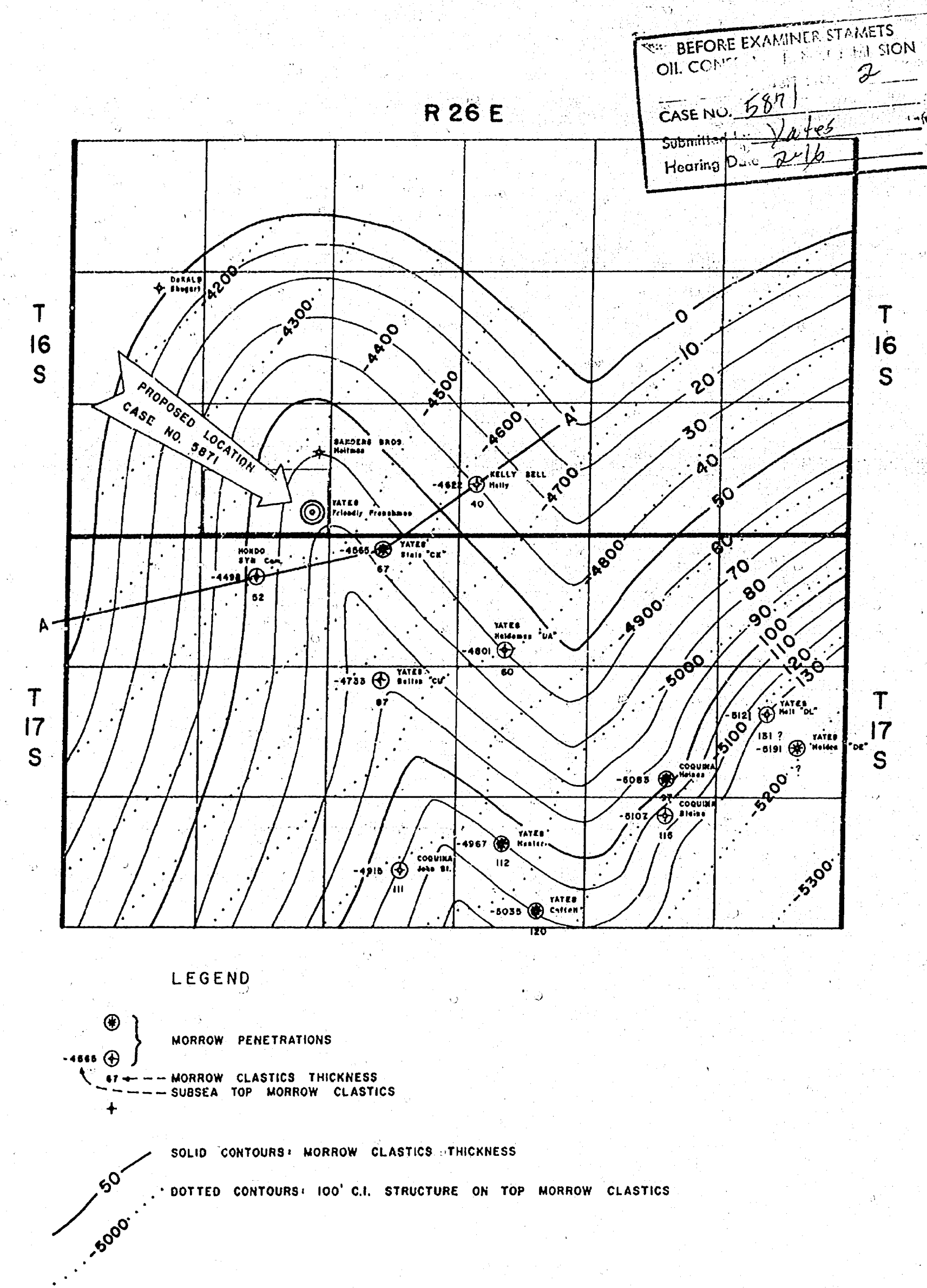
At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interest, and other payments out of or in lieu of production for which it is responsible, as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production. Each party hereto agrees to hold each other harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

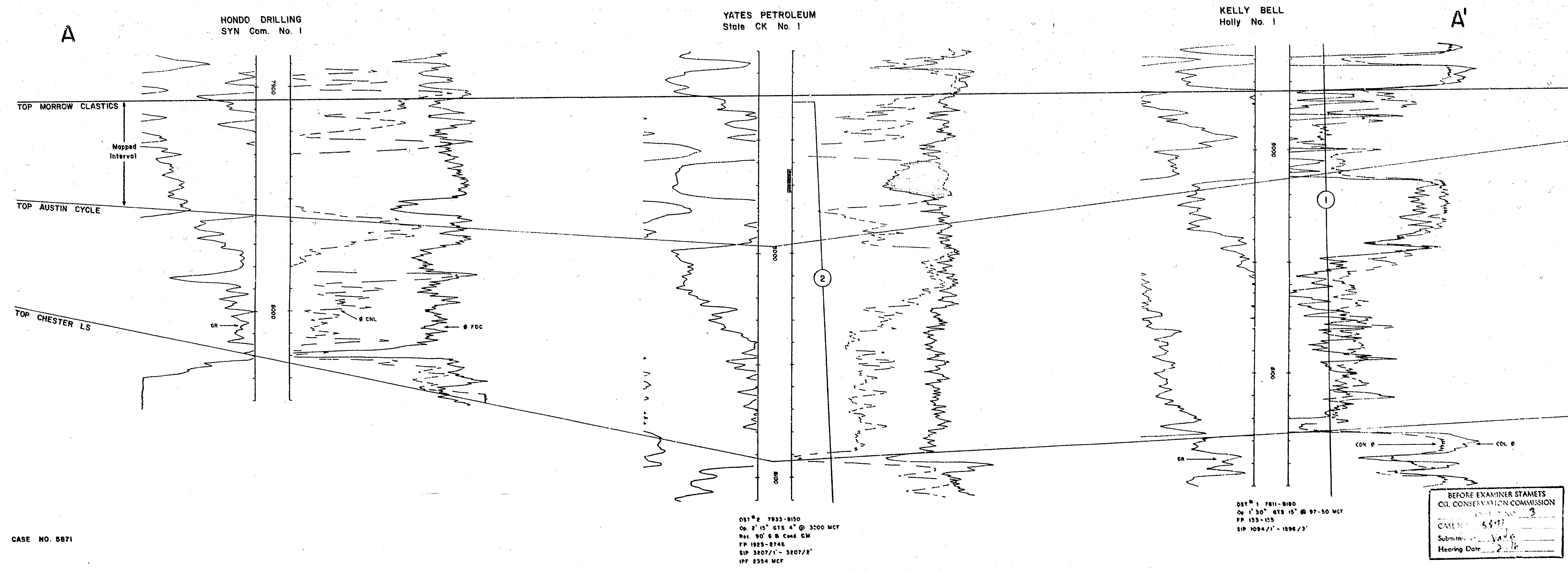


Case No
5871

Large Exhibits







CASE NO. 5871

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

CASE NO. 5871

Subm. No. 1420

Hearing Date 2/11

