

DATE 1926: TAYLOR OIL AND CATTLE COMPANY
FOR LABORATORY TESTING, LEA COUNTY, NEW
MEXICO

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(B) represent of
Hahar
(over Lopez)*

CASE NO.

4826

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

Send copy of order entered
in Case 6826 to

G. J. McAlpin

P.O. Box 49

Cuero, Texas 77954

A-6306

Mailed 5/8/80



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

May 2, 1980

POST OFFICE BOX 2080
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SANTA FE, NEW MEXICO 87501
(505) 827-2434

Mr. Gary Kilpatrick
Montgomery, Andrews & Hannahs
Attorneys at Law
Post Office Box 2307
Santa Fe, New Mexico

RE: CASE NO. 6826
ORDER NO. R-6306

Applicant:

Tahoe Oil and Cattle Company

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD	<u>X</u>
Artesia OCD	<u>X</u>
Aztec OCD	<u> </u>

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6826
Order No. R-6306

APPLICATION OF TAHOE OIL AND
CATTLE COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 26, 1980,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 30th day of April, 1980, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

- (1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.
- (2) That the applicant, Tahoe Oil and Cattle Company,
seeks an order pooling all mineral interests in the Penrose
Skelly Pool underlying the SE/4 SE/4 of Section 25, Township 21
South, Range 36 East, NMPM, Lea County, New Mexico.
- (3) That the applicant has the right to re-enter and
rework its Bromlee Well No. 1 at a standard location in said
quarter-quarter section.
- (4) That there are interest owners in the proposed prora-
tion unit who have not agreed to pool their interests.
- (5) That the applicant was not able to present substantial
evidence that bona fide attempts had been made to obtain volun-
tary agreement to pool the interests within the proposed prora-
tion unit.

-2-

Case No. 6826
Order No. R-6306

(6) That absent such substantial evidence in this case the application is premature and should be denied.

IT IS THEREFORE ORDERED:

(1) That the application of Tahoe Oil and Cattle Company for an order pooling all mineral interests in the Penrose Skelly Pool underlying the SE/4 SE/4 of Section 25, Township 21 South, Range 36 East, NMPN, Lea County, New Mexico, is hereby denied.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director


S E A L

fd/

J. D. SETH (1893-1963)

A. K. MONTGOMERY
FRANK ANDREWS
SETH D. MONTGOMERY
FRANK ANDREWS II
OWEN M. LOPEZ
VICTOR R. ORTEGA
JEFFREY R. BRANNEN
JOHN B. POAND
GARY R. KILPATRICK
THOMAS W. OLSON
WALTER J. MELENDEZ
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ROBERT R. WORCESTER
JOHN B. DRAPER
NANCY M. ANDERSON
JOHN K. SILVER
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ROBERT H. ALPBACH

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APR 25 1980
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April 22, 1980

Mr. R. L. Stamets
Hearing Examiner
Oil Conservation Division
State Land Office
Santa Fe, New Mexico 87501

Re: Application of Tahoe Oil and Cattle Company for
Compulsory Pooling, Lea County, New Mexico,
Case No. 6826

Dear Mr. Stamets:

At the close of the hearing on the above-referenced matter you asked that Tahoe Oil and Cattle Company submit additional information to you concerning its efforts to secure the consent of G. T. McAlpin, the other working interest owner in the subject tract, to join the unit and pay his proportionate share of the cost incurred and to be incurred in the work-over program for the subject well.

The attorney for Tahoe Oil and Cattle Company in Midland, Texas, James H. Isbell, had made attempts to contact Mr. G. T. McAlpin concerning this matter prior to the date of the hearing.

Mr. McAlpin has a one-fourth working interest in the subject well and Mr. Isbell made an offer to purchase the one-fourth working interest from Mr. McAlpin on behalf of the Tahoe Oil and Cattle Company. Mr. Isbell also attempted to discuss the possibility of pooling the parties' respective interests and developing the lands as a unit with Tahoe Oil and Cattle Company being designated as operator. Mr. Isbell's communication with Mr. McAlpin never advanced beyond the preliminary stages as Mr. McAlpin rebuffed all efforts at reaching an agreement.

Mr. R. L. Stamets
April 22, 1980
Page Two

In light of the prior attempts to contact McAlpin and his negative response thereto, Tahoe Oil and Cattle Company and Mr. Isbell determined that additional efforts to obtain Mr. McAlpin's consent to pool their respective interests would be to no avail.

Should you require any additional information or documentation in order to rule on the above-referenced case, please do not hesitate to contact me.

Very truly yours,

Jay A. Kelpatino

GRK:cl

cc: Mr. K.A. Freeman

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
26 March 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Tahoe Oil and Cattle
Company for compulsory pooling, Lea
County, New Mexico.

CASE
6826

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

Gary Kilpatric, Esq.
MONTGOMERY, ANDREWS, & HANNAHS
Paseo de Peralta
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I N D E X

KEN FREEMAN

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E X H I B I T S

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Applicant Exhibit Seven, Cost Estimate	10
Applicant Exhibit Eight, Operating Agreement	12

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1 MR. STAMETS: We'll call at this time
2 Case 6826.

3 MR. PADILLA: Application of Tahoe Oil
4 and Cattle Company for compulsory pooling, Lea County, New
5 Mexico.

6 MR. KILPATRIC: Yes, I'm Gary Kilpatric,
7 Montgomery, Andrews, and Hannahs, P. A., representing Tahoe
8 Oil and Cattle Company.

9 I have one witness, K. A. Freeman.

10
11 (Witness sworn.)

12
13 KEN A. FREEMAN
14 being called as a witness and having been duly sworn upon
15 his oath, testified as follows, to-wit:

16
17 DIRECT EXAMINATION
18 BY MR. KILPATRIC:

19 Q Mr. Freeman, for the record would you
20 state your name and address, please?

21 A. Kenneth A. Freeman. I live at No. 2
22 Winchester Court in Midland, Texas.

23 Q Mr. Freeman, what is your relationship
24 with the applicant in this case, Tahoe Oil and Cattle Com-
25 pany?

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Page 4

1 A I am the owner and petroleum engineer.

2 Q Have you testified before the Commission
3 before as an engineer and had your qualifications accepted
4 as such as a matter of record?

5 A Yes, I have.

6 MR. KILPATRIC: Mr. Examiner, are the
7 witness' qualifications accepted?

8 MR. STAMETS: They are.

9 Q Can you describe for the Commission the
10 location of the property that's the subject of this appli-
11 cation? In that connection I hand you what has been marked
12 for identification as Exhibit One, and ask you to go ahead
13 and identify that.

14 A This 40-acre tract is located in the
15 southeast quarter of the southeast quarter of Section 25,
16 Township 21 South, Range 36 East, Lea County, New Mexico,
17 and is outlined in yellow on Exhibit One.

18 Q All right. Can you tell the Examiner
19 what interest, if any, Tahoe Oil and Cattle Company has in
20 the mineral interests of this tract, and any other owner-
21 ship interests that you've been able to discover?

22 A Tahoe Oil and Cattle Company acquired
23 a 75 percent working interest, which is a .640625 revenue
24 interest from J. Hiram Moore and his wife. This was ac-
25 quired approximately July or August of 1979.

1 Q Have you determined whether or not there
2 are any other -- who the other ownership, working owners are
3 and what percentage their interests are?

4 A Well, after purchasing this, it was re-
5 presented to us that we were getting 100 percent, but we
6 have since found out that there is a G. T. McAlpin, who has
7 a 25 percent working interest, which is a .218750 revenue
8 interest, and he lives in Cuero, Texas, to my knowledge.

9 Q Do you have any log data for the Brownley
10 No. 1 Well?

11 A We obtained the well file from J. Hiram
12 Moore, and there was not a log of the subject well. We have
13 found a log on the Hanson Oil Corporation Moore No. 1,
14 which is in the 40 acres directly to the north of this
15 well in the same Section 25, and this is the log that we
16 have used in doing our engineering work.

17 Q All right, let me hand you what has been
18 marked for identification as Exhibit Number Two and ask
19 you if that is in fact the same log you just referred to,
20 and ask you to go ahead and describe the log?

21 A Yes, this is the same log, and all this
22 is presented here is to show at depth 35 -- or actually
23 3490 -- is the top of the Penrose zone, and we have colored
24 in in yellow the zones of porosity that we think some of
25 these have been opened up and some have not. I have a well-

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1 bore sketch that shows the existing perforations, but we
2 anticipate to perforate additional stringers in this work-
3 over interval.

4 Q Since acquiring your ownership interest
5 have you done any work on the well to date?

6 And in this connection let me hand you
7 what has been marked as Exhibit Three.

8 A Yes, we have. This exhibit is prepared
9 and it shows April, 1979, through January 1, 1980, an ex-
10 penditure of \$43,858.76, and these -- behind this is monthly
11 breakdowns by month of these expenditures, and all we have
12 done here on the first page, it says the above expense in-
13 cludes the following. We put in a new string of tubing,
14 sucker rods, bottom hole pumping unit, and the electricity.
15 This is what the \$43,000 plus expenditure has covered, and
16 this was done to -- I wanted to see if this well was logged
17 off into water, because when we bought it, it was just
18 hooked up as a flowing gas well, and it had been dead for
19 some time.

20 We'd shot a fluid level on it and it
21 indicated to me that it just had water across the perfor-
22 ations and was logged off. So we installed pumping equip-
23 ment to see if we could restore gas and oil production.

24 Q Have you calculated a production history
25

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1 of the well before and after this work you've just referred
2 to? In that connection let me hand you what has been marked
3 as Exhibit Number Four.

4 A Yes, we have. We took this from the
5 yearly Commission reports from years 1977, '78, and '79.
6 This is monthly breakdowns of oil and gas production.

7 The year 1977 there was a total of 3748
8 Mcf produced and then in 1978 there was 513 Mcf, no oil in
9 either year, and the well, the last production was in August
10 of 1978. It was reported 1 Mcf of gas.

11 And since that time there was no pro-
12 duction until we purchased the lease here, it shows in
13 July when we purchased it, and we installed pumping equip-
14 ment and in August of 1979 we produced 1624 Mcf of gas and
15 12 barrels of oil, and then it's broken down by month to
16 January 1, 1980.

17 Q All right. Do you intend to do any
18 further work on this well, and if so, what would be the
19 purpose, and in this connection let me hand you what's been
20 marked as Exhibits Five and Six.

21 A Well, I would like to say this: We were --
22 we proposed to do additional work on this well if we can
23 get the cooperation of the other 25 percent working interest
24 owner. And I have prepared an estimated workover cost.
25 In this area I have worked on other wells from Jal to

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1 Eunice, similar to this, and I have been basically success-
2 ful in doing this, and I think this is a good workover candi-
3 date, but paying 100 percent of the cost and getting 75
4 percent of the revenue, we can't do this.

5 Q All right, assuming that you're able to
6 go ahead, can you describe for the Examiner what you intend
7 to do as a workover?

8 A Well, here on this page one it says the
9 proposed workover includes supervision, running a packer
10 and bridge plug, and acidizing the zone. This is assuming
11 if we perforate additional stringers in the Penrose, and
12 then fracture treating the well with 50,000 gallons of 3
13 percent KCL water and 75,000 pounds of sand, and utilizing
14 CO₂ to flow the well back and get a rapid cleanup, due to
15 the low bottom hole pressure which exists in this area.

16 And the -- well, the other pages, I
17 have asked Dowell to make an estimate of the work that I
18 have proposed to do, and this is their estimate, on the
19 second and third page, and it was prepared by Warren Wright
20 in Midland, Texas, who is a regional sales engineer.

21 And then the last page, the long, legal
22 sized page, refers to my well cost estimate, and I believe
23 everything is self explanatory. I have run a gamma ray
24 neutron log on here, \$2500. I definitely feel this should
25 be done, as I cannot find a well log on this, and we'd need

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1 the collar log if we would perforate additional zones in
2 the Penrose.

3 Q And have you set out and calculated Mr.
4 McAlpin's share of the expense, should he share fully in
5 allocating the expense of this work?

6 Refer to your last page of that exhibit.

7 A Well, I have done this on another sheet
8 here.

9 Q All right.

10 A That I can show you later.

11 Q All right. Before getting to that, then,
12 would you explain or describe Exhibit Number Six?

13 A This is the downhole wellbore sketch
14 with the tops picked off of the well just offset to the
15 north, which is a deep well, but the formation tops should
16 be very, very close, and we have the cement top at 2845,
17 that was calculated, and showing the perforations and the
18 bridge plug that is in the well.

19 This was prepared from information that
20 was in the well file when we purchased the well from Mr.
21 Moore, and this is the way I currently have the well hooked
22 up to re-establish production.

23 Q All right. Have you made any calcula-
24 tions as to expense and income for this workover, including
25 Mr. McAlpin's share of each?

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1 And in that connection I refer to you
2 what's been marked as Exhibit Number Seven.

3 A Yes, I have. I have it broken down, the
4 expense to date, which in essence is this putting the well
5 back on pump, which is mainly purchase of equipment, and
6 then the estimated workover cost, which the bulk of it is
7 running a log and fracing the well.

8 Then the anticipated production, I have
9 that based on my experience in the area. I want to make
10 one note here. The economics that follows this, as of now,
11 the well is still waiting to be approved for stripper gas
12 certification. I have applied for it. You will note it
13 has \$2.89. The current price if \$.44, is what we're getting
14 for it, and based on past production and so forth, I see
15 no problem whatsoever in obtaining the prices that I have
16 here. It will qualify as stripper gas.

17 But I've worked this out. It's an 80
18 percent lease and the \$90,000 expenditure of what has been
19 spent today and the estimated workover costs, comes to
20 \$90,683.76, and we should receive, based on 200 Mcf a day
21 and 10 barrels of oil, a payout of 3.8 months, say 4 month
22 payout, if everything goes the way we have it projected,
23 and I think that is extremely good economics.

24 Q Now, Mr. Freeman, you've, I think, set
25 out here what your estimated production is should you com-

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1 plete this workover. Can you tell us what would happen,
2 and what your estimation of production is, what you intend
3 to do, if no re-working is possible?

4 A Well, if we can do nothing on this, and
5 we have a real problem, I think the simplest way is to
6 plug and abandon the well, and it was purchased for salvage
7 to begin with, and I have, as explained previously, feel
8 that we have a good workover prospect here, and I think it
9 should be done, but if we can't -- if I have to pay 100
10 percent of the cost and not recoup any of that, why, we
11 will plug the well and just salvage it out.

12 Q If your workover is not done now, what
13 will happen to the gas that's in -- that is there now?

14 A It will not be recovered unless a new
15 well would be drilled, the gas and the oil out of this
16 subject zone.

17 Q Have you made any attempt to locate and
18 contact Mr. McAlpin to obtain from him a consent to do this
19 pooling, or to enter into a voluntary form of agreement
20 with you?

21 A Myself, I have not, but we have retained
22 an attorney in Midland, who brought this prospect to us.
23 His name is James Isbell, and he brought the Moore interest
24 and, like I said, it was our understanding we had purchased
25 100 percent, but then when we got the title work done, there

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1 was this 25 percent working interest outstanding, and he was
2 retained and paid to make them the same offer and to get an
3 operating agreement, which to our knowledge there was none.
4 We had talked to -- I have talked to Richard Moore, J.
5 Hiram's son, and he indicated to me that we would probably
6 have problems. They couldn't get any cooperation from this
7 Mr. McAlpin. I don't know.

8 So I turned it completely over to Mr.
9 Isbell to handle and this was in September and we have heard
10 nothing to date.

11 Q And to your knowledge has Mr. Isbell
12 made attempts to contact and discuss this matter with Mr.
13 McAlpin?

14 A He's told me he's talked with him on the
15 telephone and he's had correspondence by letter. That's
16 all I know.

17 Q Considering the fact that Mr. McAlpin
18 has not consented to pool his interest with yours, what is
19 it that you are asking for here today with regard to who
20 you would like to have as operator and what conditions and
21 terms you would want in an order forcing pooling?

22 And in that connection I refer you to
23 Exhibit Number Eight.

24 A Well, I would like to have Tahoe Oil
25 and Cattle Company as the operator. This is based on that

1 we own 75 percent of the working interest, number one.

2 Two, we operate a lot of wells in this
3 area. We have 20-some wells, and I want to do the work on
4 it myself. I mean I do the field work and so forth.

5 I feel like a reasonable risk factor
6 would be the 200 percent penalty clause if the Commission
7 feels that this would be justified. If not, why, just what-
8 ever would be granted.

9 Q Do you have any basis on which you arrive
10 at the 200 percent figure?

11 A Well, the risk that I see involved in
12 this is twofold. Number one, the well was drilled in
13 December, 1957, and on the wellbore sketch the casing -- it
14 was new pipe and it was cemented with 150 sacks, and like
15 I say, I have calculated the top of the cement to be 2845,
16 and the casing could be bad. And if this is the case, we
17 could have a casing problem that would result in having to
18 go in and squeeze. This has not been included in my esti-
19 mated workover. I feel like that the pipe has at least a
20 50/50 chance of being all right.

21 Then the other is the well is making some
22 water, and if we frac it with 50,000 gallons, we could in-
23 crease the water a great deal, and we only have a 40-acre
24 lease and we have no place to put the water; it would have
25 to be trucked, unless we can come up with something else

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1 that I'm not aware of right now, as far as a commercial
2 water disposal system in the area.

3 Q All right, are there --

4 A Now, this operating agreement, I just
5 filled it out, Tahoe Oil and Cattle Company, I just want to
6 do whatever is typical industry procedure, and there's a
7 lot of blanks in here. There's the part about the drilling
8 operation and development, that's crossed out because it's
9 40 acres, there cannot be another well drilled. I think --
10 and we have an operating overhead in here of \$300, which
11 I've talked to numerous companies in Midland and it ranges
12 from \$200 to \$500, so I just sort of struck a happy medium,
13 and we will be glad to abide by whatever the Commission
14 would put down if they so elect to force pool this.

15 Q Mr. Freeman, do you feel that the granting
16 of your application, subject to terms and conditions you've
17 described here today, will afford both working interest
18 owners in this tract the opportunity to recover or receive,
19 without unnecessary expense, each person's just and fair
20 share of the oil and gas located on this area?

21 A I do.

22 Q Do you feel that the granting of this
23 application is in the best interests of conservation, the
24 prevention of waste, and the protection of correlative
25 rights?

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1 A Yes, I do.

2 Q Were these Exhibits One through Eight
3 prepared by you or under your supervision?

4 A Yes, they were.

5 MR. KILPATRIC: Mr. Examiner, I'd move
6 for the admission of Exhibits One through Eight.

7 MR. STAMETS: These exhibits will be ad-
8 mitted.

9 MR. KILPATRIC: I have no further ques-
10 tions.

11 CROSS EXAMINATION

12 BY MR. STAMETS:

13 Q Mr. Freeman, when did you start the
14 workover on this well?

15 A You mean installing the pumping equip-
16 ment?

17 Q Right.

18 A Let me go back to -- it was in August
19 of 1979.

20 Q And when did you find out that the other
21 party, McAlpin, owned an interest in that?

22 A I believe Rocky Isbell brought it to
23 our attention in August or September.
24
25
26

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1 Q Did you know about their interest before
2 you started the work?

3 A No, we did not, because our intent was
4 that if we put the well on and it just pumped like all
5 water, had, you know, just a gas too small to measure, or
6 something like that, we were going to plug the well and
7 pull the casing.

8 Q At this time you've actually spent about
9 half of what you anticipate the workover is going to cost.

10 A Correct.

11 Q Now I notice on your operating agreement,
12 you did talk about \$3000 a month during workover operations
13 and \$300 a month --

14 A Well, let me say one thing, on the \$3000,
15 that was just filled in because it was blank. I really
16 don't -- I think that should be left blank or marked out,
17 because there will be no -- that's opposite a drilling well
18 rate, and a drilling well, well, there isn't acreage to
19 drill another well, so I do not think that applies. I
20 think if we'd just have the standard \$300 a month admini-
21 strative overhead --

22 Q Do you have any voluntary agreements
23 that you've entered into that provide for that high a rate?

24 A Yes. I have a working interest -- I'm
25

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1 also in the drilling business, and we had a 1/32nd working
2 interest with Forrest Oil Company on the Klein Farms Unit
3 and the Gresham Unit ten miles east of Lamesa, and their
4 cost is \$300 a month, plus all of their company fixed rates,
5 and this runs out to \$100 a day, roughly, which I think is
6 extremely high. I've got the invoices if anybody wants to
7 see them, they're welcome to them.

8 Q What depth of wells are you talking about
9 in that --

10 A These are 7000 foot wells.

11 Q Which is considerably deeper than the
12 well you're looking at here.

13 A Correct.

14 Q And expenses could be much higher.

15 Do you have any voluntary agreements that
16 you've entered into in this general area for similar depth
17 wells?

18 A Well, I operate the Judy (sic) lease and
19 the Harrison lease, approximately a mile and a half north
20 of Jal, and we charge the working interest owners \$300 a
21 month there.

22 Q Okay. For purpose of the record, we're
23 going to have to have copies of whatever correspondence
24 your attorney has had with the McAlpins in order to demon-
25

strate that they have had an opportunity to join and have chosen not to respond or not to join.

A Okay.

MR. KILPATRIC: We can submit that.

MR. STAMETS: All right, I would much prefer that it be -- that it had been submitted here, but since there's no protestant here, we'll be able to do this.

Any other questions of the witness? Mr. Padilla.

MR. PADILLA: Yes.

CROSS EXAMINATION

BY MR. PADILLA:

Q Mr. Freeman, on Exhibit Seven, under anticipated production, you're saying there you expect to produce 10 barrels of oil per day and 200 Mcf per day from the well, is that -- and you've also testified that you've applied for stripper certification, and I'm not sure that -- I just don't see how you could qualify for stripper certification with that type of production.

A Well, let me qualify what I have said. If you will look back to Exhibit Number Four, under production history, in 1979 production was restored in August, and we were told that we had to have 90 days of production

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1 before we could file our paperwork, which we produced --
 2 it was filed in November, and our understanding of the
 3 stripper is 60 Mcf or less a day, which this all falls under
 4 that, and to date we have only produced 12 barrels of oil,
 5 and that was in the month of August, 12 barrels for the total
 6 month of August.

7 So our oil production is not going to
 8 knock it out, and we are not going to do the work until we
 9 get the stripper certification. We're going to go ahead
 10 and produce it in this 500 to 600 Mcf a month rate.

11 Q Well, this anticipate production, then,
 12 would be --

13 A This is after --

14 Q -- a result of the enhanced recovery
 15 technique later on, or something like that.

16 A This is after we frac the well with
 17 50,000 gallons, and using the CO₂. I've found that it's
 18 been very successful in that area in doing that, and that's
 19 what I'm basing the numbers on, is after the frac job.

20 MR. FADILLA: No further questions.

21 MR. STAMETS: Any other questions of the
 22 witness? He may be excused. Anything further in this case?

23 The case will be taken under advisement.

24
 25 (Hearing concluded.)

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REPORTER'S CERTIFICATE

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

Sally W. Boyd C.S.R.

SALLY W. BOYD, C.S.R.

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I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6826 heard by me on 3-26 1980.
Richard L. Hunt Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
26 March 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Tahoe Oil and Cattle)
Company for compulsory pooling, Lea) CASE
County, New Mexico.) 6826

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

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MONTGOMERY, ANDREWS, & HANNAHS
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I N D E X

KEN FREEMAN

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MR. STAMETS: We'll call at this time
Case 6826.

MR. PADILLA: Application of Tahoe Oil
and Cattle Company for compulsory pooling, Lea County, New
Mexico.

MR. KILPATRIC: Yes, I'm Gary Kilpatric,
Montgomery, Andrews, and Hannahs, P. A., representing Tahoe
Oil and Cattle Company.

I have one witness, K. A. Freeman.

(Witness sworn.)

KEN A. FREEMAN

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

DIRECT EXAMINATION

BY MR. KILPATRIC:

Q Mr. Freeman, for the record would you
state your name and address, please?

A Kenneth A. Freeman. I live at No. 2
Winchester Court in Midland, Texas.

Q Mr. Freeman, what is your relationship
with the applicant in this case, Tahoe Oil and Cattle Com-
pany?

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1 A I am the owner and petroleum engineer.

2 Q Have you testified before the Commission
3 before as an engineer and had your qualifications accepted
4 as such as a matter of record?

5 A Yes, I have.

6 MR. KILPATRIC: Mr. Examiner, are the
7 witness' qualifications accepted?

8 MR. STAMETS: They are.

9 Q Can you describe for the Commission the
10 location of the property that's the subject of this appli-
11 cation? In that connection I hand you what has been marked
12 for identification as Exhibit One, and ask you to go ahead
13 and identify that.

14 A This 40-acre tract is located in the
15 southeast quarter of the southeast quarter of Section 25,
16 Township 21 South, Range 36 East, Lea County, New Mexico,
17 and is outlined in yellow on Exhibit One.

18 Q All right. Can you tell the Examiner
19 what interest, if any, Tahoe Oil and Cattle Company has in
20 the mineral interests of this tract, and any other owner-
21 ship interests that you've been able to discover?

22 A Tahoe Oil and Cattle Company acquired
23 a 75 percent working interest, which is a .640625 revenue
24 interest from J. Hiram Moore and his wife. This was ac-
25 quired approximately July or August of 1979.

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1 Q Have you determined whether or not there
2 are any other -- who the other ownership, working owners are
3 and what percentage their interests are?

4 A Well, after purchasing this, it was re-
5 presented to us that we were getting 100 percent, but we
6 have since found out that there is a G. T. McAlpin, who has
7 a 25 percent working interest, which is a .218750 revenue
8 interest, and he lives in Cuero, Texas, to my knowledge.

9 Q Do you have any log data for the Brownley
10 No. 1 Well?

11 A We obtained the well file from J. Hiram
12 Moore, and there was not a log of the subject well. We have
13 found a log on the Hanson Oil Corporation Moore No. 1,
14 which is in the 40 acres directly to the north of this
15 well in the same Section 25, and this is the log that we
16 have used in doing our engineering work.

17 Q All right, let me hand you what has been
18 marked for identification as Exhibit Number Two and ask
19 you if that is in fact the same log you just referred to,
20 and ask you to go ahead and describe the log?

21 A Yes, this is the same log, and all this
22 is presented here is to show at depth 35 -- or actually
23 3490 -- is the top of the Penrose zone, and we have colored
24 in in yellow the zones of porosity that we think some of
25 these have been opened up and some have not. I have a well--

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1 bore sketch that shows the existing perforations, but we
2 anticipate to perforate additional stringers in this work-
3 over interval.

4 Q Since acquiring your ownership interest
5 have you done any work on the well to date?

6 And in this connection let me hand you
7 what has been marked as Exhibit Three.

8 A Yes, we have. This exhibit is prepared
9 and it shows April, 1979, through January 1, 1980, an ex-
10 penditure of \$43,958.76, and these -- behind this is monthly
11 breakdowns by month of these expenditures, and all we have
12 done here on the first page, it says the above expense in-
13 cludes the following. We put in a new string of tubing,
14 sucker rods, bottom hole pumping unit, and the electricity.
15 This is what the \$43,000 plus expenditure has covered, and
16 this was done to -- I wanted to see if this well was logged
17 off into water, because when we bought it, it was just
18 hooked up as a flowing gas well, and it had been dead for
19 some time.

20 We'd shot a fluid level on it and it
21 indicated to me that it just had water across the perfor-
22 ations and was logged off. So we installed pumping equip-
23 ment to see if we could restore gas and oil production.

24 Q Have you calculated a production history

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1 of the well before and after this work you've just referred
2 to? In that connection let me hand you what has been marked
3 as Exhibit Number Four.

4 A Yes, we have. We took this from the
5 yearly Commission reports from years 1977, '78, and '79.
6 This is monthly breakdowns of oil and gas production.

7 The year 1977 there was a total of 3748
8 Mcf produced and then in 1978 there was 513 Mcf, no oil in
9 either year, and the well, the last production was in August
10 of 1978. It was reported 1 Mcf of gas.

11 And since that time there was no pro-
12 duction until we purchased the lease here, it shows in
13 July when we purchased it, and we installed pumping equip-
14 ment and in August of 1979 we produced 1624 Mcf of gas and
15 12 barrels of oil, and then it's broken down by month to
16 January 1, 1980.

17 Q All right. Do you intend to do any
18 further work on this well, and if so, what would be the
19 purpose, and in this connection let me hand you what's been
20 marked as Exhibits Five and Six.

21 A Well, I would like to say this: We were --
22 we proposed to do additional work on this well if we can
23 get the cooperation of the other 25 percent working interest
24 owner. And I have prepared an estimated workover cost.
25 In this area I have worked on other wells from Jal to

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1 Eunice, similar to this, and I have been basically success-
2 ful in doing this, and I think this is a good workover candi-
3 date, but paying 100 percent of the cost and getting 75
4 percent of the revenue, we can't do this.

5 Q All right, assuming that you're able to
6 go ahead, can you describe for the Examiner what you intend
7 to do as a workover?

8 A Well, here on this page one it says the
9 proposed workover includes supervision, running a packer
10 and bridge plug, and acidizing the zone. This is assuming
11 if we perforate additional stringers in the Penrose, and
12 then fracture treating the well with 50,000 gallons of 3
13 percent KCL water and 75,000 pounds of sand, and utilizing
14 CO₂ to flow the well back and get a rapid cleanup, due to
15 the low bottom hole pressure which exists in this area.

16 And the -- well, the other pages, I
17 have asked Dowell to make an estimate of the work that I
18 have proposed to do, and this is their estimate, on the
19 second and third page, and it was prepared by Warren Wright
20 in Midland, Texas, who is a regional sales engineer.

21 And then the last page, the long, legal
22 sized page, refers to my well cost estimate, and I believe
23 everything is self explanatory. I have run a gamma ray
24 neutron log on here, \$2500. I definitely feel this should
25 be done, as I cannot find a well log on this, and we'd need

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1 the collar log if we would perforate additional zones in
2 the Penrose.

3 Q And have you set out and calculated Mr.
4 McAlpin's share of the expense, should he share fully in
5 allocating the expense of this work?

6 Refer to your last page of that exhibit.

7 A Well, I have done this on another sheet
8 here.

9 Q All right.

10 A That I can show you later.

11 Q All right. Before getting to that, then,
12 would you explain or describe Exhibit Number Six?

13 A This is the downhole wellbore sketch
14 with the tops picked off of the well just offset to the
15 north, which is a deep well, but the formation tops should
16 be very, very close, and we have the cement top at 2845,
17 that was calculated, and showing the perforations and the
18 bridge plug that is in the well.

19 This was prepared from information that
20 was in the well file when we purchased the well from Mr.
21 Moore, and this is the way I currently have the well hooked
22 up to re-establish production.

23 Q All right. Have you made any calcula-
24 tions as to expense and income for this workover, including
25 Mr. McAlpin's share of each?

1 And in that connection I refer to you
2 what's been marked as Exhibit Number Seven.

3 A Yes, I have. I have it broken down, the
4 expense to date, which in essence is this putting the well
5 back on pump, which is mainly purchase of equipment, and
6 then the estimated workover cost, which the bulk of it is
7 running a log and fracing the well.

8 Then the anticipated production, I have
9 that based on my experience in the area. I want to make
10 one note here. The economics that follows this, as of now,
11 the well is still waiting to be approved for stripper gas
12 certification. I have applied for it. You will note it
13 has \$2.89. The current price is \$.44, is what we're getting
14 for it, and based on past production and so forth, I see
15 no problem whatsoever in obtaining the prices that I have
16 here. It will qualify as stripper gas.

17 But I've worked this out. It's an 80
18 percent lease and the \$90,000 expenditure of what has been
19 spent today and the estimated workover costs, comes to
20 \$90,683.76, and we should receive, based on 200 Mcf a day
21 and 10 barrels of oil, a payout of 3.8 months, say 4 month
22 payout, if everything goes the way we have it projected,
23 and I think that is extremely good economics.

24 Q Now, Mr. Freeman, you've, I think, set
25 out here what your estimated production is should you com-

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1 plete this workover. Can you tell us what would happen,
2 and what your estimation of production is, what you intend
3 to do, if no re-working is possible?

4 A Well, if we can do nothing on this, and
5 we have a real problem, I think the simplest way is to
6 plug and abandon the well, and it was purchased for salvage
7 to begin with, and I have, as explained previously, feel
8 that we have a good workover prospect here, and I think it
9 should be done, but if we can't -- if I have to pay 100
10 percent of the cost and not recoup any of that, why, we
11 will plug the well and just salvage it out.

12 Q If your workover is not done now, what
13 will happen to the gas that's in -- that is there now?

14 A It will not be recovered unless a new
15 well would be drilled, the gas and the oil out of this
16 subject zone.

17 Q Have you made any attempt to locate and
18 contact Mr. McAlpin to obtain from him a consent to do this
19 pooling, or to enter into a voluntary form of agreement
20 with you?

21 A Myself, I have not, but we have retained
22 an attorney in Midland, who brought this prospect to us.
23 His name is James Isbell, and he brought the Moore interest
24 and, like I said, it was our understanding we had purchased
25 100 percent, but then when we got the title work done, there

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1 was this 25 percent working interest outstanding, and he was
2 retained and paid to make them the same offer and to get an
3 operating agreement, which to our knowledge there was none.
4 We had talked to -- I have talked to Richard Moore, J.
5 Hiram's son, and he indicated to me that we would probably
6 have problems. They couldn't get any cooperation from this
7 Mr. McAlpin. I don't know.

8 So I turned it completely over to Mr.
9 Isbell to handle and this was in September and we have heard
10 nothing to date.

11 Q And to your knowledge has Mr. Isbell
12 made attempts to contact and discuss this matter with Mr.
13 McAlpin?

14 A He's told me he's talked with him on the
15 telephone and he's had correspondence by letter. That's
16 all I know.

17 Q Considering the fact that Mr. McAlpin
18 has not consented to pool his interest with yours, what is
19 it that you are asking for here today with regard to who
20 you would like to have as operator and what conditions and
21 terms you would want in an order forcing pooling?

22 And in that connection I refer you to
23 Exhibit Number Eight.

24 A Well, I would like to have Tahoe Oil
25 and Cattle Company as the operator. This is based on that

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1 we own 75 percent of the working interest, number one.

2 Two, we operate a lot of wells in this
3 area. We have 20-some wells, and I want to do the work on
4 it myself. I mean I do the field work and so forth.

5 I feel like a reasonable risk factor
6 would be the 200 percent penalty clause if the Commission
7 feels that this would be justified. If not, why, just what-
8 ever would be granted.

9 Q Do you have any basis on which you arrive
10 at the 200 percent figure?

11 A Well, the risk that I see involved in
12 this is twofold. Number one, the well was drilled in
13 December, 1957, and on the wellbore sketch the casing -- it
14 was new pipe and it was cemented with 150 sacks, and like
15 I say, I have calculated the top of the cement to be 2845,
16 and the casing could be bad. And if this is the case, we
17 could have a casing problem that would result in having to
18 go in and squeeze. This has not been included in my esti-
19 mated workover. I feel like that the pipe has at least a
20 50/50 chance of being all right.

21 Then the other is the well is making some
22 water, and if we frac it with 50,000 gallons, we could in-
23 crease the water a great deal, and we only have a 40-acre
24 lease and we have no place to put the water; it would have
25 to be trucked, unless we can come up with something else

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1 that I'm not aware of right now, as far as a commercial
2 water disposal system in the area.

3 Q All right, are there --

4 A Now, this operating agreement, I just
5 filled it out, Tahoe Oil and Cattle Company, I just want to
6 do whatever is typical industry procedure, and there's a
7 lot of blanks in here. There's the part about the drilling
8 operation and development, that's crossed out because it's
9 40 acres, there cannot be another well drilled. I think --
10 and we have an operating overhead in here of \$300, which
11 I've talked to numerous companies in Midland and it ranges
12 from \$200 to \$500, so I just sort of struck a happy medium,
13 and we will be glad to abide by whatever the Commission
14 would put down if they so elect to force pool this.

15 Q Mr. Freeman, do you feel that the granting
16 of your application, subject to terms and conditions you've
17 described here today, will afford both working interest
18 owners in this tract the opportunity to recover or receive,
19 without unnecessary expense, each person's just and fair
20 share of the oil and gas located on this area?

21 A I do.

22 Q Do you feel that the granting of this
23 application is in the best interests of conservation, the
24 prevention of waste, and the protection of correlative
25 rights?

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Page 15

1 A Yes, I do.

2 Q Were these Exhibits One through Eight
3 prepared by you or under your supervision?

4 A Yes, they were.

5 MR. KILPATRIC: Mr. Examiner, I'd move
6 for the admission of Exhibits One through Eight.

7 MR. STAMETS: These exhibits will be ad-
8 mitted.

9 MR. KILPATRIC: I have no further ques-
10 tions.

11 CROSS EXAMINATION

12 BY MR. STAMETS:

13 Q Mr. Freeman, when did you start the
14 workover on this well?

15 A You mean installing the pumping equip-
16 ment?

17 Q Right.

18 A Let me go back to -- it was in August
19 of 1979.

20 Q And when did you find out that the other
21 party, McAlpin, owned an interest in that?

22 A I believe Rocky Isbell brought it to
23 our attention in August or September.
24
25
26

1 Q Did you know about their interest before
2 you started the work?

3 A No, we did not, because our intent was
4 that if we put the well on and it just pumped like all
5 water, had, you know, just a gas too small to measure, or
6 something like that, we were going to plug the well and
7 pull the casing.

8 Q At this time you've actually spent about
9 half of what you anticipate the workover is going to cost.

10 A Correct.

11 Q Now I notice on your operating agreement,
12 you did talk about \$3000 a month during workover operations
13 and \$300 a month --

14 A Well, let me say one thing, on the \$3000,
15 that was just filled in because it was blank. I really
16 don't -- I think that should be left blank or marked out,
17 because there will be no -- that's opposite a drilling well
18 rate, and a drilling well, well, there isn't acreage to
19 drill another well, so I do not think that applies. I
20 think if we'd just have the standard \$300 a month admini-
21 strative overhead --

22 Q Do you have any voluntary agreements
23 that you've entered into that provide for that high a rate?

24 A Yes. I have a working interest -- I'm
25

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1 also in the drilling business, and we had a 1/32nd working
2 interest with Forrest Oil Company on the Klein Farms Unit,
3 and the Gresham Unit ten miles east of Lamesa, and their
4 cost is \$300 a month, plus all of their company fixed rates,
5 and this runs out to \$100 a day, roughly, which I think is
6 extremely high. I've got the invoices if anybody wants to
7 see them, they're welcome to them.

8 Q What depth of wells are you talking about
9 in that --

10 A These are 7000 foot wells.

11 Q Which is considerably deeper than the
12 well you're looking at here.

13 A Correct.

14 Q And expenses could be much higher.

15 Do you have any voluntary agreements that
16 you've entered into in this general area for similar depth
17 wells?

18 A Well, I operate the Judy (sic) lease and
19 the Harrison lease, approximately a mile and a half north
20 of Jal, and we charge the working interest owners \$300 a
21 month there.

22 Q Okay. For purpose of the record, we're
23 going to have to have copies of whatever correspondence
24 your attorney has had with the McAlpine in order to demon-
25

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1 strate that they have had an opportunity to join and have
2 chosen not to respond or not to join.

3 A Okay.

4 MR. KILPATRIC: We can submit that.

5 MR. STAMETS: All right, I would much
6 prefer that it be -- that it had been submitted here, but
7 since there's no protestant here, we'll be able to do this.

8 Any other questions of the witness? Mr.
9 Padilla.

10 MR. PADILLA: Yes.

11
12 CROSS EXAMINATION

13 BY MR. PADILLA:

14 Q Mr. Freeman, on Exhibit Seven, under
15 anticipated production, you're saying there you expect to
16 produce 10 barrels of oil per day and 200 Mcf per day from
17 the well, is that -- and you've also testified that you've
18 applied for stripper certification, and I'm not sure that --
19 I just don't see how you could qualify for stripper certi-
20 fication with that type of production.

21 A Well, let me qualify what I have said.
22 If you will look back to Exhibit Number Four, under pro-
23 duction history, in 1979 production was restored in August,
24 and we were told that we had to have 90 days of production
25

1 before we could file our paperwork, which we produced --
 2 it was filed in November, and our understanding of the
 3 stripper is 60 Mcf or less a day, which this all falls under
 4 that, and to date we have only produced 12 barrels of oil,
 5 and that was in the month of August, 12 barrels for the total
 6 month of August.

7 So our oil production is not going to
 8 knock it out, and we are not going to do the work until we
 9 get the stripper certification. We're going to go ahead
 10 and produce it in this 500 to 600 Mcf a month rate.

11 Q Well, this anticipate production, then,
 12 would be --

13 A This is after --

14 Q -- a result of the enhanced recovery
 15 technique later on, or something like that.

16 A This is after we frac the well with
 17 50,000 gallons, and using the CO₂. I've found that it's
 18 been very successful in that area in doing that, and that's
 19 what I'm basing the numbers on, is after the frac job.

20 MR. PADILLA: No further questions.

21 MR. STAMETS: Any other questions of the
 22 witness? He may be excused. Anything further in this case?

23 The case will be taken under advisement.

24
 25 (Hearing concluded.)

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REPORTER'S CERTIFICATE

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

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

_____, Examiner
Oil Conservation Division

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March 28, 1980

G. T. McAlpin
P. O. Box 49
Cuero, Texas 77954

Re: Case No. 6826

Dear Mr. McAlpin:

Your letter of March 22, 1980, requesting continuance of Case No. 6826 was received Thursday, March 27, 1980.

As this request was not received prior to the date of the hearing no action could be taken on honoring it. The case was heard on the 26th and an order will be subsequently issued.

Please note that any party adversely affected by an order of the Division has 30 days from the date of such order to request that the case be heard de novo by the Oil Conservation Commission.

Sincerely,

R. L. STAMETS
Technical Support Chief

RLS/fd



G. T. McALPIN
P. O. BOX 48
CUERO, TEXAS 77954
TELEPHONE AREA CODE (512) 875-4111
RECEIVED
MAR 27 1980
OIL CONSERVATION DIVISION
Re: Your Case 8826

March 22, 1980

Ms. Florene Davidson
Administrative Secretary
ENERGY AND MINERALS DEPARTMENT
Oil Conservation Division
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Ms. Davidson:

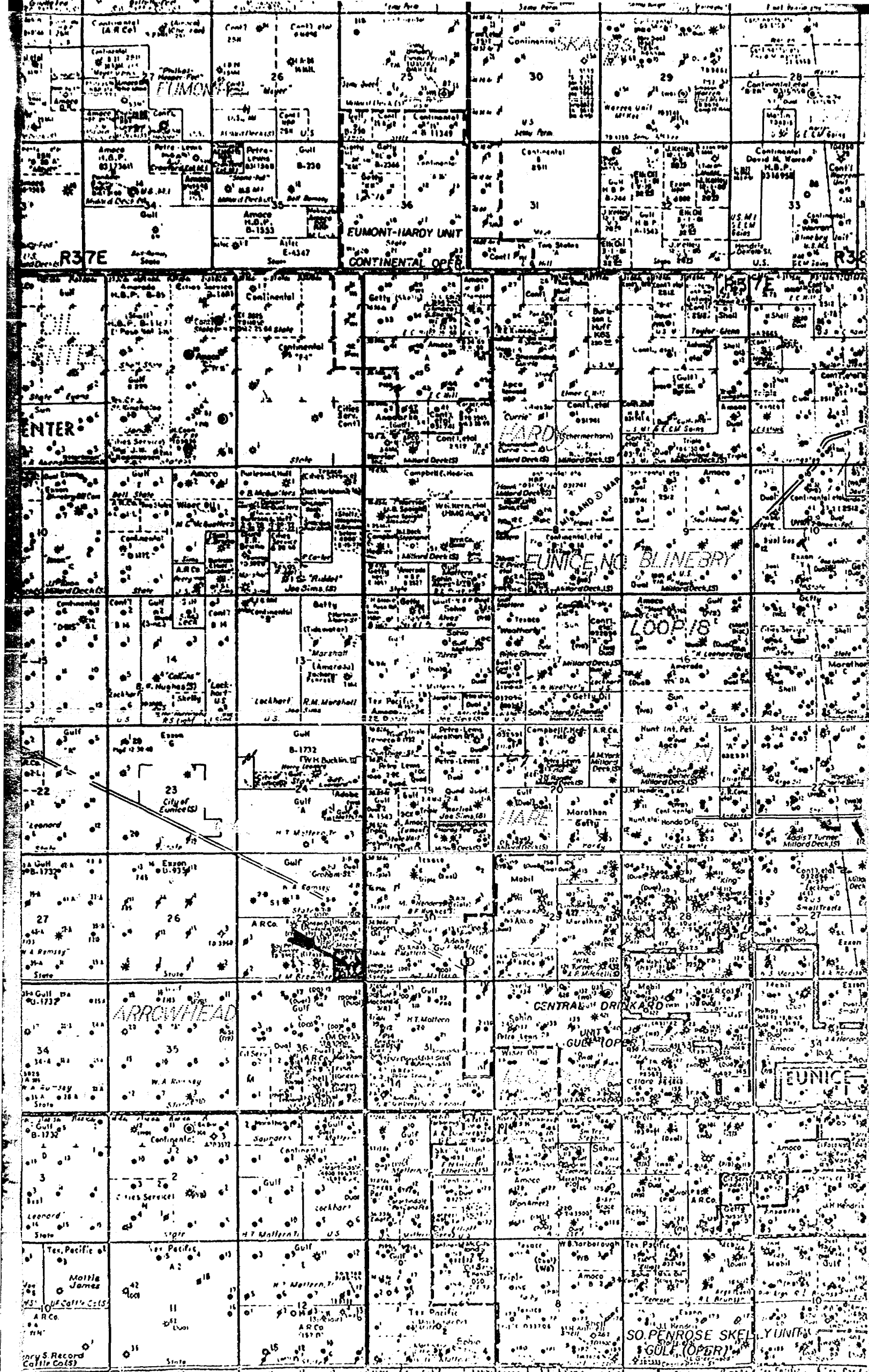
Once again, I respectfully request that the above numbered case be continued indefinitely.

There is an on-going criminal investigation concerning a possible forgery by the APPLICANT in this case. It is entirely possible that it will be physically impossible for the applicant to be present at the hearing. The forgery, if any, concerns the interest which the applicant seeks to force pool in this case.

The MIDLAND COUNTY, TEXAS DISTRICT ATTORNEY informed me that he had asked for an indefinite continuance until such a time that a determination of the guilt or innocence of the applicant is established.

Yours very truly,

G. T. McAlpin
G. T. McAlpin



TANOE

OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

February 1980

Re: Brownlee #1
Unit P, Sec. 25, T-21, R-36
Penrose Skelly Grayburg
Lea County, New Mexico

EXPENSE OCCURRED TO DATE:

April 1979 thru January 1, 1980..... \$43,858.76

THE ABOVE EXPENSE INCLUDES THE FOLLOWING:

3700' of new 2-3/8" tubing, 3700' of new 3/4" sucker rods, 2" X 1-1/2" X 12' bottom hole pump, Cabot D-80 Pumping Unit skid mounted with 10 HP electric motor and labor, trucking and electrical to install same.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 3

CASE NO. 6826

Submitted by TANOE

Date 3-26-80



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

4-30-79

TYPE OF EXPENSE	VENDOR NAME	AMOUNT
<u>LEASE OPERATING EXP.</u>		
Adminstrative Overhead	Petroleum Information	\$5.00
	SUB TOTAL	\$5.00
	APRIL TOTAL	<u>\$5.00</u>

**AHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

5-31-79

TYPE OF EXPENSEVENDOR NAMEAMOUNTLEASE OPERATING EXPENSE

Operating Expense

Wes Huffman

\$15.00

MAY TOTAL

\$15.00

**OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

7-31-79

<u>TYPE OF EXPENSE</u>	<u>VENDOR NAME</u>	<u>AMOUNT</u>
<u>LEASE OPERATING EXPENSE</u>		
Roustabout Labor	Rudolph Huffman	\$ 40.00
Tools - Working Supplies	Wallach Concrete Prod.	23.40
Welding	Standard Welding Works	69.49
Welding	Joe's Welding Service	84.08
	SUB TOTAL	\$216.97
<u>WORKOVER EXPENSE</u>		
Pulling Unit	Crawford Well Servicing	\$2,183.41
Trucking	Tahoe Co. Truck (tubing & rods)	293.50
Overhead		200.00
	SUB TOTAL	\$2,676.91
	JULY TOTAL	<u>\$2,893.88</u>

**AHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

8-31-79

TYPE OF EXPENSE	VENDOR NAME	AMOUNT
<u>LEASE EQUIPMENT</u>		
Electrical Equipment	Vicann Electrical Service	\$1,891.20
Electrical Equipment	Vicann Electrical Service	179.21
Pumping Equipment	Axelsson Inc.	599.30
Sucker Rods	Hobbs Repair Service	40.00
Sucker Rods	Axelsson Inc.	73.40
Tubing	2-3/8 E.U.E. 4.7# - 3570' X \$2.15	7,675.50
Pumping Unit	Cabot D-80 Skid mounted w/power	12,500.00
	SUB TOTAL	\$22,958.61
<u>LEASE OPERATING EXPENSE</u>		
Pumper Salary & Expense	Vic Cooper	\$ 100.00
Fittings	Continental Emsco Co.	315.20
Fittings	Misco United Supply Co.	9.01
Engineering	Kenneth Freeman	200.00
Overhead		200.00
	SUB TOTAL	\$ 824.21
<u>WORKOVER EXPENSE</u>		
Roustabout Labor	Vicann Electrical Service	\$ 270.47
Trucking	Leamco Bearing Div. (P.U.)	1,200.00
Pumping Unit Base	ABCO Base Yard @ Kermit	1,200.00
Well Head	Kermit Yard Inventory	1,418.00
Connections	Kermit Yard Inventory	847.00
Pumps	2"X1 1/2"X12'	1,009.00
	SUB TOTAL	\$5,944.47
	AUGUST TOTAL	<u>\$29,727.29</u>



MAHOE OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

9-30-79

TYPE OF EXPENSE

VENDOR NAME

AMOUNT

LEASE EQUIPMENT

Pumping Equipment
Pumping & Overhead
Engineering

Leamco Bearing Div.

\$1,654.98

Kenneth Freeman

300.00

-Stripper Gas filings

2,000.00

- Workover Engineering

SUB TOTAL

\$3,954.98

SEPTEMBER TOTAL

\$3,954.98



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

10-31-79

TYPE OF EXPENSE

VENDOR NAME

AMOUNT

LEASE OPERATING EXPENSE

Engineering

Fittings

Ad Valorem Taxes

Pumping & Overhead

Kenneth Freeman

Continental Enesco Co.

Oil & Gas Acct. Comm.

\$200.00

2.98

.48

300.00

SUB TOTAL

\$503.46

OCTOBER TOTAL

\$503.46

**MAHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

11-30-79

TYPE OF EXPENSEVENDOR NAMEAMOUNTLEASE OPERATING EXPENSEPower
OverheadWarrior Inc.
Tahoe\$209.47
200.00

SUB TOTAL

\$409.47

NOVEMBER TOTAL

\$409.47



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

12-31-79

BROWNLEE #1

TYPE OF EXPENSE	VENDOR NAME	AMOUNT
<u>LEASE OPERATING EXPENSE</u>		
Foreman Salary & Expense		\$ 18.69
Roustabout Labor		2.72
Supplies		7.03
Transp. Auto		5.83
Tools Working Supplies		.48
Comm. & Control Equipment		14.93
Overhead		<u>200.00</u>
	SUB TOTAL	\$249.68
	DECEMBER TOTAL	<u>\$249.68</u>



OIL & CATTLE CO

PHONE: 915-683-8009

P. O. BOX 3084

MIDLAND, TEXAS 79702

1-31-80

MEMORANDUM #1

<u>TYPE OF EXPENSE</u>	<u>VENDOR NAME</u>	<u>AMOUNT</u>
<u>LEASE OPERATING EXPENSE</u>		
Electrical Repair & Labor	Burns Electrical	100.00
Electrical Installation	N.M. Electrical	6,000.00
	R.O.W. Damages	
	SUB TOTAL	<u>\$6,100.00</u>
	JANUARY TOTAL	<u><u>\$6,100.00</u></u>



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

Brownlee #1
Penrose Skelly Grayburg Field
Unit P, Sec. 25, T-21 S, R-36E
Lea County, New Mexico

PRODUCTION

1977

	GAS/MCF	OIL/BBLs.		GAS/MCF	OIL/BBLs.		GAS/MCF	OIL/BBLs.
(J)	1,543	0	(M)	476	0	(S)	75	0
(F)	0	0	(J)	555	0	(O)	124	0
(M)	0	0	(J)	290	0	(N)	179	0
(A)	0	0	(A)	375	0	(D)	131	0

TOTAL 1977 - 3,748 MCF, 0 BBLs. OIL

1978

(J)	111	0	(M)	80	0	(S)	0	0
(F)	70	0	(J)	65	0	(O)	0	0
(M)	81	0	(J)	28	0	(N)	0	0
(A)	77	0	(A)	1	0	(D)	0	0

TOTAL 1978 - 513 MCF, 0 BBLs. OIL

1979

(J)	0	0	(M)	0	0	(S)	1,281	0
(F)	0	0	(J)	0	0	(O)	1,458	0
(M)	0	0	(J) *	0	0	(N)	605	0
(A)	0	0	(A) **	1,624	12	(D)	105	0

TOTAL 1979 - 5,073 MCF, 12 BBLs. OIL

Electricity was installed and connected in February 1980.

* Tahoe purchased lease and installed pumping equipment

** Electricity disconnected by off-set operator (Ownership change of Warrior's Sandy lease.



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

February 1980

Re: Brownlee #1
Unit P, Sec. 25, T-21, R-36
Penrose Skelly Grayburg
Lea County, New Mexico

ESTIMATED WORKOVER COST:

January 1, 1980 thru June 1, 1980..... \$46,825.00

The proposed workover includes, workover rig, supervision, packer and bridge plug rental, acid job of 1,500 gallons 15% MSR 100, frac job of 50,000 gallons 3% KCL water plus 75,000 gallons sand and 125 tons carbon dioxide (CO₂). Then putting the well back on pump.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

EXHIBIT NO. 5

CASE NO. 6826

Submitted by TAHOE

Hearing Date 3-26-80



DOWELL DIVISION OF DOW CHEMICAL U.S.A.

February 28, 1980
Midland, Texas 79702

BOX 1858
16TH FLOOR WILCO BUILDING
MIDLAND, TEXAS 79702

Mr. Ken Freeman
Tahoe Oil and Cattle Company
P. O. Box 3084
Midland, Texas 79702

STIMULATION RECOMMENDATION FOR THE PENROSE FORMATION IN THE
BROWNLEE #1, SEC. 25, TOWNSHIP 21 RANGE 36, PENROSE-SKELLY
FIELD, LEA COUNTY, NEW MEXICO.

WELL PREPARATION

1. RIM with treating packer and bridge-plug. Set retrievable 5 1/2" bridge plug at 3600' +/-.
2. Spot 200 gallons of 15% MSR-100 across perforated interval.
3. Pull up and set packer at 3400' +/-.
4. Pressure backside to 750 psi.
5. Breakdown perforations and establish injection rate (3 to 4 BPM) and pressure.
6. Acidize interval with remaining 1300 gallons of 15% MSR-100 with ball sealers.
7. If ball-out occurs, surge the balls off the perforations and allow time for them to fall. Finish putting acid away.
8. COH with tubing and packer.

FRACTURING TREATMENT

Dowell recommends using 50,000 gallons of 3% KCl water gelled with 50 pounds per 1,000 gallons gelling agent. This fluid will contain 25% carbon dioxide.

Use this fluid to carry 40,000 pounds of 20/40 sand and 35,000 pounds of 10/20 sand into the formation at 20 BPM.

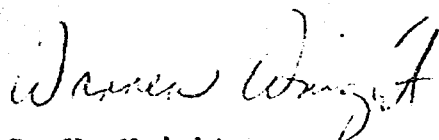
COST ESTIMATES

Acid Job	\$ 1,865.00
Tools	\$ 1,210.00
Fracturing	\$ 23,500.00
Co2	\$ 10,300.00
TOTAL	\$ 36,875.00

Dowell has established an on-location safety policy to which Dowell Personnel must adhere. A pre-job tailgate safety meeting will be held with company representatives and Dowell Personnel to explain existing hazards and safety procedures. We will appreciate close co-operation between customer representatives and Dowell Personnel to insure a smooth and safe operation.

Ken, thank you for asking Dowell for this proposal. The work for this area is based from our Hobbs district. The direct number for Hobbs is 563-1421. Gary Smith is district engineer there.

Sincerely,



R. W. Wright
Regional Sales Engineer

RWW/re

WELL COST ESTIMATE

Date FEBRUARY 1980

Lease & Well No. BROWNLEE NO. 1

Proposed T.D. _____ feet Type Rig _____ AFE No. _____

INTANGIBLE COST:

_____ feet @ \$ _____ per ft.	\$ _____	\$ _____
Day Work _____ Days @ \$ _____ per day	_____	_____
Cement & Cementing Services (Surface)	_____	_____
Floating Equipment (Surface)	_____	_____
Cement & Cementing Services (Long String)	_____	_____
Floating Equipment (Long String)	_____	_____
Mud & Mud Additives	_____	_____
Fuel	_____	_____
Water	3,000.00	_____
Survey Location	_____	_____
Roads, Cleaning & Levelling Location & Clean Up	_____	_____
Trucking (Surface, Long String, Tubing)	_____	_____
Electric Logs	_____	_____
Coring	_____	_____
Formation Tests	_____	_____
Perforating Run GR/N Log from PBTD to Surface	2,500.00	_____
Acid Treatment w/packer & Ret. Bridge Plug	3,075.00	_____
Fracture Treatment 50,000 gal. 3% KCL+75,000#/sd+125 ton CO2	33,800.00	36,875.00
Drilling In & Completion (Rig Time) 3-days @ 900 day	2,700.00	_____
Rock Bits	_____	_____
Labor (Hooking up well, etc.)	_____	_____
Field Engineering & Supervision - 3 days @ 250.00	750.00	_____
Stripper Gas Filing	500.00	_____
Miscellaneous	500.00	_____
TOTAL INTANGIBLES	\$ 46,825.00	_____

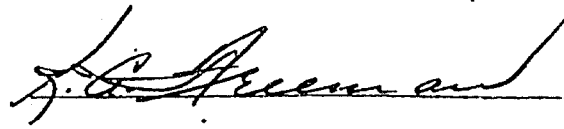
McALPIN INTEREST (25%) = \$11,706.00

TANGIBLE COST:

Surface String (_____)	\$ _____	\$ _____
Long String (_____)	_____	_____
Tubing (_____)	_____	_____
Flow Line (_____)	_____	_____
Xmas Tree & Connections	_____	_____
Pumping Unit (Rods, pump, motor, etc.)	_____	_____
Cattle Guards	_____	_____
Tanks	_____	_____
Miscellaneous	_____	_____
TOTAL TANGIBLES	\$ _____	_____

Total Dry Hole Cost _____ \$ _____

Total Completion Cost (Tangible & Intangible) _____ \$ _____





OIL & CATTLE CO.

PHONE: 915-683-8009

P. O. BOX 5084

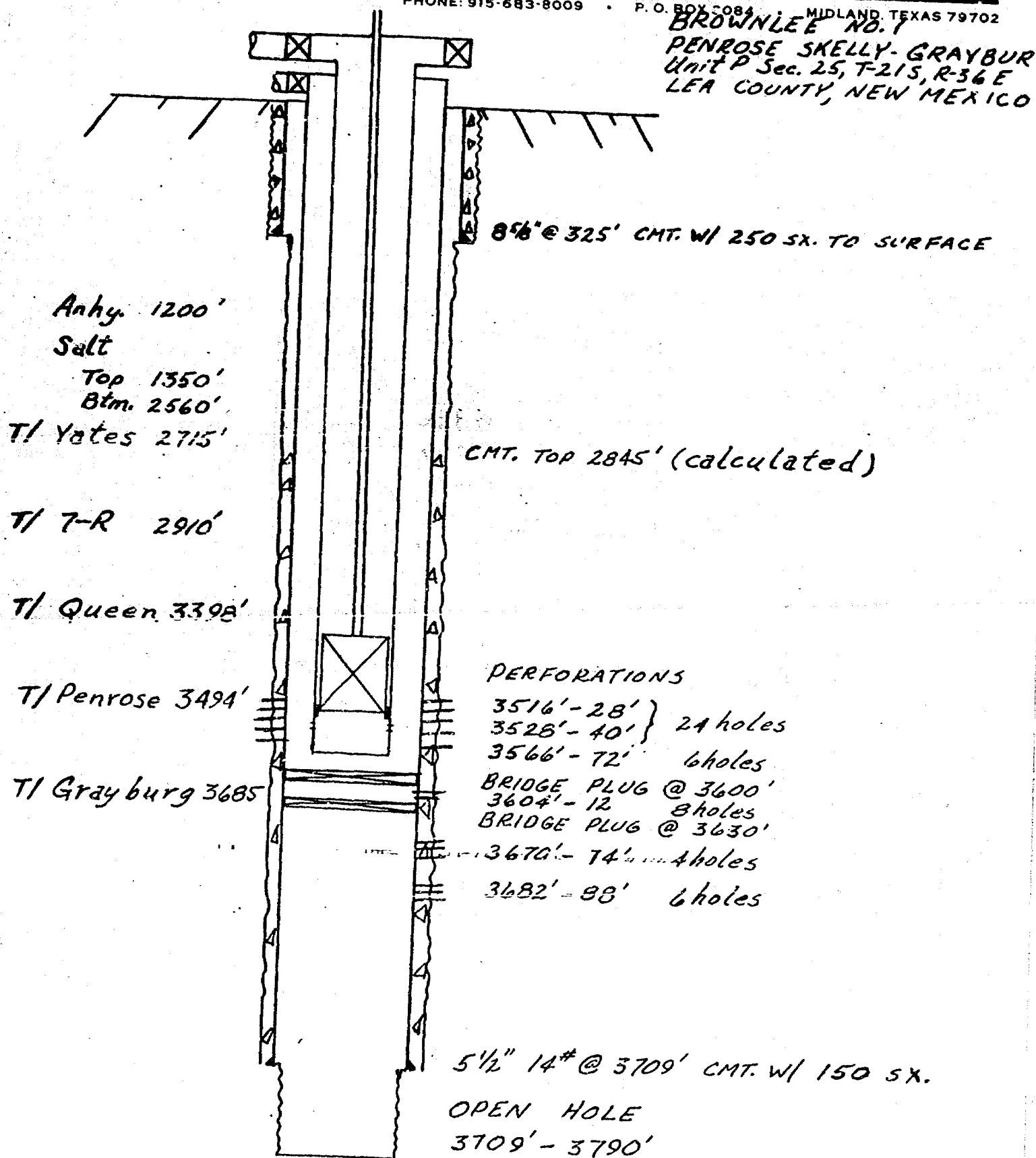
MIDLAND, TEXAS 79702

BROWNLEE NO. 1

PENROSE SKELLY-GRAYBUR

Unit P Sec. 25, T-21S, R-36E

LEA COUNTY, NEW MEXICO



DIAGRAMMATIC SKETCH



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

February 1980

Re: Brownlee #1
Unit P, Sec. 25, T-21, R-36
Penrose Skelly Grayburg
Lea County, New Mexico

PAYOUT:

Expense to date (4-79 to 1-1-80).....	\$43,858.76
Estimated Workover Cost (1-1-80 to 6-1-80).....	46,825.00
TOTAL	\$90,683.76

ANTICIPATED PRODUCTION:

10 BOPD @ \$39.50/bbl.....	\$ 395.00
200 MCFD @ \$2.89.....	578.00
TOTAL	\$ 973.00
80% WI X 973.00 = \$778.40 day X 30.....	\$23,352.00
Operating expense and Overhead.....	600.00
TOTAL	\$23,952.00

$\frac{90,683.76}{23,952.00} = 3.8 \text{ Month}$

McALPIN INTEREST:

90,683.76 X 25%..... \$22,670.94

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

EXHIBIT NO. 7

CASE NO. 6826

Submitted by TAHOE

Hearing Date 3-26-80

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

_____, 19____,

OPERATOR Tahoe Oil & Cattle Co.

CONTRACT AREA SE/4 of SE/4 Section 25, from the surface

to a total depth of 3,710 feet, as to the Penrose-Skelly formation

only, Township 21 South, Range 36 East, N.M.P.M.

COUNTY ~~OR PARISH~~ OF Lea STATE OF New Mexico

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

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

EXHIBIT NO. 8

CASE NO. 6826

Submitted by TANOE

Hearing Date 3-26-80

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Tahoe Oil & Cattle Co., 206 N. Main, Midland, Tx 79702, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

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

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

☐ B. Exhibit "B", Form of Lease.

☐ C. Exhibit "C", Accounting Procedure.

☐ D. Exhibit "D", Insurance.

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

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

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

**ARTICLE III.
INTERESTS OF PARTIES**

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

**ARTICLE IV.
TITLES**

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V. OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas at the following location:

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

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

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

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

1 **B. Subsequent Operations:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

63 C. Right to Take Production in Kind:

64
65 Each party shall have the right to take in kind or separately dispose of its proportionate share of
66 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-
67 velopment and producing operations and in preparing and treating oil for marketing purposes, and
68 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-
69 sition by any party of its proportionate share of the production shall be borne by such party. Any
70

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

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

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

21
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the
25 balancing or accounting between the respective accounts of the parties shall be in accordance with
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as
27 Exhibit "E", or is a separate Agreement.

28
29 **D. Access to Contract Area and Information:**

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

40
41 **E. Abandonment of Wells:**

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

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

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

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

ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

1 D. Limitation of Expenditures:

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

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

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

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

28
29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require
30 an expenditure in excess of Five Thousand Dollars (\$ 5,000.00)
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project
38 costing in excess of Five Thousand Dollars (\$ 5,000.00).

39
40 E. Royalties, Overriding Royalties and Other Payments:

41
42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of
43 .140625 due on its share of production and shall hold the other parties free
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account
47 for or cause to be accounted for, such interest to the owners thereof.

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

53
54 F. Rentals, Shut-in Well Payments and Minimum Royalties:

55
56 Rentals, shut-in well payments and minimum royalties which may be required under the terms of
57 any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their
58 expense. In the event two or more parties own and have contributed interests in the same lease to this
59 agreement, such parties may designate one of such parties to make said payments for and on behalf of all
60 such parties. Any party may request, and shall be entitled to receive, proper evidence of all such pay-
61 ments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum
62 royalty through mistake or oversight where such payment is required to continue the lease in force,
63 any loss which results from such non-payment shall be borne in accordance with the provisions of Article
64 IV.B.3.

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

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

3
4 **G. Taxes:**

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

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

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

29
30 **H. Insurance:**

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

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

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

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

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

53
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall
70

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

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

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

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

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

23
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its
25 proportionate interest therein by the acquiring party.

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

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases.

36
37 **C. Acreage or Cash Contributions:**

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

50
51 If any party contracts for any consideration relating to disposition of such party's share of substances
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
53 Article VIII.C.

54
55 **D. Subsequently Created Interest:**

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

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

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

E. Maintenance of Uniform Interest:

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

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

ARTICLE IX. INTERNAL REVENUE CODE ELECTION

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

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

9
 10 **ARTICLE X.**
 11 **CLAIMS AND LAWSUITS**

12
 13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-
 14 penditure does not exceed Five Thousand Dollars
 15 (\$ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount
 16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the
 17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-
 18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense
 19 of the parties. If a claim is made against any party or if any party is sued on account of any matter
 20 arising from operations hereunder over which such individual has no control because of the rights given
 21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall
 22 be treated as any other claim or suit involving operations hereunder.

23
 24 **ARTICLE XI.**
 25 **FORCE MAJEURE**

26
 27 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations
 28 under this agreement, other than the obligation to make money payments, that party shall give to all
 29 other parties prompt written notice of the force majeure with reasonably full particulars concerning it;
 30 thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,
 31 shall be suspended during, but no longer than, the continuance of the force majeure. The affected party
 32 shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

33
 34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not
 35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its
 36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party
 37 concerned.

38
 39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other
 40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,
 41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,
 42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not
 43 reasonably within the control of the party claiming suspension.

44
 45 **ARTICLE XII.**
 46 **NOTICES**

47
 48 All notices authorized or required between the parties, and required by any of the provisions of
 49 this agreement, unless otherwise specifically provided, shall be given in writing by United States mail
 50 or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to
 51 whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any
 52 provision hereof shall be deemed given only when received by the party to whom such notice is directed,
 53 and the time for such party to give any notice in response thereto shall run from the date the originat-
 54 ing notice is received. The second or any responsive notice shall be deemed given when deposited in
 55 the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid,
 56 or when sent by teletype. Each party shall have the right to change its address at any time, and from
 57 time to time, by giving written notice hereof to all other parties.

58
 59 **ARTICLE XIII.**
 60 **TERM OF AGREEMENT**

61
 62 This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas in-
 63 terests subjected hereto for the period of time selected below; provided, however, no party hereto shall
 64 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-
 65 tributed by any other party beyond the term of this agreement.

66
 67 ☒ **Option No. 1:** So long as any of the oil and gas leases subject to this agreement remain or are con-
 68 tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-
 69 wise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.
 70

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

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

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

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

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

25
26 **B. Governing Law:**

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

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



**ARTICLE XVI.
MISCELLANEOUS**

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

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

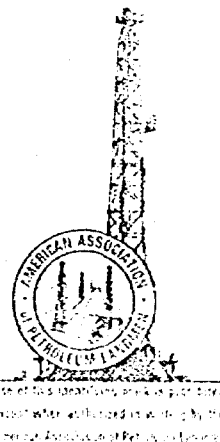
IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

Tahoe Oil & Cattle Co.
206 N. Main
Midland, Tx 79701

NON-OPERATORS

G. T. McAlpin
P. O. Box 49
Cuero, Tx 77954



COPAS

EXHIBIT " A "

Attached to and made a part of A.A.P.A. Form 610-1977
Operating Agreement with Tahoe Oil & Cattle Co. as Operator
dated

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not (☒) 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 \$ 3,000/month
Producing Well Rate \$ 300/month

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000 :

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

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

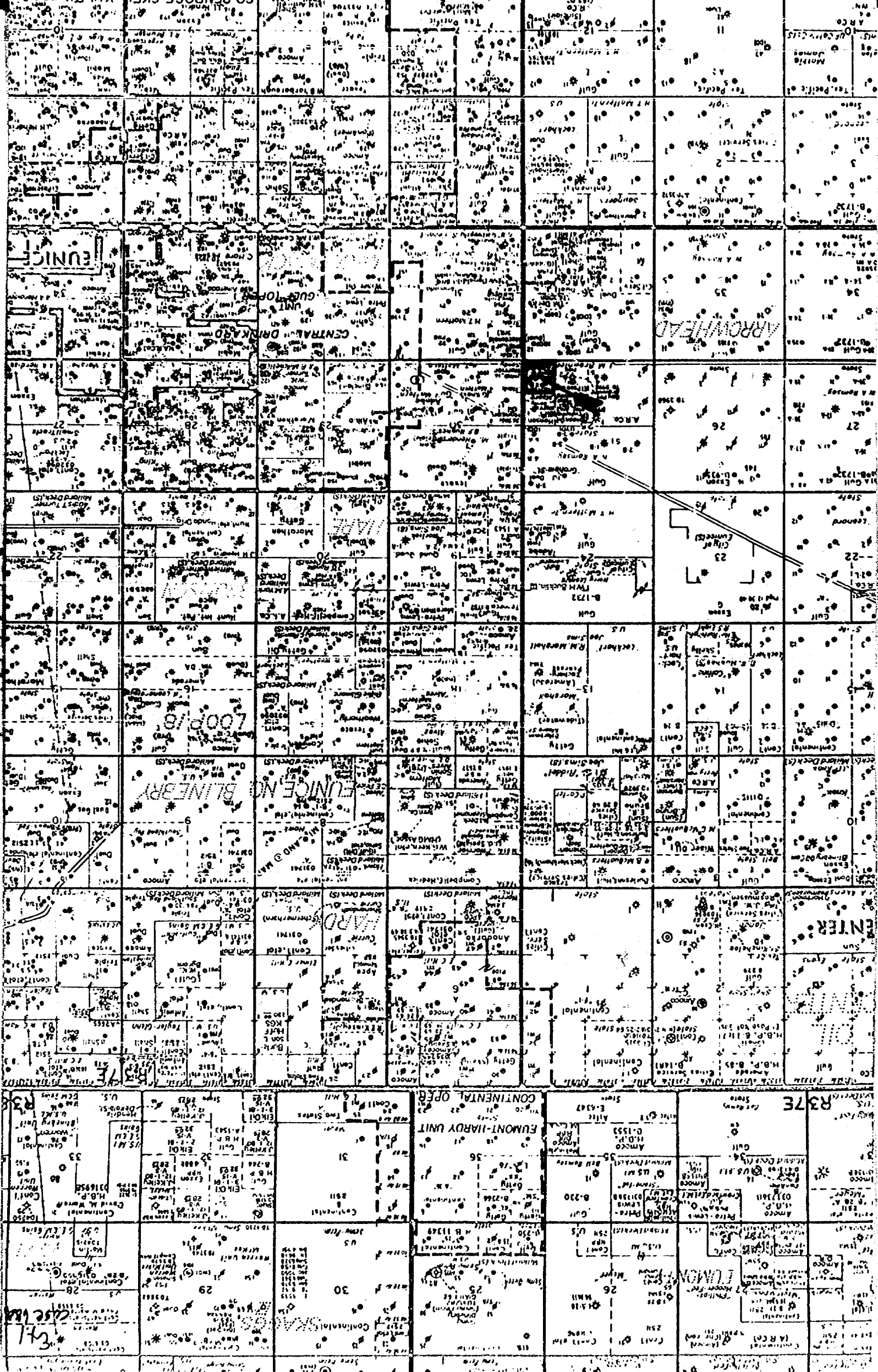
Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages,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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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





OIL & CATTLE CO.

PHONE: 915-683-8009

P. O. BOX 3084

MIDLAND, TEXAS 79702

February 1980

Re: Brownlee #1
Unit P, Sec. 25, T-21, R-36
Penrose Skelly Grayburg
Lea County, New Mexico

EXPENSE OCCURRED TO DATE:

April 1979 thru January 1, 1980..... \$43,858.76

THE ABOVE EXPENSE INCLUDES THE FOLLOWING:

3700' of new 2-3/8" tubing, 3700' of new 3/4" sucker rods, 2" X 1-1/2" X
12' bottom hole pump, Cabot D-80 Pumping Unit skid mounted with 10 HP electric
motor and labor, trucking and electrical to install same.

E23
Case 6826

**AHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3094 • MIDLAND, TEXAS 79702

BROWNLEE #1

4-30-79

<u>TYPE OF EXPENSE</u>	<u>VENDOR NAME</u>	<u>AMOUNT</u>
<u>LEASE OPERATING EXP.</u>		
Administrative Overhead	Petroleum Information	<u>\$5.00</u>
	SUB TOTAL	<u>\$5.00</u>
	APRIL TOTAL	<u><u>\$5.00</u></u>



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

5-31-79

TYPE OF EXPENSE

VENDOR NAME

AMOUNT

LEASE OPERATING EXPENSE

Operating Expense

Wes Huffman

\$15.00

MAY TOTAL

\$15.00

**TAHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009

P. O. BOX 3084

MIDLAND, TEXAS 79702

BROWNLEE #1

7-31-79

TYPE OF EXPENSE

VENDOR NAME

AMOUNT

LEASE OPERATING EXPENSERoustabout Labor
Tools - Working Supplies
Welding
WeldingRudolph Huffman
Wallach Concrete Prod.
Standard Welding Works
Joe's Welding Service\$ 40.00
23.40
69.49
84.08

SUB TOTAL

\$216.97

WORKOVER EXPENSEPulling Unit
Trucking
OverheadCrawford Well Servicing
Tahoe Co. Truck (tubing & rods)\$2,183.41
293.50
200.00

SUB TOTAL

\$2,676.91

JULY TOTAL

\$2,893.88

**AHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

8-31-79

TYPE OF EXPENSE	VENDOR NAME	AMOUNT
<u>LEASE EQUIPMENT</u>		
Electrical Equipment	Vicann Electrical Service	\$1,891.20
Electrical Equipment	Vicann Electrical Service	179.21
Pumping Equipment	Axelson Inc.	599.30
Sucker Rods	Hobbs Repair Service	40.00
Sucker Rods	Axelson Inc.	73.40
Tubing	2-3/8 E.U.E. 4.7# - 3570' X \$2.15	7,675.50
Pumping Unit	Cabot D-80 Skid mounted w/power	12,500.00
	SUB TOTAL	\$22,958.61
<u>LEASE OPERATING EXPENSE</u>		
Pumper Salary & Expense	Vic Cooper	\$ 100.00
Fittings	Continental Emsco Co.	315.20
Fittings	Misco United Supply Co.	9.01
Engineering	Kenneth Freeman	200.00
Overhead		200.00
	SUB TOTAL	\$ 824.21
<u>WORKOVER EXPENSE</u>		
Roustabout Labor	Vicann Electrical Service	\$ 270.47
Trucking	Leamco Bearing Div. (P.U.)	1,200.00
Pumping Unit Base	ABCO Base Yard @ Kermit	1,200.00
Well Head	Kermit Yard Inventory	1,418.00
Connections	Kermit Yard Inventory	847.00
Pumps	2"X1 1/2"X12'	1,009.00
	SUB TOTAL	\$5,944.47
	AUGUST TOTAL	<u>\$29,727.29</u>

**AHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

9-30-79

TYPE OF EXPENSEVENDOR NAMEAMOUNTLEASE EQUIPMENTPumping Equipment
Pumping & Overhead
Engineering

Leamco Bearing Div.

\$1,654.98

300.00

Kenneth Freeman

2,000.00

-Stripper Gas filings

- Workover Engineering

SUB TOTAL

\$3,954.98

SEPTEMBER TOTAL

\$3,954.98



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

10-31-79

BROWNLEE #1

<u>TYPE OF EXPENSE</u>	<u>VENDOR NAME</u>	<u>AMOUNT</u>
<u>LEASE OPERATING EXPENSE</u>		
Engineering	Kenneth Freeman	\$200.00
Fittings	Continental Ensco Co.	2.98
Ad Valorem Taxes	Oil & Gas Acct. Comm.	.48
Pumping & Overhead		300.00
	SUB TOTAL	\$503.46
	OCTOBER TOTAL	<u>\$503.46</u>

**OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

11-30-79

TYPE OF EXPENSEVENDOR NAMEAMOUNTLEASE OPERATING EXPENSE

Power

Warrior Inc.

\$209.47

Overhead

Tahoe

200.00

SUB TOTAL

\$409.47

NOVEMBER TOTAL

\$409.47

**MAHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

12-31-79

<u>TYPE OF EXPENSE</u>	<u>VENDOR NAME</u>	<u>AMOUNT</u>
<u>LEASE OPERATING EXPENSE</u>		
Foreman Salary & Expense		\$ 18.69
Roustabout Labor		2.72
Supplies		7.03
Transp. Auto		5.83
Tools Working Supplies		.48
Comm. & Control Equipment		14.93
Overhead		<u>200.00</u>
	SUB TOTAL	\$249.68
	DECEMBER TOTAL	<u>\$249.68</u>

**AHOE****OIL & CATTLE CO.**

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

BROWNLEE #1

1-31-80

TYPE OF EXPENSEVENDOR NAMEAMOUNTLEASE OPERATING EXPENSEElectrical Repair & Labor
Electrical InstallationBurns Electrical
N.M. Electrical
R.O.W. Damages100.00
6,000.00

SUB TOTAL

\$6,100.00

JANUARY TOTAL

\$6,100.00



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

Brownlee #1
Penrose Skelly Grayburg Field
Unit P, Sec. 25, T-21 S, R-36E
Lea County, New Mexico

Ex 4
Case 6826

PRODUCTION

1977

	GAS/MCF	OIL/BBLs.		GAS/MCF	OIL/BBLs.		GAS/MCF	OIL/BBLs.
(J)	1,543	0	(M)	476	0	(S)	75	0
(F)	0	0	(J)	555	0	(O)	124	0
(M)	0	0	(J)	290	0	(N)	179	0
(A)	0	0	(A)	375	0	(D)	131	0

TOTAL 1977 - 3,748 MCF, 0 BBLs. OIL

1978

(J)	111	0	(M)	80	0	(S)	0	0
(F)	70	0	(J)	65	0	(O)	0	0
(M)	81	0	(J)	28	0	(N)	0	0
(A)	77	0	(A)	1	0	(D)	0	0

TOTAL 1978 - 513 MCF, 0 BBLs. OIL

1979

(J)	0	0	(M)	0	0	(S)	1,281	0
(F)	0	0	(J)	0	0	(O)	1,458	0
(M)	0	0	(J) *	0	0	(N)	605	0
(A)	0	0	(A) **	1,624	12	(D)	105	0

TOTAL 1979 - 5,073 MCF, 12 BBLs. OIL

Electricity was installed and connected in February 1980.

* Tahoe purchased lease and installed pumping equipment
** Electricity disconnected by off-set operator (Ownership change of Warrior's Sandy lease.)



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

Ey5
Case 6826

February 1980

Re: Brownlee #1
Unit P, Sec. 25, T-21, R-36
Penrose Skelly Grayburg
Lea County, New Mexico

ESTIMATED WORKOVER COST:

January 1, 1980 thru June 1, 1980..... \$46,825.00

The proposed workover includes, workover rig, supervision, packer and bridge plug rental, acid job of 1,500 gallons 15% MSR 100, frac job of 50,000 gallons 3% KCL water plus 75,000 gallons sand and 125 tons carbon dioxide (CO₂). Then putting the well back on pump.



DOWELL DIVISION OF DOW CHEMICAL U.S.A.

February 28, 1980
Midland, Texas 79702

BOX 1858
16TH FLOOR WILCO BUILDING
MIDLAND, TEXAS 79702

Mr. Ken Freeman
Tahoe Oil and Cattle Company
P. O. Box 3084
Midland, Texas 79702

STIMULATION RECOMMENDATION FOR THE PENROSE FORMATION IN THE
BROWNLEE #1, SEC. 25, TOWNSHIP 21, RANGE 36, PENROSE-SKELLY
FIELD, LEA COUNTY, NEW MEXICO.

WELL PREPARATION

1. RIH with treating packer and bridge-plug. Set retrievable 5 1/2" bridge plug at 3600' +/-.
2. Spot 200 gallons of 15% MSR-100 across perforated interval.
3. Pull up and set packer at 3400' +/-.
4. Pressure backside to 750 psi.
5. Breakdown perforations and establish injection rate (3 to 4 BPM) and pressure.
6. Acidize interval with remaining 1300 gallons of 15% MSR-100 with ball sealers.
7. If ball-out occurs, surge the balls off the perforations and allow time for them to fall. Finish putting acid away.
8. COH with tubing and packer.

FRACTURING TREATMENT

Dowell recommends using 50,000 gallons of 3% KCl water gelled with 50 pounds per 1,000 gallons gelling agent. This fluid will contain 25% carbon dioxide.

Use this fluid to carry 40,000 pounds of 20/40 sand and 35,000 pounds of 10/20 sand into the formation at 20 BPM.

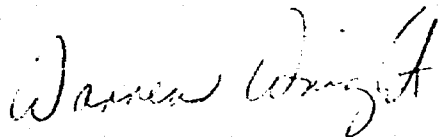
COST ESTIMATES

Acid Job	\$ 1,865.00
Tools	\$ 1,210.00
Fracturing	\$ 23,500.00
Co2	\$ 10,300.00
TOTAL	\$ 36,875.00

Dowell has established an on-location safety policy to which Dowell Personnel must adhere. A pre-job tailgate safety meeting will be held with company representatives and Dowell Personnel to explain existing hazards and safety procedures. We will appreciate close co-operation between customer representatives and Dowell Personnel to insure a smooth and safe operation.

Ken, thank you for asking Dowell for this proposal. The work for this area is based from our Hobbs district. The direct number for Hobbs is 563-1421. Gary Smith is district engineer there.

Sincerely,



R. W. Wright
Regional Sales Engineer

RWW/re

WELL COST ESTIMATE

Date FEBRUARY 1980

Lease & Well No. BROWNLEE NO. 1

Proposed T.D. _____ feet Type Rig _____ AFE No. _____

INTANGIBLE COST:

_____ feet @ \$ _____ per ft.	\$ _____	\$ _____
Day Work _____ Days @ \$ _____ per day		
Cement & Cementing Services (Surface)		
Floating Equipment (Surface)		
Cement & Cementing Services (Long String)		
Floating Equipment (Long String)		
Mud & Mud Additives		
Fuel		
Water	3,000.00	
Survey Location		
Roads, Cleaning & Levelling Location & Clean Up		
Trucking (Surface, Long String, Tubing)		
Electric Logs		
Coring		
Formation Tests		
Perforating Run GR/N Log from PBTD to Surface	2,500.00	
Acid Treatment w/packer & Ret. Bridge Plug	3,075.00	
Fracture Treatment 50,000 gal. 3% KCL+75,000#/sd+125 ton CO2	33,800.00	36,875.00
Drilling In & Completion (Rig Time) 3 days @ 900 day	2,700.00	
Rock Bits		
Labor (Hooking up well, etc.)		
Field Engineering & Supervision - 3 days @ 250.00	750.00	
Stripper Gas Filing	500.00	
Miscellaneous	500.00	
TOTAL INTANGIBLES	\$ 46,825.00	

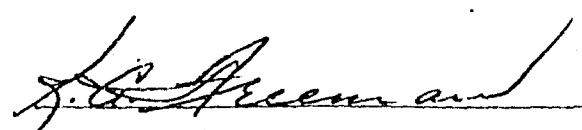
McALPIN INTEREST (25%) = \$11,706.00

TANGIBLE COST:

Surface String (_____)	\$ _____	\$ _____
Long String (_____)		
Tubing (_____)		
Flow Line (_____)		
Xmas Tree & Connections		
Pumping Unit (Rods, pump, motor, etc.)		
Cattle Guards		
Tanks		
Miscellaneous		
TOTAL TANGIBLES	\$ _____	

Total Dry Hole Cost _____ \$ _____

Total Completion Cost (Tangible & Intangible) _____ \$ _____





OIL & CATTLE CO.

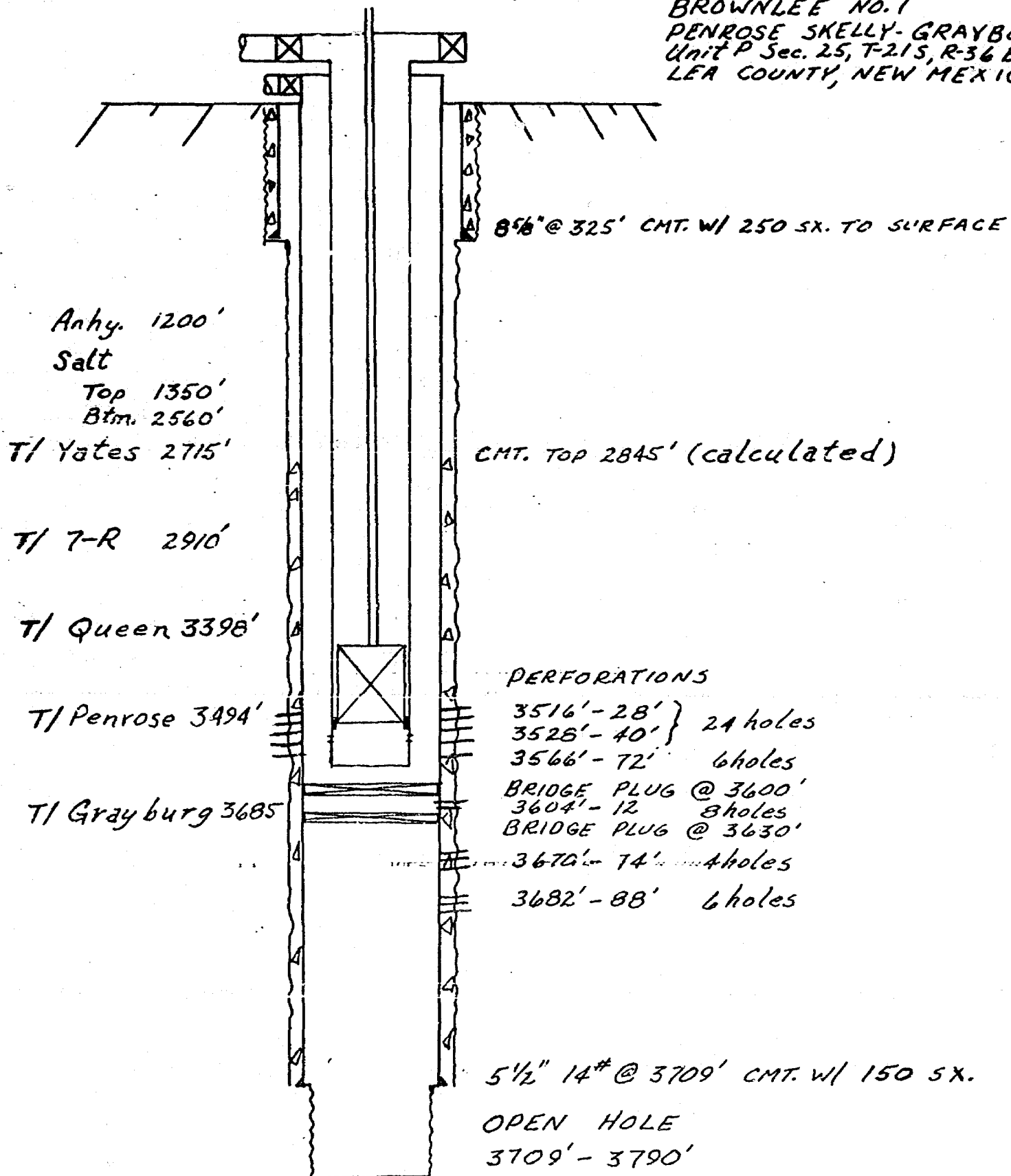
PHONE: 915-683-8009

P. O. BOX 3084

MIDLAND, TEXAS 79702

Ex 6
Case 6826

BROWNLEE NO. 1
PENROSE SKELLY-GRAYBUR
Unit P Sec. 25, T-21S, R-36E
LEA COUNTY, NEW MEXICO



DIAGRAMMATIC SKETCH



OIL & CATTLE CO.

PHONE: 915-683-8009 • P. O. BOX 3084 • MIDLAND, TEXAS 79702

Ex 7
Case 6826

February 1980

Re: Brownlee #1
Unit P, Sec. 25, T-21, R-36
Penrose Skelly Grayburg
Lea County, New Mexico

PAYOUT:

Expense to date (4-79 to 1-1-80).....	\$43,858.76
Estimated Workover Cost (1-1-80 to 6-1-80).....	46,825.00
TOTAL	<u>\$90,683.76</u>

ANTICIPATED PRODUCTION:

10 BOPD @ \$39.50/bbl.....	\$ 395.00
200 MCFD @ \$2.89.....	578.00
TOTAL	<u>\$ 973.00</u>
80% WI X 973.00 = \$778.40 day X 30.....	\$23,352.00
Operating expense and Overhead.....	600.00
TOTAL	<u>\$23,952.00</u>

$\frac{90,683.76}{23,952.00} = 3.8 \text{ Month}$

McALPIN INTEREST:

$90,683.76 \times 25\% = \$22,670.94$

Ex 8
Case 6826

A.A.P.L. FORM 610 - 1977
MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

_____, 19____,

OPERATOR Tahoe Oil & Cattle Co.

CONTRACT AREA SE/4 of SE/4 Section 25, from the surface

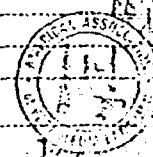
to a total depth of 3,710 feet, as to the Penrose-Skelly formation

only, Township 21 South, Range 36 East, N.M.P.M.

COUNTY ~~OR PARISH~~ OF Lea STATE OF New Mexico

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Tahoe Oil & Cattle Co., 206 N. Main, Midland, Tx 79702, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II. EXHIBITS

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

- ☒ A. Exhibit "A", shall include the following information:
 - (1) Identification of lands subject to agreement,
 - (2) Restrictions, if any, as to depths or formations,
 - (3) Percentages or fractional interests of parties to this agreement,
 - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
 - (5) Addresses of parties for notice purposes.
- ☐ B. Exhibit "B", Form of Lease.
- ☐ C. Exhibit "C", Accounting Procedure.
- ☐ D. Exhibit "D", Insurance.
- ☐ E. Exhibit "E", Gas Balancing Agreement.
- ☐ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

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

**ARTICLE III.
INTERESTS OF PARTIES**

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

**ARTICLE IV.
TITLES**

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

56
57 **ARTICLE V.**
58 **OPERATOR**

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

61
62 Tahoe Oil & Cattle Co. shall be the
63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on
64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
67 negligence or willful misconduct.

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas at the following location:

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

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

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

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

1 B. Subsequent Operations:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

63 64 C. Right to Take Production in Kind:

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

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

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

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

21
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the
25 balancing or accounting between the respective accounts of the parties shall be in accordance with
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as
27 Exhibit "E", or is a separate Agreement.

28
29 **D. Access to Contract Area and Information:**

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

40
41 **E. Abandonment of Wells:**

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

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

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

7
8 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the op-
9 eration of or production from the well in the interval or intervals then open other than the royalties
10 retained in any lease made under the terms of this Article. Upon request, Operator shall continue to
11 operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
12 templated by this agreement, plus any additional cost and charges which may arise as the result of
13 the separate ownership of the assigned well.

14 ARTICLE VII. 15 EXPENDITURES AND LIABILITY OF PARTIES 16

17 A. Liability of Parties:

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

24 B. Liens and Payment Defaults:

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

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

44 C. Payments and Accounting:

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

51 Operator, at its election, shall have the right from time to time to demand and receive from the
52 other parties payment in advance of their respective shares of the estimated amount of the expense to
53 be incurred in operations hereunder during the next succeeding month, which right may be exercised only
54 by submission to each such party of an itemized statement of such estimated expense, together with
55 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-
56 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party
57 shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such es-
58 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the
59 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be
60 made monthly between advances and actual expense to the end that each party shall bear and pay its
61 proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand Dollars (\$ 5,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Five Thousand Dollars (\$ 5,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of .140625 due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.3.

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

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

G. Taxes:

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

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

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

H. Insurance:

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

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

**ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

A. Surrender of Leases:

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

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

**ARTICLE IX.
INTERNAL REVENUE CODE ELECTION**

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

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 751 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars (\$ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI. FORCE MAJEURE

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

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

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

ARTICLE XII. NOTICES

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

ARTICLE XIII. TERM OF AGREEMENT

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

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

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

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

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

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

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

25
26 **B. Governing Law:**

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

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

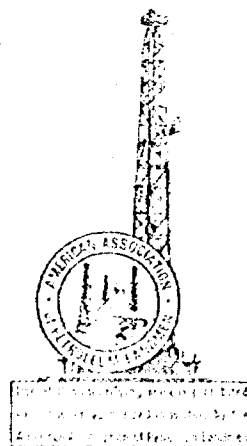


EXHIBIT " A "

Attached to and made a part of A.A.P.L. Form 610-1977
Operating Agreement with Tahoe Oil & Cattle Co. as Operator
dated

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 3,000/month
Producing Well Rate \$ 300/month

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000 :

A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000. ; plus

B. 5 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus

C. 5 % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
12 March 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Tahoe Oil and Cattle) CASE
Company for compulsory pooling, Lea) 6826
County, New Mexico.)

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

SALLY W. BOYD, C.S.R.

R. 200 190-13
Santa Fe, New Mexico 87501
Phone (505) 455-7409

MR. NUTTER: We'll call next Case Number

6826.

MR. PADILLA: Application of Tahoe Oil

and Cattle Company for a compulsory pooling, Lea County, New Mexico.

MR. NUTTER: At the request of applicant,

Case Number 6826 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. March 26th, 1980.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 113-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

REPORTER'S CERTIFICATE

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

Sally W. Boyd C.S.R.

SALLY W. BOYD, C.S.R.
Rt. 1 Box 191-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6826
heard by me on 3/12 1980.
[Signature] Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
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2 6826.

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5 Mexico.

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8 scheduled to be held at this same place at 9:00 o'clock a. m.
9 March 26th, 1980.

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11 (Hearing concluded.)
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SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87505
Phone (505) 455-7409

REPORTER'S CERTIFICATE

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

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6826,
heard by me on 3/12 1980.

[Signature], Examiner
Oil Conservation Division

CASE 6846: Application of Doyle Hartman for two compulsory poolings, two non-standard gas proration units, and two unorthodox well locations, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Eumont Gas Pool underlying two 80-acre non-standard gas proration units, the first being the S/2 NE/4 of Section 13, Township 21 South, Range 36 East, to be dedicated to a well to be drilled at an unorthodox location 1650 feet from the North line and 2310 feet from the East line of said Section 13, and the second being the N/2 NE/4 of said Section 13 to be dedicated to a well to be drilled at an unorthodox location 1330 feet from the North line and 2310 feet from the East line of said Section 13. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

CASE 6834: (Continued and Readvertised)

Application of Conoco Inc. for a dual completion and unorthodox well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its SEMU Burger Well No. 107 at an unorthodox location 2615 feet from the South and East lines of Section 19, Township 20 South, Range 38 East, to produce oil from the Blinbry Oil and Gas and Drinkard Pools.

CASE 6837: (Continued from March 12, 1980, Examiner Hearing)

Application of Curtis Little for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the W/2 of Section 7, Township 25 North, Range 3 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6847: Application of Tenneco Oil Company for dual completions and downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete, in such a manner as to produce gas from the Dakota formation and commingled Chacra and Mesaverde production through parallel strings of tubing, ten proposed wells to be located as follows: in Township 29 North, Range 10 West: Unit C, Section 19; Unit N, Section 19; Unit A, Section 30; and Unit D, Section 30; in Township 29 North, Range 11 West: Unit C, Section 24; Unit O, Section 24; Unit A, Section 25; Unit D, Section 25; Unit M, Section 25; and Unit P, Section 25.

CASE 6818: (Continued from March 12, 1980, Examiner Hearing)

Application of Tenneco Oil Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its State HL 11 Well No. 1 located in Unit N of Section 11, Township 19 South, Range 29 East.

CASE 6849: (This is the same matter as was previously designated Case No. 6813.)

Application of Petroleum Development Corporation to amend Order No. R-6196, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks to amend Order No. R-6196 which authorized re-entry of a well at an unorthodox location in the Lusk-Morrow Gas Pool to be dedicated to the N/2 of Section 13, Township 19 South, Range 31 East. Applicant now seeks approval for a new revised location 750 feet from the North line and 660 feet from the West line of said Section 13.

CASE 6848: Application of Petroleum Development Corporation for pool contraction and creation, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the Querecho Plains-Bone Spring Pool to comprise the Upper Bone Spring formation only, from 8390 feet to 8680 feet on the log of its McKay West Federal Well No. 1 located in Unit F of Section 34, Township 18 South, Range 32 East, and the creation of the Querecho Plains-Lower Bone Spring Pool to comprise said formation from 8680 feet to the base of the Bone Spring underlying the NW/4 of said Section 34.

CASE 6826: (Continued from March 12, 1980, Examiner Hearing)

Application of Tahoe Oil and Cattle Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Penrose Skelly Pool underlying the SE/4 SE/4 of Section 25, Township 21 South, Range 36 East, to be dedicated to its Bromlee Well No. 1 located thereon. Also to be considered will be the cost of recompleting said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in recompleting said well.

Docket No. 8-80

Dockets Nos. 9-80 and 10-80 are tentatively set for April 9 and 23, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 26, 1980

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

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

- CASE 6838: Application of Amax Chemical Corporation for the amendment of Order No. R-111-A, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-111-A to extend the boundaries of the Potash-Oil Area by the inclusion of certain lands in Sections 11, 12, and 13, Township 19 South, Range 30 East, and Sections 7 and 18, Township 19 South, Range 31 East.
- CASE 6839: Application of Kimbell Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Otero-Chacra and South Blanco-Pictured Cliffs production in the wellbore of its Salazar Well No. 4-26 to be located in Unit D of Section 26, Township 25 North, Range 6 West.
- CASE 6840: Application of Union Texas Petroleum for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Fruitland and Pictured Cliffs production in the wellbore of its Johnston Federal Well No. 11Y located in Unit N of Section 7, Township 31 North, Range 9 West.
- CASE 6841: Application of CIG Exploration, Inc. for two non-standard gas proration units, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of two non-standard gas proration units in Township 16 South, Range 28 East, the first being 219.6 acres comprising Lots 1 thru 8 of Section 1 and the second being 219.92 acres comprising Lots 1 thru 8 of Section 2, for the Wolfcamp, Pennsylvanian, and Mississippian formations, each unit to be dedicated to a well to be drilled at a standard location thereon.
- CASE 6842: Application of ARCO Oil and Gas Company for an unorthodox gas well location, simultaneous dedication, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its W. C. Roach Well No. 6, 660 feet from the North line and 1980 feet from the West line of Section 21, Township 20 South, Range 37 East, Eumont Gas Pool, to be simultaneously dedicated with its W. C. Roach Well No. 1 in Unit D to the W/2 of said Section 21. Also sought are findings that the proposed well is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing unit well.
- CASE 6843: Application of Yates Petroleum Corporation for two compulsory poolings, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Yeso formation underlying two 40-acre proration units, the first being the SE/4 SE/4 and the second being the SW/4 SE/4 of Section 6, Township 19 South, Range 25 East, Penasco Draw Field, each unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.
- CASE 6844: Application of Arrowhead Oil Corporation for two exceptions to Order No. R-111-A and an unorthodox well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the casing-cementing rules of Order No. R-111-A to complete its Creek Federal Well No. 3 at an unorthodox location 250 feet from the North line and 2350 feet from the East line and its Creek Federal Well No. 4 to be drilled in Unit C, both in Section 23, Township 18 South, Range 30 East, by setting surface casing at a depth of approximately 600 feet and production casing at total depth. The production casing would have cement circulated back to the potash zone in the salt section.
- CASE 6845: Application of Marathon Oil Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 800 feet from the North line and 200 feet from the East line of Section 30, Township 21 South, Range 23 East, Indian Basin-Upper Pennsylvanian Gas Pool, all of Section 30 or that portion thereof which may be reasonably presumed productive of gas from said pool to be dedicated to the well.



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

March 12, 1980

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

Mr. G. T. McAlpin
P. O. Box 49
Cuero, Texas 77954

Dear Mr. McAlpin:

At the request of Tahoe Oil & Cattle Company, Case 6826 which was docketed for hearing on March 12, 1980, has been continued to the examiner hearing to be heard on March 26, 1980. This case will be heard at that time.

Yours very truly,

Florene Davidson
Administrative Secretary



G. T. McALPIN

P. O. BOX 49

CUERO, TEXAS 77954

TELEPHONE AREA CODE 512 275-6033

March 6, 1980

Re: Your Case 6826

Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

I am the owner of record of .218750 Working Interest in the well in your Case 6826.

In December of 1979 a forged instrument which purported to convey my ownership to Tahoe Oil & Cattle Company of Midland, Texas was sent to Warren Petroleum Company, purchaser of the natural gas and to The Permian Company, purchaser of the oil.

Mr. Dewey Lee of the Midland, Texas District Attorney's office is conducting an investigation for possible criminal activity in connection with this matter. His investigation has been going on for a matter of three weeks. I suspect that the application of Tahoe Oil and Cattle Company is an effort to create a diversion in the investigation.

If possible, please continue this case until Mr. Lee has completed his investigation.

Yours very truly,

G. T. McAlpin
G. T. McAlpin

*Please
advise
Mr. McAlpin that
at the request of
Tahoe, the 6826 was
con'd to Mar. 26.*

TO Ernie

DATE _____ TIME _____

WHILE YOU WERE OUT

MR. Dewey Lee

OF 915 682 9481

PHONE District City Office AREA CODE _____

TELEPHONED	PLEASE PHONE	<input checked="" type="checkbox"/>
CALLED TO SEE YOU	WILL CALL AGAIN	<input type="checkbox"/>
WANTS TO SEE YOU	RETURNED YOUR CALL	<input type="checkbox"/>

MESSAGE Called to advise

that there is the Midland
County is investigating
an alleged forgery relating
to a LT McAlpin an
interest owner of lands involved
in for a pooling case - 6826.

MESSAGE TAKEN BY Eff

J. O. BETH (1883-1983)

A. K. MONTGOMERY
FRANK ANDREWS
FRED C. HANNAHS
SETH D. MONTGOMERY
FRANK ANDREWS III
OWEN M. LOPEZ
VICTOR R. ORTEGA
JEFFREY R. BRANNEN
JOHN B. POUND
GARY R. KILPATRICK
THOMAS W. OLSON
WALTER J. MELENDEZ
BRUCE L. HERR
MICHAEL W. BRENNAN
ROBERT R. WORCESTER
JOHN B. DRAPER
KANCY M. ANDERSON
JOHN K. SILVER
RUDOLPH B. SACKS, JR.
W. CLINT PARSLEY
ROBERT M. AUBACH

MONTGOMERY, ANDREWS & HANNAHS
PROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS AT LAW
325 PASEO DE PERALTA
POST OFFICE BOX 2307
SANTA FE, NEW MEXICO 87501

TELEPHONE 505-962-3673

TELECOPY 505-962-4289

March 12, 1980

Mr. Daniel S. Nutter
Hearing Examiner
Oil Conservation Division
State Land Office
Santa Fe, New Mexico 87501

Re: Application of Tahoe Oil and Cattle Company
for compulsory Pooling, Lea County, New Mexico
Case No. 6826

Dear Mr. Nutter:

I hereby request an extension until the next regularly
scheduled examiner hearing for the above-referenced matter.

Sincerely,



Owen M. Lopez

OML:to

cc: Mr. K. A. Freeman

RECEIVED
MAR 14 9 22 AM '80
STATE LAND OFFICE
SANTA FE, N.M.

RECEIVED
MAR 14 1980
OIL CONSERVATION DIVISION
SANTA FE

Docket No. 6-80

Dockets Nos. 8-80 and 9-80 are tentatively set for March 26 and April 9, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - MARCH 11, 1980

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 6609: (DE NOVO) (Continued and Readvertised)

Application of Napeco Inc. for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Strawn oil pool for its Benson Deep Unit Well No. 1 located in Unit O of Section 33, Township 18 South, Range 30 East, and special rules therefor, including 160-acre spacing and standard well locations.

Upon application of Yates Petroleum Corporation and Napeco Inc., this case will be heard De Novo pursuant to the provisions of Rule 1220. Applicants allege this is not an "oil" pool but is a "volatile" oil pool.

CASE 6823: Application of Amoco Production Company for 640-acre carbon dioxide gas well spacing, Harding, Quay, and Union Counties, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Rule 104 of the Division Rules and Regulations to require that wildcat and development carbon dioxide gas wells projected to the Tubb or older formations in Harding, Quay, and Union Counties must be located on 640-acre spacing and proration units, and must be located no nearer than 1650 feet to the outer boundary of the tract and not nearer than 330 feet to any interior quarter-quarter section line.

Docket No. 7-80

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 12, 1980

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

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

- ALLOWABLE: (1) Consideration of the allowable production of gas for April, 1980, from fifteen prorated pools in Lea, Eddy, and Chaves County, New Mexico.
- (2) Consideration of the allowable production of gas for April, 1980, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 6813: (Continued from February 27, 1980, Examiner Hearing) (This case will be dismissed.)

Application of Petroleum Development Corporation to amend Order No. R-6196, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks to amend Order No. R-6196 which authorized re-entry of a well at an unorthodox location in the Lusk-Morrow Gas Pool to be dedicated to the N/2 of Section 13, Township 19 South, Range 31 East. Applicant now seeks approval for a new revised location 750 feet from the North line and 560 feet from the West line of said Section 13.

CASE 6834: Application of Conoco Inc. for a dual completion and unorthodox well location, Lea County, New Mexico. (This case will be continued to March 26 and readvertised.)

Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its SEMU Burger Well No. 107 at an unorthodox location 2615 feet from the South and East lines of Section 24, Township 20 South, Range 38 East, to produce oil from the Blinbry Oil and Gas and Drinkard Pools.

CASE 6824: Application of American Trading and Production Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Talco Unit Area, comprising 4,800 acres, more or less, of State and Federal lands in Township 26 South, Range 35 East.

CASE 6815: (Continued and Readvertised)

Application of Florida Exploration Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Ross Draw Unit Well No. 8, a Wolfcamp gas well 1650 feet from the North and East lines of Section 27, Township 26 South, Range 30 East, the E/2 of said Section 27 being dedicated to the well.

CASE 6825: Application of Husky Oil Company for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a finding that the drilling of its North Shore Woolworth Well No. 5 to be located in Unit E of Section 33, Township 24 South, Range 37 East, Jalmat Pool, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well.

CASE 6826: Application of Tahoe Oil and Cattle Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Penrose Skelly Pool underlying the SE/4 SE/4 of Section 25, Township 21 South, Range 36 East, to be dedicated to its Bromlee Well No. 1 located thereon. Also to be considered will be the cost of recompleting said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in recompleting said well.

CASE 6827: Application of Consolidated Oil & Gas, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Gallup formation underlying the SE/4 of Section 2, Township 30 North, Range 12 West, and in the Mesaverde formation underlying the S/2 of said Section 2, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6828: Application of Etheldred T. Ross for three non-standard gas proration units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval of the three following non-standard gas proration units, all in Township 19 North, Range 30 East: a 40-acre unit comprising the SW/4 NE/4 of Section 12; and two 80-acre units in Section 14, the first comprising the N/2 NW/4 and the second comprising the N/2 SE/4; each of said units would be dedicated to a well to be drilled to the Tubb formation at a standard location thereon.

CASE 6829: Application of Alpha Twenty-One Production Company for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks findings that the drilling of its El Paso Tom Federal Wells Nos. 1, 2, and 3, in Units D, E, and F, respectively, of Section 33, Township 25 South, Range 37 East, Langlie Mattix Pool, is necessary to effectively and efficiently drain that portion of the existing proration unit which cannot be drained by the existing well on each of said well's respective proration unit.

CASE 6830: Application of Enserch Exploration, Inc. for special pool rules or, in the alternative, a special gas-oil ratio, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks an order promulgating special pool rules for the South Peterson-Pennsylvanian Field including a special gas-oil ratio of 4,000 to 1, or in the alternative, establishing a special gas-oil ratio of 4,000 to 1 for its Lambirth Well No. 3, located in Unit G of Section 31, Township 5 South, Range 33 East.

CASE 6831: Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the recompletion of its State "JM" Well No. 1 in the Wolfcamp thru Cisco formations at an unorthodox location 660 feet from the North and East lines of Section 25, Township 18 South, Range 24 East, the N/2 of said Section 25 to be dedicated to the well.

CASE 6832: Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the recompletion of its Cities "JC" Well No. 1 in the Wolfcamp thru Cisco formations at an unorthodox location 660 feet from the South and East lines of Section 13, Township 18 South, Range 24 East, the E/2 of said Section 13 to be dedicated to the well.

CASE 6833: Application of Harvey E. Yates Company for directional drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to directionally drill its Betenbough Well No. 1, the surface location of which is 660 feet from the North line and 1980 feet from the West line of Section 32, Township 13 South, Range 36 East, in such a manner as to bottom it within 100 feet of a point 660 feet from the North line and 1830 feet from the West line of said Section 32 in the Austin-Mississippian Pool.

CASE 6818: (Continued from February 27, 1980, Examiner Hearing)

Application of Tenneco Oil Company for an MGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its State HL 11 Well No. 1 located in Unit N of Section 11, Township 19 South, Range 29 East.

CASE 6835: Application of Anadarko Production Company for an MGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its New Mexico State "AB" Com. Well No. 1 located in Unit H of Section 36, Township 18 South, Range 28 East.

CASE 6836: Application of Anadarko Production Company for an MGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its New Mexico "AA" State Well No. 1 located in Unit F of Section 35, Township 18 South, Range 28 East.

CASE 6837: Application of Curtis Little for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the W/2 of Section 7, Township 25 North, Range 3 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6819: (Continued from February 27, 1980, Examiner Hearing)

Application of V-F Petroleum, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the McKee or Devonian formations, or both, underlying four 40-acre units, being the SE/4 SE/4, NE/4 SE/4, NW/4 SE/4, and SW/4 SE/4 of Section 21, Township 23 South, Range 37 East, North Teague Field, each to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

RECEIVED
FEB 10 1930
BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION
SANTA FE

APPLICATION OF TAHOE OIL AND CATTLE
COMPANY FOR COMPULSORY POOLING IN
THE PENROSE SKELLY-GRAYBURG GAS POOL
IN SECTION 25, TOWNSHIP 21 SOUTH,
RANGE 36 EAST, LEA COUNTY, NEW MEXICO.

No. 6826

APPLICATION

COMES NOW Tahoe Oil and Cattle Company, by its attorneys,
Montgomery, Andrews & Hannahs, P.A., and applies for an order
pooling all mineral interests in the East one-half of Section 25,
Township 21 South, Range 36 East, Lea County, New Mexico, for the
purpose of forming a standard proration and spacing unit in the
Penrose Skelly-Grayburg gas pool in Lea County, New Mexico, and in
support of its application states:

1. Applicant is the operator and a working interest owner
of certain mineral interests in the Penrose Skelly-Grayburg zone
being produced by the Bromlee No. 1 well in the East one-half of
Section 25, Township 21 South, Range 36 East.
2. Applicant is presently operating the Bromlee No. 1 well,
said well being located 660 feet from the South line and 660 feet
from the East line of said Section 25, in Unit P, which well is
presently producing from a depth of between 3694 to 3710 feet in
the Penrose Skelly-Grayburg gas pool.
3. Applicant proposes to dedicate the entire East one-half
of Section 25, comprising 320 acres, to the well and has sought
the joinder of the other working interest owner in the East one-
half of Section 25 for said purpose. Nonetheless, the other
working interest owner has refused to join the unit and pay his
proportionate share of the costs incurred and to be incurred in
the workover program for said well. The name and address of the

*Called today
Owen Loper
he this
2:45 pm 2/20: out
he will return call
tomorrow
2/21: advised
Owen we cannot
pool 320 in the
Penrose Skelly*

*Penrose Skelly
is 40 acre
oil pool*

other working interest owner who owns a 25 percent working interest in the aforesaid well is: G. T. McAlpin

P. O. Box 49
Cuero, Texas 77954.

Applicant also states that the only other mineral interest owners are royalty interest owners that are entitled to their proportionate share of all income derived from the mineral production of said well pursuant to the terms of their lease.

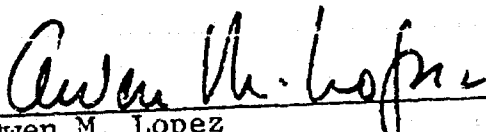
4. Applicant seeks an order from the Division pooling all mineral interests in the East one-half of Section 25, pursuant to Section 70-2-17, N.M.S.A. 1978.

5. The Division's order, to be entered pursuant to this application, should designate applicant as operator of the proposed well and should provide a reasonable charge for supervision and for the risk involved in reworking this well. Applicant requests that 100 percent of the nonconsenting working owner's pro rata share of the cost of reworking this well be fixed as the charge for the risk involved in the rework program.

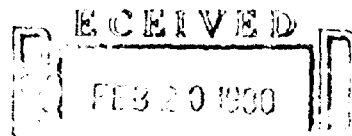
6. Approval of this application will prevent waste and protect correlative rights.

MONTGOMERY, ANDREWS & HANNAHS, P.A.

By


Owen M. Lopez
Post Office Box 2307
Santa Fe, New Mexico 87501

Attorneys for Applicant
Tahoe Oil and Cattle Company



BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION
SANTA FE

APPLICATION OF TAHOE OIL AND CATTLE
COMPANY FOR COMPULSORY POOLING IN
THE PENROSE SKELLY-GRAYBURG GAS POOL
IN SECTION 25, TOWNSHIP 21 SOUTH,
RANGE 36 EAST, LEA COUNTY, NEW MEXICO.

No. 6826

APPLICATION

COMES NOW Tahoe Oil and Cattle Company, by its attorneys, Montgomery, Andrews & Hannahs, P.A., and applies for an order pooling all mineral interests in the East one-half of Section 25, Township 21 South, Range 36 East, Lea County, New Mexico, for the purpose of forming a standard proration and spacing unit in the Penrose Skelly-Grayburg gas pool in Lea County, New Mexico, and in support of its application states:

1. Applicant is the operator and a working interest owner of certain mineral interests in the Penrose Skelly-Grayburg zone being produced by the Bromlee No. 1 well in the East one-half of Section 25, Township 21 South, Range 36 East.

2. Applicant is presently operating the Bromlee No. 1 well, said well being located 660 feet from the South line and 660 feet from the East line of said Section 25, in Unit P, which well is presently producing from a depth of between 3694 to 3710 feet in the Penrose Skelly-Grayburg gas pool.

3. Applicant proposes to dedicate the entire East one-half of Section 25, comprising 320 acres, to the well and has sought the joinder of the other working interest owner in the East one-half of Section 25 for said purpose. Nonetheless, the other working interest owner has refused to join the unit and pay his proportionate share of the costs incurred and to be incurred in the workover program for said well. The name and address of the

other working interest owner who owns a 25 percent working interest in the aforesaid well is: G. T. McAlpin
P. O. Box 49
Cuero, Texas 77954.

Applicant also states that the only other mineral interest owners are royalty interest owners that are entitled to their proportionate share of all income derived from the mineral production of said well pursuant to the terms of their lease.

4. Applicant seeks an order from the Division pooling all mineral interests in the East one-half of Section 25, pursuant to Section 70-2-17, N.M.S.A. 1978.

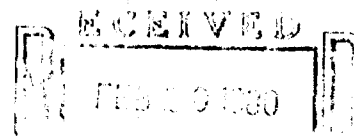
5. The Division's order, to be entered pursuant to this application, should designate applicant as operator of the proposed well and should provide a reasonable charge for supervision and for the risk involved in reworking this well. Applicant requests that 100 percent of the nonconsenting working owner's pro rata share of the cost of reworking this well be fixed as the charge for the risk involved in the rework program.

6. Approval of this application will prevent waste and protect correlative rights.

MONTGOMERY, ANDREWS & HANNAHS, P.A.

By Owen M. Lopez
Owen M. Lopez
Post Office Box 2307
Santa Fe, New Mexico 87501

Attorneys for Applicant
Tahoe Oil and Cattle Company



OIL CONSERVATION DIVISION
BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF TAHOE OIL AND CATTLE
COMPANY FOR COMPULSORY POOLING IN
THE PENROSE SKELLY-GRAYBURG GAS POOL
IN SECTION 25, TOWNSHIP 21 SOUTH,
RANGE 36 EAST, LEA COUNTY, NEW MEXICO.

No. 6826

APPLICATION

COMES NOW Tahoe Oil and Cattle Company, by its attorneys, Montgomery, Andrews & Hannahs, P.A., and applies for an order pooling all mineral interests in the East one-half of Section 25, Township 21 South, Range 36 East, Lea County, New Mexico, for the purpose of forming a standard proration and spacing unit in the Penrose Skelly-Grayburg gas pool in Lea County, New Mexico, and in support of its application states:

1. Applicant is the operator and a working interest owner of certain mineral interests in the Penrose Skelly-Grayburg zone being produced by the Bromlee No. 1 well in the East one-half of Section 25, Township 21 South, Range 36 East.

2. Applicant is presently operating the Bromlee No. 1 well, said well being located 660 feet from the South line and 660 feet from the East line of said Section 25, in Unit P, which well is presently producing from a depth of between 3694 to 3710 feet in the Penrose Skelly-Grayburg gas pool.

3. Applicant proposes to dedicate the entire East one-half of Section 25, comprising 320 acres, to the well and has sought the joinder of the other working interest owner in the East one-half of Section 25 for said purpose. Nonetheless, the other working interest owner has refused to join the unit and pay his proportionate share of the costs incurred and to be incurred in the workover program for said well. The name and address of the

other working interest owner who owns a 25 percent working interest in the aforesaid well is: G. T. McAlpin
P. O. Box 49
Cuero, Texas 77954.

Applicant also states that the only other mineral interest owners are royalty interest owners that are entitled to their proportionate share of all income derived from the mineral production of said well pursuant to the terms of their lease.

4. Applicant seeks an order from the Division pooling all mineral interests in the East one-half of Section 25, pursuant to Section 70-2-17, N.M.S.A. 1978.

5. The Division's order, to be entered pursuant to this application, should designate applicant as operator of the proposed well and should provide a reasonable charge for supervision and for the risk involved in reworking this well. Applicant requests that 100 percent of the nonconsenting working owner's pro rata share of the cost of reworking this well be fixed as the charge for the risk involved in the rework program.

6. Approval of this application will prevent waste and protect correlative rights.

MONTGOMERY, ANDREWS & HANNAHS, P.A.

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Tahoe Oil and Cattle Company

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6826

NO. R- 6306

APPLICATION OF TAHOE OIL AND
CATTLE COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 22¹⁶
19 80, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter^{RXS}.

NOW, on this _____ day of March, 19 80, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

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

(2) That the applicant, Tahoe Oil and Cattle Company,
seeks an order pooling all mineral interests in the Penrose
Skelly Pool underlying the SE/4 SE/4
of Section 25, Township 21 South, Range 36 East
NMPM, _____, Lea County, New
Mexico.

(3) That the applicant has the right to re-enter and re-work its Bromlee Well No. 1 at a standard location in said quarter-quarter section.

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

2 words
(5) That the applicant was not able to present substantial evidence that bonafide attempts had been made to ^{obtain} voluntary agreement to pool the interests within the proposed proration unit.

3/8
(6) That absent such substantial evidence in this case the application is premature and should be denied.

IT IS THEREFORE ORDERED:

Wm
JGR
(1) That the application of Tahoe Oil and Cattle Company for an order pooling all mineral interests in the Penrose Skelly Pool underlying the SE/4 SE/4 of Section 25, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico is hereby denied.

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

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.