CASE 4377: FLORIDA EXPLORATION COMPANY
APPLICATION FOR COMPULSORY POOLING AND UNORTHODOX
GAS WELL LOCATION, LEA COUNTY, NEW MEXICO

CASE NO.

6877

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

April 23, 1981

Mr. James W. Rogers
Division Land Manager
Florida Exploration Company
Suite 900 Vaughn Building
Midland, Texas 79701

Re: Case No. 6877
Order No. R-6344

Dear Mr. Rogers:

In accordance with the provisions of Division Order No. R-6344, an extension of time to June 16, 1981, is hereby granted for the completion of your Reno Com Well No. 1.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Florida Exploration Company
Suite 900 Vaughn Building
Midland TX 79701
Telephone 915 682 4363

April 14, 1981

State of New Mexico
Energy and Minerals Department
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. Joe D. Ramey, Director

Case No. 6877
Order No. R-6344
Reno Prospect
Lea County, New Mexico

Gentlemen:

Reference is here made to the captioned case and order and to our letters of October 20, 1980, January 15, 1981 and February 10, 1981 whereby we requested and you subsequently granted us extension of time to complete the FEC #1 Reno Com well.

Since the last extension was granted on February 10, 1981, we could not secure a large workover unit for in excess of five weeks. Upon securing the services of the unit and evaluating the Fusselman formation, a part of the downhole equipment became wedged in the hole, thus necessitating a delay while milling out.

We have now succeeded in cleaning out the hole and have set a retainer and squeezed the lower Fusselman perforations prior to attempting a production test of remaining uphole Fusselman perfs.

We now, therefore, request an additional extension of sixty days from April 16, 1981 in which to continue testing the well in anticipation of completing same as soon as possible.

Your continued cooperation would be most appreciated. Should you have any questions or need further clarification, please do not hesitate to call.

Yours very truly,

James W. Rogers
Division Land Manager

JWR:jb

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

February 16, 1981

Mr. James W. Rogers
Florida Exploration Company
Suite 900 Vaughn Building
Midland, Texas 79701

Re: Case No. 6877
Order No. R-6344

Dear Mr. Rogers:

Since you are diligently attempting a completion on the well drilled pursuant to the above Order, the Division will grant an extension to the time limit of the Order.

You are, therefore, granted an extension to April 15, 1981.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Florida Exploration Company
Suite 900 Vaughn Building
Midland TX 79701
Telephone 915 682 4363

February 10, 1981

State of New Mexico
Energy and Minerals Department
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. Joe D. Ramey, Director

Case No. 6877
Order No. R-6344
Reno Prospect
Lea County, New Mexico

Gentlemen:

Reference is here made to the captioned case and order and to our letters to you dated October 20, 1980 and January 15, 1981, wherein time was extended for completion of the FEC #1 Reno-Com well to February 16, 1981. Please be advised that initial production tests from the Fusselman formation have recovered water thus necessitating further tests of the Fusselman formation and, should production of oil or gas not be established therefrom, plugging back to additional potentially productive zones up hole.

We, therefore, request that we be granted a third extension of time for a period of sixty (60) days from February 16, 1981 in which to accomplish this very necessary procedure.

Your continued cooperation and positive response to this request is most appreciated. Should you have any questions or need further clarification regarding this requested extension, please do not hesitate to call.

Very truly yours,

JWR:mh

James W. Rogers
Division Land Manager

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

January 20, 1981

Mr. James W. Rogers
Florida Exploration Company
Suite 900
Vaughn Building
Midland, Texas 79701

Dear Mr. Rogers:

As requested in your letter of January 15, 1981, you are granted an extension to February 17, 1981, in which to complete the well required in Order No. R-6344.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Florida Exploration Company
Suite 900 Vaughn Building
Midland TX 79701
Telephone 915 682 4363

January 15, 1981

State of New Mexico
Energy and Minerals Dapartment
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. Joe D. Ramey, Director

Case No. 6877
Order No. R-6344
Reno Prospect
Lea County, New Mexico

Gentlemen:

Reference is here made to the captioned case and order and to our letter to you dated October 20, 1980, wherein time was extended for completion of the FEC #1 Reno-Com well being extended to January 17, 1981. Please be advised that the subject well is at the total depth of 19,170' with 5" liner set at total depth. At the present time we are production testing through the Fusselman perforations in the selected intervals 18,724' to 19,050' overall.

We therefore request that we be granted the second extension of time for completion of the well for a period of thirty (30) days from January 17, 1981.

Your positive response of this request will be most appreciated.

Yours very truly,

James W. Rogers

JWR:jb

James W. Rogers
Division Land Manager

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

October 27, 1980

Mr. James W. Rogers
Division Land Manager
Florida Exploration Company
Suite 900 Vaughn Building
Midland, Texas 79701

Dear Mr. Rogers:

Inasmuch as you are pursuing with due diligence the drilling operations on the well subject to Case No. 6877, Order No. R-6344, the time period for completion as provided for in said order is hereby extended to January 17, 1980.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Florida Exploration Company
Suite 800 Vaughn Building
Midland TX 79701
Telephone 915/682 4363

RECEIVED
OCT 23 1980
OIL CONSERVATION DIVISION
SANTA FE

October 20, 1980

Stamets

State of New Mexico
Energy and Minerals Department
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. Joe D. Ramey, Director

Case No. 6877
Order No. R-6344
Reno Prospect
Lea County, New Mexico

Gentlemen:

Reference is here made to the captioned case and order. In compliance with the terms and provisions thereof, please be advised that the Florida Exploration Company #1 Reno-Com well located 1200' FN&WL Section 11, T-25-S, R-35-E, NMPM, Lea County, New Mexico was spudded on July 20, 1980 and is presently drilling below 14,700' on the way to a proposed depth of 17,500' to test the Fusselman formation or at Operator's option, to continue drilling to a depth of 19,500' to test the Ellenburger formation. Current drilling penetration rates are in the range of 100' ± each 24 hours.

On page 3, Order (1) the third PROVIDED FURTHER states that "should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) should not be rescinded". In view of the fact that it does not appear that the test well will be completed within 120 days, (November 17, 1980) we respectfully request that we be granted a sixty (60) day extension of time in order to have sufficient time to get the test well drilled, tested and completed as a producer or plugged and abandoned as a dry hole.

Your earliest consideration of this request would be appreciated.

Yours very truly,

James W. Rogers

JWR:jb

James W. Rogers
Division Land Manager

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

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

May 14, 1980

Re: CASE NO. 6877
ORDER NO. R-6344

Mr. George Hunker
Hunker-Fedric
Attorneys at Law
Post Office Box 1837
Roswell, New Mexico 88201

Applicant:

Florida Exploration Company

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other

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. 6877
Order No. R-6344

APPLICATION OF FLORIDA EXPLORATION
COMPANY FOR COMPULSORY POOLING AND
UNORTHODOX WELL LOCATION, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 23, 1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 13th day of May, 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, Florida Exploration Company, seeks an order pooling all mineral interests in the Wolfcamp through Ellenburger formations underlying the N/2 of Section 11, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 1200 feet from the North line and 1200 feet from the West line of said Section 11.

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share

of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit and by authorizing the proposed unorthodox location.

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

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amcunt that paid estimated well costs exceed reasonable well costs.

(11) That $3,300.00 per month while drilling and $350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is

dedicated on or before August 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp through Ellenburger formations underlying the N/2 of Section 11, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location, hereby approved, 1200 feet from the North line and 1200 feet from the West line of said Section 11.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of August, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth at least sufficient to test the Wolfcamp formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of August, 1980, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Florida Exploration Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that

any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $3300.00 per month while drilling and $350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

S E

dr/

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Florida Exploration Company for compulsory pooling and unorthodox well location, Lea County, New Mexico.

CASE 6877

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: George H. Hunker, Jr.
HUNKER, FEDRIC, P. A.
P. O. Box 1837
Roswell, New Mexico 88201

I N D E X

E X H I B I T S

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

MR. STAMETS: Call Case 6877.

MR. PADILLA: Application of Florida Exploration Company for compulsory pooling, and unorthodox well location, Lea County, New Mexico.

MR. HUNKER: George Hunker, Hunker, Fedric, P. A., in Roswell, New Mexico, representing the applicant, Florida Exploration Company. I have two witnesses.

(Witnesses sworn.)

JAMES W. ROGERS

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

DIRECT EXAMINATION

BY MR. HUNKER:

Q. Mr. Rogers, will you identify yourself for the record and tell the Examiner what your position is with the company, and where you live?

A. My name is James W. Rogers. I'm Division Land Manager for Florida Exploration Company, whose address in Midland, Texas, is Suite 900, Vaughn Building, and the Zip Code is 79701.

Q. How long have you been the land manager for Florida Exploration?

A. Been the land manager for Florida Exploration for four years.

Q. Have your qualifications as a land manager been made known to the Commission and your qualifications as such have been acceptable?

A. Yes, sir, they have.

MR. HUNKER: Are the witness' qualifications acceptable, Mr. Stamets?

MR. STAMETS: They are.

Q. Are you familiar with the application that's been filed by Florida Exploration Company in connection with this matter?

A. Yes, sir, I am.

Q. Referring to what's been marked Applicant's Exhibit One, will you tell the Examiner what this exhibit shows?

A. Exhibit One is a land plat depicting our Reno prospect in Lea County, New Mexico, in Township 25 South, Range 35 East. It's depicted by the hachured tape there and comprises 1920 acres, more or less, out of a part of Section 2 and a part of Section 3, and all of Sections 10 and 11 of the township and range previously mentioned.

Q. Has a working interest owners unit been agreed upon for this particular area?

A. Yes, sir, it has, and it calls for the

drilling of a projected 18,000 foot Pre-Woodford test at a location 1200 from the north and 1200 from the west line of Section 11, Township 25 South, Range 35 East.

Q. Have the working interest owners agreed that Florida Exploration be the operator of this unit?

A. Yes, sir, they have.

Q. And is it your desire that if the application is approved, that Florida be designated as the operator in connection with this particular well?

A. Yes, sir, that is correct.

Q. You've also depicted on the plat a green rectangle. What does this represent?

A. The green rectangle represents the 320 acres that we would like to have dedicated and communitized for the drilling of the subject test well.

Q. Has a communitization agreement been prepared on your behalf to communitize this area?

A. Yes, sir, it has.

Q. In your opinion will that communitization agreement be approved in due course?

A. Yes, sir, it will.

Q. Will it be necessary that the USGS approve this communitization?

A. Yes, sir, it will.

Q. Have you prepared an AFE in connection

with this proposed test well?

A. An AFE has been prepared. It provides for a dry hole cost of an 18,000 foot test well of $1,950,400. And for a completed cost through the production equipment of $2,654,500.

Q. Has this AFE been found to be agreeable by the working interest owners that are part of this working interest owners unit?

A. Yes, sir, the AFE has been found to be agreeable.

Q. Is this a limited AFE or is it -- or will you possibly revise this AFE at a later time?

A. This AFE could possibly be revised should the facts warrant the drilling deeper of the well to an objective deeper than 18,000 feet.

Q. You're seeking the approval of the unorthodox location, which will be justified by another witness, is that correct?

A. Yes, sir, that is correct.

Q. And in your application you show that there are some outstanding interests, Mr. Rogers. Is it your company's desire that any outstanding interest in this spacing unit be pooled by the Conservation Commission?

A. Yes, sir, we have shown on the Exhibit A to our proposed communitization agreement an unleased mineral

interest belonging to one "Doc" Coates, comprising a .0392/280 fractional interest out of the west half northeast quarter of Section 11, Township 25 South, Range 35 East.

Q. I also notice that there is named in that exhibit a man by the name of G. W. Gale. What has transpired with regard to the G. W. Gale interest?

A. With regard to the G. W. Gale interest we have arrived at an arrangement with Mr. Gale wherein he has agreed to farmout under certain conditions his interest to our unit.

Q. His interest, then, would not need to be force pooled, is that correct?

A. That is correct, sir.

Q. With regard to the Doc Coates fractional interest, what efforts have you made to find Mr. Coates?

A. Through a contract broker, Mr. Coates has attempted to be found on several occasions. Our last trail ends with a last lead in 1941 at which time he lived in El Paso, Texas. To date we have not been able to find the whereabouts of Doc Coates, but we are continuing to pursue this interest and in the event we get a lead, we will attempt to get Mr. Coates under a lease arrangement.

Q. In connection with your communitization, do you propose to communitize the production of dry gas and associated hydrocarbons that are producable beginning in the

Wolfcamp and extending to the bottom of your hole, including all gas producing formations?

A Yes, sir, that is correct. By nature of the fact that we're drilling a wildcat test well with some degree of risk involved, we would like to have benefit of the 320-acre communitized unit for production of Wolfcamp and below for dry gas and associated hydrocarbons produced therewith.

Q In connection with the risk involved, would you make a recommendation to the Examiner at this time, as to what risk factor should be included in the Commission's order?

A Sir, it has been my observation from wells statistically drilled in the Delaware Basin that we could expect to have a chance of somewhere between 1 in 5, or 1 in 4, of finding some type of production. However, to find commercial production our risk will be considerably more than that with regard to whether we find production in commercial quantities.

Q This is a wildcat test which you're going to be drilling, is that correct?

A Yes, sir, it is very definitely a wildcat test well.

Q And would you recommend that the Commission assess a penalty of the statutory amount in this regard?

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

A. Yes, sir, I surely would recommend that the Commission consider the maximum penalty that may be assessed by law.

Q. In connection with the joint operating agreement that has been drafted, what are the administrative overhead charges that have been agreed upon by the working interest owners?

A. The overhead charges in the accounting procedure of the operating agreement provide for $3300 per month for a drilling well and $350 a month for a producing well, and these numbers do not include overhead for technical people involved with the well.

Q. In your opinion, Mr. Rogers, are these figures reasonable?

A. Yes, sir, they are reasonable figures.

MR. HUNKER: I have no further questions of the witness at this time.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Rogers, can you furnish us copies of correspondence relating to the attempts to find Doc Coates?

A. Mr. Stamets, as I testified, this has been contract work and I do not have them with me, but I will attempt to obtain that information and furnish it to you.

Q. Very good, and can you furnish us with a copy of the operating agreement?

A. Yes, sir, when the operating agreement is fully signed by all parties involved, I will furnish you with a copy of it.

Q. And when do you expect that?

A. I expect that within the next 30 days, to have this accomplished.

MR. HUNKER: When do you plan to commence the drilling of the test well?

A. I would estimate that we will commence the test well on or before July 1 of 1980.

MR. HUNKER: We will attempt to locate the correspondence with regard to that matter and we will furnish you with a copy of the operating agreement when it's finally compiled.

Q. And all we're talking about here is a .0392/280 interest?

A. Yes, sir, that is correct, in an 80-acre tract.

Q. The 280, though, is in the entire north half of the section or only that much --

A. No, sir, there is -- the remaining 200 acres is located outside the north half of that section 11, and consequently, we have to make the fraction that we have

there.

Q. That would diminish it even more.

A. Yes, sir.

MR. STAMETS: Any other questions of this witness? He may be excused.

JOHN SCOTT ALCORN

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

DIRECT EXAMINATION

BY MR. HUNKER:

Q. Mr. Alcorn, for the record, will you give your name, address, and employer?

A. My name is Scotty Alcorn of Midland, Texas. I am employed as a Senior Geologist for Florida Exploration Company, 900 Vaughn Building in Midland, Texas.

Q. Are you familiar with the application that's been filed by Florida in this matter?

A. Yes, sir.

Q. Have your qualifications to testify as a petroleum geologist been received by the Commission on earlier occasions?

A. Yes, sir, they have.

MR. HUNKER: Are the qualifications of

the witness satisfactory?

MR. STAMETS: They are.

Q. Mr. Alcorn, have you prepared an exhibit depicting the reasons why Florida seeks the approval of an unorthodox location in connection with this matter?

A. Yes, sir, I have.

Q. Is this Exhibit Number Two?

A. Yes, sir, it is.

Q. Will you explain to the Examiner what this exhibit shows?

A. All right, sir. Actually, the Reno prospect is located on the east flank of the Delaware Basin adjacent to the central basin platform in Lea County.

Exhibit Two is a subsurface and seismic interpretation of a Siluro-Devonian structure map. We optimistically anticipate enough structural closure to have a Fusselman gas reservoir present. That is our proposed total depth of 18,000 feet, to penetrate the Fusselman formation.

The only well on the plat that penetrated the mapping horizon of the Siluro-Devonian formation is the producing well south -- in the northwest of Section 20, 25 South, 35 East. It is the Dogie Draw Well completed from the Wolfcamp.

The seismic interpretation was derived from shooting from the bas point of the well in Section 20

and evaluating the seismic picture, we've come up with this composite of subsurface interpretation.

Q. The map that you've prepared is a structure map showing the top of the Siluro-Devonian. It doesn't show the Fusselman, is that correct?

A. No, sir, this is the mapping point that is most recognizable in our seismic interpretation and we included the -- as this is -- there is only one well that penetrated the Pre-Woodford, or Siluro-Devonian on the whole map. We had to rely solely on seismic interpretation. The best mapping point we found is to be the Siluro-Devonian formation.

Q. What productive zones would you expect to encounter in this particular area?

A. Within a 9-mile radius there are 7 productive zones. 4 miles to the east/southeast the Delaware is productive, the Delaware Sands in the Jal West area. There is also Wolfcamp production to the southwest in the aforementioned Dogie Draw; Strawn production in the Jal West Field to the east/southeast; Atoka production 9 miles northwest in Antelope Ridge; Morrow production 6 miles northwest in the Cinta Roja; Devonian production, gas production, in the Antelope Ridge 9 miles northwest; and Fusselman production is present in the Jal West, which is 4 miles southeast, which we would for one test well, we would evaluate approxi-

mately 7 potential productive horizons.

Q. And you propose to have force pooled in connection with this matter all formations commencing at the Wolfcamp formation, and below, that are productive of gas, is that correct?

A. Yes, sir, that's what our projected horizon is, is the gas and associated hydrocarbons that may be found in the Wolfcamp and below. Our projective total depth at the present time is 18,000, and would be in the Fusselman.

This does not eliminate any possibility of analyzing any shallower beds that we will -- as drilling in a diligent manner, we will put a mud-logging unit to evaluate the possibility of Delaware and Bone Spring while penetrating those formations, although our projection is Wolfcamp and below for gas and associated hydrocarbons.

Q. As you know, Rule 104 of the Commission provides that wells projected to the Wolfcamp and to formations of older age, the rule says that the well should be located at least 660 feet from the long side of the rectangle and 1980 feet from the short side of the rectangle.

How would you characterize the location of 1200 feet from north and west in this particular instance?

A. Well, sir, as -- after a detailed examination of our seismic data, it was determined that the highest structural point should be found under a surface

location 1200 from the north line and 1200 from the west line of Section 11. Although this is classified as an unorthodox location, the location is fairly centrally located in the unit area so as not to take any undue advantage of the land situation. It is solely to find the optimum location for a wildcat well subsurfacewise.

Q. The offsetting operators, by joining the unit that you've formed, have consented to this location, is that correct?

A. Yes, sir, they are in agreement that this is the optimum location for the original test well. We want to take advantage of our seismic information and we found this point to be the highest in our interpretation. We are not attempting to gain any undue advantage; merely to find the highest point on the structure for our original test well.

Q. In your opinion, Mr. Alcorn, will the drilling of this test well at this location be in the interest of conservation, the prevention of waste, and the protection of correlative rights?

A. Yes, sir, we certainly feel that way, as it should be the highest point on our seismic interpretation.

Q. Do you have anything else to add to your testimony?

A. No, sir, I don't.

MR. HUNKER: We have nothing further on direct.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Alcorn, do you confirm Mr. Rogers opinion that this is a very high risk venture?

A. Yes, sir, I feel as though -- I would give it on a rating of 2 to 10 possibility.

MR. STAMETS: Any other --

A. And then a commercial, I've been thinking about a 1 in 10 possibility.

MR. STAMETS: Any other questions of the witness? He may be excused.

Anything further in this case?

MR. HUNKER: Nothing further.

MR. STAMETS: The case will be taken under advisement, and Exhibit Two is admitted in evidence.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-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 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.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6872, heard by me on 4-23 1980.

Richard L. Stamets, Examiner
Oil Conservation Division

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

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Florida Exploration Company for compulsory pooling and unorthodox well location, Lea County, New Mexico.

CASE 6877

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: George H. Hunker, Jr.
HUNKER, FEDRIC, P. A.
P. O. Box 1837
Roswell, New Mexico 88201

I N D E X

E X H I B I T S

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

MR. STAMETS: Call Case 6877.

MR. PADILLA: Application of Florida Exploration Company for compulsory pooling, and unorthodox well location, Lea County, New Mexico.

MR. HUNKER: George Hunker, Hunker, Fedric, P. A., in Roswell, New Mexico, representing the applicant, Florida Exploration Company. I have two witnesses.

(Witnesses sworn.)

JAMES W. ROGERS

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

DIRECT EXAMINATION

BY MR. HUNKER:

Q. Mr. Rogers, will you identify yourself for the record and tell the Examiner what your position is with the company, and where you live?

A. My name is James W. Rogers. I'm Division Land Manager for Florida Exploration Company, whose address in Midland, Texas, is Suite 900, Vaughn Building, and the zip Code is 79701.

Q. How long have you been the land manager for Florida Exploration?

A. Been the land manager for Florida Exploration for four years.

Q. Have your qualifications as a land manager been made known to the Commission and your qualifications as such have been acceptable?

A. Yes, sir, they have.

MR. HUNKER: Are the witness' qualifications acceptable, Mr. Stamets?

MR. STAMETS: They are.

Q. Are you familiar with the application that's been filed by Florida Exploration Company in connection with this matter?

A. Yes, sir, I am.

Q. Referring to what's been marked Applicant's Exhibit One, will you tell the Examiner what this exhibit shows?

A. Exhibit One is a land plat depicting our Reno prospect in Lea County, New Mexico, in Township 25 South, Range 35 East. It's depicted by the hachured tape there and comprises 1920 acres, more or less, out of a part of Section 2 and a part of Section 3, and all of Sections 10 and 11 of the township and range previously mentioned.

Q. Has a working interest owners unit been agreed upon for this particular area?

A. Yes, sir, it has, and it calls for the

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drilling of a projected 18,000 foot Pre-Woodford test at a location 1200 from the north and 1200 from the west line of Section 11, Township 25 South, Range 35 East.

Q. Have the working interest owners agreed that Florida Exploration be the operator of this unit?

A. Yes, sir, they have.

Q. And is it your desire that if the application is approved, that Florida be designated as the operator in connection with this particular well?

A. Yes, sir, that is correct.

Q. You've also depicted on the plat a green rectangle. What does this represent?

A. The green rectangle represents the 320 acres that we would like to have dedicated and communitized for the drilling of the subject test well.

Q. Has a communitization agreement been prepared on your behalf to communitize this area?

A. Yes, sir, it has.

Q. In your opinion will that communitization agreement be approved in due course?

A. Yes, sir, it will.

Q. Will it be necessary that the USGS approve this communitization?

A. Yes, sir, it will.

Q. Have you prepared an AFE in connection

with this proposed test well?

A. An AFE has been prepared. It provides for a dry hole cost of an 18,000 foot test well of $1,950,400. And for a completed cost through the production equipment of $2,654,500.

Q. Has this AFE been found to be agreeable by the working interest owners that are part of this working interest owners unit?

A. Yes, sir, the AFE has been found to be agreeable.

Q. Is this a limited AFE or is it -- or will you possibly revise this AFE at a later time?

A. This AFE could possibly be revised should the facts warrant the drilling deeper of the well to an objective deeper than 18,000 feet.

Q. You're seeking the approval of the unorthodox location, which will be justified by another witness, is that correct?

A. Yes, sir, that is correct.

Q. And in your application you show that there are some outstanding interests, Mr. Rogers. Is it your company's desire that any outstanding interest in this spacing unit be pooled by the Conservation Commission?

A. Yes, sir, we have shown on the Exhibit A to our proposed communitization agreement an unleased mineral

interest belonging to one "Doc" Coates, comprising a .0392/280 fractional interest out of the west half northeast quarter of Section 11, Township 25 South, Range 35 East.

Q. I also notice that there is named in that exhibit a man by the name of G. W. Gale. What has transpired with regard to the G. W. Gale interest?

A. With regard to the G. W. Gale interest we have arrived at an arrangement with Mr. Gale wherein he has agreed to farmout under certain conditions his interest to our unit.

Q. His interest, then, would not need to be force pooled, is that correct?

A. That is correct, sir.

Q. With regard to the Doc Coates fractional interest, what efforts have you made to find Mr. Coates?

A. Through a contract broker, Mr. Coates has attempted to be found on several occasions. Our last trail ends with a last lead in 1941 at which time he lived in El Paso, Texas. To date we have not been able to find the whereabouts of Doc Coates, but we are continuing to pursue this interest and in the event we get a lead, we will attempt to get Mr. Coates under a lease arrangement.

Q. In connection with your communitization, do you propose to communitize the production of dry gas and associated hydrocarbons that are producable beginning in the

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Wolfcamp and extending to the bottom of your hole, including all gas producing formations?

A Yes, sir, that is correct. By nature of the fact that we're drilling a wildcat test well with some degree of risk involved, we would like to have benefit of the 320-acre communitized unit for production of Wolfcamp and below for dry gas and associated hydrocarbons produced therewith.

Q In connection with the risk involved, would you make a recommendation to the Examiner at this time, as to what risk factor should be included in the Commission's order?

A Sir, it has been my observation from wells statistically drilled in the Delaware Basin that we could expect to have a chance of somewhere between 1 in 5, or 1 in 4, of finding some type of production. However, to find commercial production our risk will be considerably more than that with regard to whether we find production in commercial quantities.

Q This is a wildcat test which you're going to be drilling, is that correct?

A Yes, sir, it is very definitely a wildcat test well.

Q And would you recommend that the Commission assess a penalty of the statutory amount in this regard?

A. Yes, sir, I surely would recommend that the Commission consider the maximum penalty that may be assessed by law.

Q. In connection with the joint operating agreement that has been drafted, what are the administrative overhead charges that have been agreed upon by the working interest owners?

A. The overhead charges in the accounting procedure of the operating agreement provide for $3300 per month for a drilling well and $350 a month for a producing well, and these numbers do not include overhead for technical people involved with the well.

Q. In your opinion, Mr. Rogers, are these figures reasonable?

A. Yes, sir, they are reasonable figures.

MR. HUNKER: I have no further questions of the witness at this time.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Rogers, can you furnish us copies of correspondence relating to the attempts to find Doc Coates?

A. Mr. Stamets, as I testified, this has been contract work and I do not have them with me, but I will attempt to obtain that information and furnish it to you.

Q. Very good, and can you furnish us with a copy of the operating agreement?

A. Yes, sir, when the operating agreement is fully signed by all parties involved, I will furnish you with a copy of it.

Q. And when do you expect that?

A. I expect that within the next 30 days, to have this accomplished.

MR. HUNKER: When do you plan to commence the drilling of the test well?

A. I would estimate that we will commence the test well on or before July 1 of 1980.

MR. HUNKER: We will attempt to locate the correspondence with regard to that matter and we will furnish you with a copy of the operating agreement when it's finally compiled.

Q. And all we're talking about here is a .0392/280 interest?

A. Yes, sir, that is correct, in an 80-acre tract.

Q. The 280, though, is in the entire north half of the section or only that much --

A. No, sir, there is -- the remaining 200 acres is located outside the north half of that section 11, and consequently, we have to make the fraction that we have

there.

Q That would diminish it even more.

A Yes, sir.

MR. STAMETS: Any other questions of this witness? He may be excused.

JOHN SCOTT ALCORN

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

DIRECT EXAMINATION

BY MR. HUNKER:

Q Mr. Alcorn, for the record, will you give your name, address, and employer?

A My name is Scotty Alcorn of Midland, Texas. I am employed as a Senior Geologist for Florida Exploration Company, 900 Vaughn Building in Midland, Texas.

Q Are you familiar with the application that's been filed by Florida in this matter?

A Yes, sir.

Q Have your qualifications to testify as a petroleum geologist been received by the Commission on earlier occasions?

A Yes, sir, they have.

MR. HUNKER: Are the qualifications of

the witness satisfactory?

MR. STAMETS: They are.

Q. Mr. Alcorn, have you prepared an exhibit depicting the reasons why Florida seeks the approval of an unorthodox location in connection with this matter?

A. Yes, sir, I have.

Q. Is this Exhibit Number Two?

A. Yes, sir, it is.

Q. Will you explain to the Examiner what this exhibit shows?

A. All right, sir. Actually, the Reno prospect is located on the east flank of the Delaware Basin adjacent to the central basin platform in Lea County.

Exhibit Two is a subsurface and seismic interpretation of a Siluro-Devonian structure map. We optimistically anticipate enough structural closure to have a Fusselman gas reservoir present. That is our proposed total depth of 18,000 feet, to penetrate the Fusselman formation.

The only well on the plat that penetrated the mapping horizon of the Siluro-Devonian formation is the producing well south -- in the northwest of Section 20, 25 South, 35 East. It is the Dogie Draw Well completed from the Wolfcamp.

The seismic interpretation was derived from shooting from the bas point of the well in Section 20

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Phone (505) 455-7409

and evaluating the seismic picture, we've come up with this composite of subsurface interpretation.

Q The map that you've prepared is a structure map showing the top of the Siluro-Devonian. It doesn't show the Fusselman, is that correct?

A No, sir, this is the mapping point that is most recognizable in our seismic interpretation and we included the -- as this is -- there is only one well that penetrated the Pre-Woodford, or Siluro-Devonian on the whole map. We had to rely solely on seismic interpretation. The best mapping point we found is to be the Siluro-Devonian formation.

Q What productive zones would you expect to encounter in this particular area?

A Within a 9-mile radius there are 7 productive zones. 4 miles to the east/southeast the Delaware is productive, the Delaware Sands in the Jal West area. There is also Wolfcamp production to the southwest in the aforementioned Dogie Draw; Strawn production in the Jal West Field to the east/southeast; Atoka production 9 miles northwest in Antelope Ridge; Morrow production 6 miles northwest in the Cinta Roja; Devonian production, gas production, in the Antelope Ridge 9 miles northwest; and Fusselman production is present in the Jal West, which is 4 miles southeast, which we would for one test well, we would evaluate approxi-

mately 7 potential productive horizons.

Q. And you propose to have force pooled in connection with this matter all formations commencing at the Wolfcamp formation, and below, that are productive of gas, is that correct?

A. Yes, sir, that's what our projected horizon is, is the gas and associated hydrocarbons that may be found in the Wolfcamp and below. Our projective total depth at the present time is 18,000, and would be in the Fusselman.

This does not eliminate any possibility of analyzing any shallower beds that we will -- as drilling in a diligent manner, we will put a mud-logging unit to evaluate the possibility of Delaware and Bone Spring while penetrating those formations, although our projection is Wolfcamp and below for gas and associated hydrocarbons.

Q. As you know, Rule 104 of the Commission provides that wells projected to the Wolfcamp and to formations of older age, the rule says that the well should be located at least 660 feet from the long side of the rectangle and 1980 feet from the short side of the rectangle.

How would you characterize the location of 1200 feet from north and west in this particular instance?

A. Well, sir, as -- after a detailed examination of our seismic data, it was determined that the highest structural point should be found under a surface

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location 1200 from the north line and 1200 from the west line of Section 11. Although this is classified as an unorthodox location, the location is fairly centrally located in the unit area so as not to take any undue advantage of the land situation. It is solely to find the optimum location for a wildcat well subsurfacewise.

Q. The offsetting operators, by joining the unit that you've formed, have consented to this location, is that correct?

A. Yes, sir, they are in agreement that this is the optimum location for the original test well. We want to take advantage of our seismic information and we found this point to be the highest in our interpretation. We are not attempting to gain any undue advantage; merely to find the highest point on the structure for our original test well.

Q. In your opinion, Mr. Alcorn, will the drilling of this test well at this location be in the interest of conservation, the prevention of waste, and the protection of correlative rights?

A. Yes, sir, we certainly feel that way, as it should be the highest point on our seismic interpretation.

Q. Do you have anything else to add to your testimony?

A. No, sir, I don't.

MR. HUNKER: We have nothing further on direct.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Alcorn, do you confirm Mr. Rogers opinion that this is a very high risk venture?

A. Yes, sir, I feel as though -- I would give it on a rating of 2 to 10 possibility.

MR. STAMETS: Any other --

A. And then a commercial, I've been thinking about a 1 in 10 possibility.

MR. STAMETS: Any other questions of the witness? He may be excused.

Anything further in this case?

MR. HUNKER: Nothing further.

MR. STAMETS: The case will be taken under advisement, and Exhibit Two is admitted in evidence.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-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 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

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

LAW OFFICES OF
HUNKER-FEDRIC, P.A.
210 HINKLE BUILDING
POST OFFICE BOX 1837
ROSWELL, NEW MEXICO 88201

GEORGE H. HUNKER, JR.
DON M. FEDRIC

TELEPHONE 622-2700
AREA CODE 505

May 1, 1980

Mr. Richard L. Stamets
Hearing Examiner & Technical Support Chief
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 6877
(Hearing 4/23/80)
Reno Prospect
Lea County, New Mexico

Dear Mr. Stamets:

At the time the captioned case was heard, you requested that Florida Exploration Company furnish you with a counterpart of the Operating Agreement covering the working interest owners' unit embracing 1,920 acres, more or less, in Sections 3, 10 and 11, T. 25S, R. 35E. The Operating Agreement, dated April 10, 1980, has been agreed upon by the working interest owners and is being circulated at this time for signature. If changes are made, they will be changes of a technical nature and will not affect the substance of the Agreement. The parties are in agreement as to the overhead rates fixed on page 3 of the Accounting Procedure. A counterpart of the Operating Agreement is enclosed for the file.

You also requested that information be furnished to the Division pertaining to the search that had been made for Dock Coates. As you will recall, the application shows that Coates had a mineral interest which remained unleased to the extent of .0392/280. Bill Seltzer reviewed this matter extensively at the time he was acquiring leases on behalf of Getty, and he has prepared an Affidavit which indicates that Dock Coates has been dead some 35 years. The original of the Seltzer Affidavit is enclosed and we request that it be included in the file in the captioned case.

If you have any questions with regard to the foregoing instruments, please do not hesitate to give us a call.

Sincerely yours,

HUNKER-FEDRIC, P.A.

George H. Hunker, Jr.

GHH:dd
Encls.

xc: Mr. James W. Rogers, Florida Exploration Co.

Affidavit To Any Fact

THE STATE OF NEW MEXICO)

COUNTY OF LEA)

Before me, the undersigned authority, on this day personally appeared Bill Seltzer to me well known, and who, after being duly sworn, deposes and says that he is a Landman residing in Midland, Texas and was employed by Skelly Oil Company (now Getty Oil Company) to assemble a Lease Block of acreage in T-25-S, R-35-E, Lea County, New Mexico known as Getty's DOGIE DRAW PROSPECT. In the leasing of acreage in the following lands to wit:

T-25-S, R-35-E
Section 11--W/2 NE/4, SW/4 SE/4, and SE/4 SW/4
Section 14--N/2 NW/4 and NW/4 NE/4

I was unable to locate Dock Coates or his wife Estella Coates who own .0392/280 interest.

I personally made a check of the County Records of Lea County, New Mexico and I was unable to locate any addresses, any Probate or administration or death certificates concerning either Dock Coates or Estella Coates.

I further had a conversation with Mr. Rupert Madera of Jal, New Mexico who informed me that he was acquainted with Dock Coates and Estella Coates and they died some 35 years ago and he further informed me that they did not have any children of their marriage.

In my search for Dock Coates, I found that at one time he was married to Ellen Coates but they were divorced in 1928 and no children were born or adopted during their marriage.

Bill Seltzer

Bill Seltzer

Subscribed and sworn to before me this 30th day of April A.D.,1980, to certify which witness my hand and seal of office.

Glena Preslar

Notary Public in and for the County of Midland, State of Texas

NOTARY PUBLIC IN AND FOR
MIDLAND COUNTY, TEXAS
GLENA PRESLAR
MY COMMISSION EXPIRES 1-31-81

THE STATE OF TEXAS

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this 30th day of April A.D. 1980.

Glenn Preslar

Notary Public in and for the County of Midland, State of Texas

NOTARY PUBLIC IN AND FOR
MIDLAND COUNTY, TEXAS
GLENN PRESLAR
COMMISSION EXPIRES 1-31-81

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

April 10, 1980,

OPERATOR FLORIDA EXPLORATION COMPANY

CONTRACT AREA S½ Section 2; S½ NE¼, E½ SW¼ and SE¼ Section 3;
all of Sections 10 and 11, Township 25 South, Range 35 East, containing
1920 acres, more or less

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

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Florida Exploration Company _____, 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.

I. The terms "deepen," "deepened," "deepening," and "deeper drilling," as used in this agreement, shall be deemed to include sidetracking operations.

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" and "F", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties, ~~which will be borne by the Joint 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 and title reports, together with all curative matter secured to satisfy the examining attorney's requirements, shall be furnished to each Drilling 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, curative matter and title examination (including preliminary/supplemental ~~abstracts, 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, curative matter and fees paid outside attorneys for title examination (including preliminary/supplemental ~~abstracts, 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 at its sole cost ~~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", and should the party whose lease or interest is affected by the title failure fail to secure a new lease or other instrument covering the same interest within ninety (90) days from the time that it is finally determined that title failure has occurred, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

Florida Exploration Company 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 or breach of other provisions of this Agreement.

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. Any successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected, which selection shall be by the affirmative vote of a majority interest based upon ownership as shown on Exhibit "A". However, if the Operator who has resigned, is being removed, or has been 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 upon ownership as shown on Exhibit "A", after excluding the voting interest of the Operator who has resigned, is being removed, or has been removed.

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of August, 1980, Operator shall commence the drilling of a well for oil and gas at the following location:

the NW¼ NW¼ Section 11, T-25-S, R-35-E, Lea County, New Mexico.

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Fusselman formation or to 17,500', whichever is the lesser depth, but with the option of the paying participants continuing to drill to a depth sufficient to test the Ellenburger formation, or to 19,500', whichever is the lesser,

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

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

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

B. Subsequent Operations:

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

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

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

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

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

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

*of record in the county or counties/parish or parishes in which the Contract Area is located on the date of this agreement or disclosed to all parties at the time of execution hereof.

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

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

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

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

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

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

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

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

C. Right to Take Production in Kind:

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

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Ten Thousand Dollars ($ 10,000.00).

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 three-sixtenths (3/16)** due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

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

*Testing requirements are those requirements set out in the second paragraph of Article VI.A. hereof. Such requirements shall apply to any well drilled hereunder.

** See Article XV-G

"Individual Loss"

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 assessment and pay all ad valorem taxes which may be legally assessed against the leasehold estate or on personal property located thereon insofar as they cover and affect the oil and gas rights in the lands covered in this Operating Agreement. Except as hereinafter provided, Operator shall charge such taxes to the joint account in accordance with the Accounting Procedure attached hereto as Exhibit "C" making certain that each party's account is adjusted to take into account all outstanding excess royalties, overriding royalties and other burdens against its share of the working interest to the extent that such burdens may affect such party's tax liability.

At any time or times when the assessment for ad valorem tax purposes of each party's interest is valued upon the current price each party receives for its share of production, the Operator shall pay all such ad valorem taxes based upon such assessment, and bill separately each party for its share of such taxes in that proportion which the value for tax purposes which is attributable to each party's working interest bears to the total value for tax purposes of all working interests in the lands covered by the Operating Agreement.

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 create an overriding royalty, production payment, net proceeds interest, or other similar interest, subsequent to the effective date of this Agreement, or if such an interest was created prior to the effective date hereof but was neither recorded in the county/parish in which the Contract Area is located nor disclosed to all parties hereto at the time of execution hereof, (any such interest created under the circumstances herein mentioned shall hereafter be referred to as a "subsequently created interest"), such subsequently created interest shall be specifically 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

*See Article XV-H

~~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 ~~1.761-1(a).~~ Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be ~~required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No~~

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed 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.

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

A. At least twenty-four (24) hours prior to conducting any testing, coring, logging, completing or abandoning operations, Operator shall notify the other parties participating in the costs thereof so that they may have a representative present to witness such tests or operations if they so desire.

B. In the event this agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any laws, rules, regulations, ordinances or orders, as set out in Article XIV.A., the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

C. Nothing herein contained shall grant, nor be construed to grant, Operator the right nor authority to waive or release any rights, privileges, or obligations which Non-Operators hereunder may have under Federal or State laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations on tracts offsetting or adjacent to the area covered by this agreement, as for example but without limitation, Operator shall not have the right to waive any rights which Non-Operators may have in reference to the location, operation, or production of wells on tracts offsetting or adjacent to the area covered hereby.

D. Notwithstanding anything contained herein to the contrary, in the event any well drilled hereunder is plugged and abandoned, all tubular goods which are a part of said well shall be subject to the right of the party procuring and furnishing same for joint operations hereunder to receive such goods in kind at the well site, such option to be exercised by notice in writing to Operator prior to abandonment. In the event such option is exercised, the remaining party or parties hereto shall be credited with their proportionate shares of the value of such goods as provided in the attached Accounting Procedure.

E. Operator shall prepare and disseminate all publicity releases and educational information deemed desirable concerning operations hereunder and in such publicity releases and information shall make reference to all the Parties to this Agreement; provided, however, Operator shall consult with the other Parties to this Agreement as to the wording of and advisability of disseminating such publicity releases and educational information, except in the event of an emergency when prompt action is mandated. This paragraph shall not prevent any Party from publishing a story or news item concerning such operations in its own magazine or newspaper.

F. Farmout Provisions:

1. By means of this operating agreement (and the hereinbelow Article XV-F provisions) American Trading and Production Corporation is farming out to Florida Exploration Company (a) all of its oil and gas leasehold interest* in the proration unit (the N½ Section 11, T-25-S, R-35-E) until payout (as the term is hereinafter defined) of the test well subject to an overriding royalty reservation of 2.47395%, which may at American Trading's option (and for the individuals and companies named herein for which American Trading is holding record title) may be convertible at payout of the test well to an undivided 19.79167% working interest in said test well and the proration unit upon which located and (b) an undivided fifty percent (50%) of its right, title, and interest* in the S½NE¼, E½SW¼ and SE¼ Section 3; N½NE¼, S½SE¼, W½SW¼ Section 10 and; SW¼SW¼ Section 11, all in T-25-S, R-35-E, Lea County, New Mexico, subject, however, to the (i) drilling and completing of the test well as a producer of oil and/or gas and (ii) American Trading and Production Corporation retaining all rights below 100' below total depth drilled in said test well.

*(American Trading and Production Corporation is holding record title for itself, William K. Young, Frank G. Young, Marshall R. Young Oil Company, David Fasken, Ben J. Fortson and Tipperary Oil & Gas Corporation. In the event the test well is completed as a producer of oil and/or gas, American Trading and Production Corporation will record title to each of the individuals and/or companies in the proportions of their respective ownerships, all subject to the terms and provisions of this operating agreement. Provided, however, if title to the oil and gas leasehold estate is transferred to each of the appropriate parties, American Trading and Production Company will continue to represent each of them under all matters pertaining to the operating agreement including, but not limited to, notifications, authorizations, reports, duties and obligations imposed by the operating agreement until such time as operator agrees to some other arrangement).

2. Union Oil Company of California is farming out a part of its interest in the Unit Area to Florida Exploration Company under terms and conditions of that certain Farmout Letter Agreement dated April 2, 1980, to which reference is here made for all purposes. Under the terms of said farmout agreement, Union Oil Company of California is farming out to Florida Exploration Company an undivided fifty percent (50%) of its right, title and interest in the oil and gas leasehold estate in the NW¼ and E½SW¼ Section 10, T-25-S, R-35-E, Lea County, New Mexico, reserving unto itself, however, a 0.78125% overriding royalty in the test well, which at Union of California's option may be convertible at payout of the test well, to an undivided 6.25% working interest in said test well and the proration unit upon which located, subject, however to the terms and conditions contained in the farmout agreement with Union Oil Company of California. In the event of a conflict between the provisions of this operating agreement and the Farmout Letter Agreement dated April 2, 1980, the latter will prevail.

3. Gulf Exploration and Production Company is farming out to Florida Exploration Company and Getty Oil Company (in equal shares) a part of its interest in the Unit Area under terms and conditions of that certain Farmout Letter Agreement dated 1980, to which reference is here made for all purposes. Under the terms of said farmout agreement, Gulf is farming out an undivided fifty percent (50%) of its right, title and interest in the oil and gas leasehold estate in the S½ Section 2, T-25-S, R-35-E, Lea County, New Mexico, reserving unto itself, however a 1.04167% overriding royalty in the test well, which at Gulf's option may be convertible at payout of the test well, to an undivided 8.33333% working interest in said test well and the proration unit upon which located, subject, however, to the terms and conditions contained in the farmout agreement with Gulf Exploration and Production Company. In the event of a conflict between the provisions of this operating agreement and the Farmout Letter Agreement dated 1980, the latter will prevail.

4. By means of this operating agreement (and the hereinbelow Article XV-F provisions) G. W. Gayle is farming out to Florida Exploration Company and Getty Oil Company (in equal shares) (a) all of its oil and gas leasehold interest in the proration unit (the N½ Section 11, T-25-S, R-35-E) until payout of the test well subject to an overriding royalty reservation of .00065%, which at Gayle's option may be convertible at payout of the test well to an undivided .52083% working interest in said test well and the proration unit upon which located and (b) an undivided fifty percent (50%) of Gayle's right, title and interest in the S½NE¼, N½SE¼ Section 10 and N½SW¼ Section 11, all in T-25-S, R-35-E, Lea County, New Mexico, subject, however, to the (i) drilling and completing of the test well as a producer of oil and/or gas and (ii) G. W. Gayle retaining all rights below 100' below total depth drilled in said test well.

5. With respect to the drilling and operating of the test well, the parties granting (farmors) and receiving the farmouts (farmees) agree as follows:

a. Promptly upon payout of the test well (or any substitute well drilled therefor), Operator will notify farmors in writing of such fact. Within thirty (30) days after receipt by farmors of any such notice of payout, farmors shall notify farmees in writing whether or not farmors elect to exercise their above stated right and option of exchange. If farmors so notify farmee of their election to exercise such right and option, farmees shall promptly assign to farmors the above specified leasehold and working interest in the proration unit and such overriding royalty shall terminate, both effective as of 7 A.M. on the day following date of payout. Also effective as of the same time, the Exhibit "A" to this agreement shall be amended to include farmor's interest in the test well and proration unit for said well.

b. Payout shall mean the date on which Operator shall have recovered out of total proceeds of production from the well on which payout has occurred (after deducting the lease royalty, the overriding royalties hereinabove reserved to the farmor's, all other overriding royalties and other interests in production burdening the interests of farmors at the time of the farmors assignment to the farmee(s), if any, and applicable gross production taxes) 100% of the cost of drilling, completing, testing, equipping the well that has reached payout status to produce into the tanks (in the case of an oil well) or into the pipeline to which such well is connected (in the case of a gas well), together with 100% of the workover and operating costs (including the direct costs of treating, dehydrating and/or compressing gas to make it marketable) thereof up to such time. The Accounting Procedure attached hereto as Exhibit "C" shall govern the extent to which costs may be charged to a well (as well as the basis of all such charges and credits thereto) for the purpose of determining payout.

c. Operator shall keep an accurate record of all costs of drilling, completing, testing, equipping and operating the test well or any substitute well drilled therefor, which record shall be available at all reasonable times for the examination of farmors and their authorized representatives. Operator shall furnish farmors once each quarter, and within 30 days after the quarter for which the computations were made, a statement showing total proceeds from the well (and the amount of the above discussed authorized deductions therefrom) for the previous quarter and well costs for such quarter. Costs attributable to the well shall be detailed to the same extent as required by provisions I 2 of the Accounting Procedure. Such quarterly statements shall also show cumulative well cost and production proceeds figures so that the then current payout status can be readily determined from such statement. Farmors and their authorized representatives shall have the right to audit Operator's books to the same extent that a "Non-Operator" can audit "Operator's" books under the terms of said Accounting Procedure.

d. In the drilling of the test well, should Operator encounter heaving shale, impenetrable rock formations, excessive pressures, or any other condition or mechanical problem, which in Operator's opinion, renders further drilling or deepening operations impractical, excessively hazardous, or should the hole be lost, then Operator may abandon the well and shall thereafter have the right, but not the obligation, to commence operations for the drilling of a substitute well. The substitute well shall be drilled under all of the same terms and conditions as provided for the well for which it is in substitution, at a location of Operator's choice on lands covered by this agreement. There shall be no limit to the number of substitute wells drilled, provided that no more than thirty (30) days shall lapse between the abandonment of one well and the commencement of operations for the drilling of the substitute well.

e. The farming out parties shall have freedom of the derrick floor and to all information pertaining to the drilling and completing of the test well. Written requests for all such information (stating the information so desired and to whom such information is to be reported) shall be made to Operator prior to commencement of the test well.

G. Should any party to this agreement contribute or include in the Unit Area an oil and gas lease with royalties or other burdens against production less than a total three-sixteenths of eight/eight (3/16 of 8/8), the party contributing same will be credited with the difference between the royalty and production burdens and 3/16 of 8/8, subject to proportionate reduction on an acreage basis to the proration unit to which the lease is subject.

H. Provisions Concerning Taxation

(a) Internal Revenue Provision. Each party hereby agrees not to elect to be excluded from the application of all or any part of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as amended (hereafter referred to in this Section as "Code") or similar provisions of any applicable state laws. The parties recognize that they are a partnership for income tax purposes and agree that they shall be treated as a partnership for income tax purposes only. Operator shall be responsible for the filing of the required partnership returns; however, a copy of such returns shall be furnished to the other party at least fourteen (14) days prior to the date of filing. Any required or specified partnership elections shall be made on such returns. Allocations of gains and losses and of costs, expenses, and tax credits for income tax purposes, as well as any elections or tax accounting procedures expressly provided for shall be in accordance with the provisions set forth herein.

(b) Tax Partnership Provision. Each party agrees that for income tax purposes the gains and losses from dispositions of property (other than an oil and gas property as defined in Code Sec. 614) and all classes of costs, expenses (including depreciation) and tax credits, shall be allocated to each party in any applicable income tax return in accordance with the provisions set forth herein:

Definitions as Used in this Section-

(i) The term "Respective Contributions" shall mean each party's contribution to the expenses incurred hereunder.

(ii) "Respective Contributions" as the term applies to the adjusted basis of property shall mean:

(1) the party's adjusted basis of the property as defined in Code Section 1011 at the time such property was made subject to the provisions of this Agreement.

(2) plus the portion of the costs incurred hereunder.

(3) plus or minus any depreciation, cash or other basis adjustments which are allocated to the party under this Agreement.

(c) Operating and Maintenance Expenses. Operating and maintenance expenses shall be allocated to each party in accordance with its Respective Contributions to such expenses.

(d) Intangible Drilling and Development Costs and Exploration Costs. Intangible drilling and development costs and exploration costs shall be allocated to each party in accordance with its Respective Contributions to such costs. Any subsequent recapture of intangible costs under Code Section 1254 shall also be allocated to the party who was initially allocated such costs.

(e) Depreciation and Amortization. Depreciation shall be allocated to each party in accordance with its Respective Contributions to the adjusted basis of the property in a depreciation vintage account (both ADR and Non-ADR) as defined in the Regulations to Code Section 167 and as may be adjusted for ordinary and extraordinary retirements. Amortization shall be allocated to each party in accordance with its Respective Contribution to the adjusted basis of the item.

(f) Depletion and Gain or Loss on Oil and Gas Properties. As provided in Code Section 613A (c) (7) (D), depletion on and gain or loss upon disposition of an oil and gas property are to be computed separately by each party. The parties desire that depletion and gain or loss be shared among the parties so as to take account of the variation between the depletable tax basis of the property to the partnership and its fair market value at the time of contributions as authorized by Code Section 704 (c) (2) and the regulations thereunder. Each party agrees that this is to be accomplished by allocating the adjusted depletable tax basis of each partnership oil and gas property contributed to the partnership to each party according to its proportionate share of the adjusted basis contributed to the partnership as authorized by Code Section 613A (c) (7) (D).

In the event that the adjusted depletable tax basis of oil and gas properties is not permitted to be allocated as specified above for the purpose of computing depletion, then in the alternative the adjusted depletable tax basis of each oil and gas property shall be allocated according to the capital interest in the partnership as to such property and the capital interest in the partnership for such purpose as to each such property shall be considered to be owned by the parties hereto in the ratio in which the expenditure giving rise to the depletable tax basis of each such property has been contributed as of the end of the year to the respective party's capital accounts.

(g) ADR Retirements. (i) Ordinary Retirements. The additon to the reserve for depreciation account required by an ordinary retirement as defined in the ADR (Asset Depreciation Range) Regulations Section 1.167(a)-11 to the Code shall be made to the reserve for depreciation of the appropriate vintage account(s). For purposes of determining a party's allocable share of the remaining basis in a vintage account(s), its allocable share of the basis shall be reduced by the amount of proceeds, if any, from ordinary retirements allocated to it under this Agreement.

(ii) Extraordinary Retirements. Gains and losses from extraordinary retirements, to the extent recognized by the partnership for income tax purposes, shall be allocated to each party in the same manner as proceeds, if any, from extraordinary retirements are allocated.

(h) Non-ADR Retirements. Gains and losses from non-ADR retirements, to the extent recognized by the partnership for income tax purposes, shall be allocated to each party in the same manner as proceeds, if any, from said retirements are allocated.

(i) Investment Tax Credit. For purposes of investment tax credit only, the basis of Section 38 property shall be allocated to each party in accordance with its Respective Contributions to qualified investment in Section 38 property as defined in the applicable provisions of the Code. If permitted by law, the tax partnership shall elect to treat qualified progress expenditures as qualified investment under Code Section 46. Any restoration of investment tax credit required by a subsequent disposition of qualified investment shall be allocated to the party(ies) who initially received or was allocated the investment tax credit on such qualified investment.

(j) Other Costs, Expenses, and Tax Credits. All other classes of costs, expenses and tax credits not falling within the paragraphs above shall be allocated to each party in accordance with its Respective Contributions to such costs, expenses and tax credits.

(k) Method of Accounting. The accrual method of accounting shall be adopted by the tax partnership and such accounting shall be maintained on a calendar year basis.

(l) Tax Elections. The partnership shall elect (1) to expense as incurred all intangible drilling and development costs, pursuant to Code Section 263(c), (2) to apply the tax depreciation provisions of Regulations Section 1.167 (a)-11 (Class Life (ADR) System) to the Code and to use the maximum accelerated tax depreciation method and shortest permissible life authorized by law with respect to all depreciable assets regardless of their qualifications as ADR Property, (3) to deduct currently all research and experimental expenses as permitted by Code Section 174, and (4) in the event of the transfer of a party's interest; or, in the event of the distribution of property to any party, to elect in accordance with the applicable Regulations, to cause the basis of the property to be adjusted for Federal Income Tax purposes as provided by Code Section 734 and 743, provided the parties so agree.

Any other significant tax partnership elections, allocations or reporting procecures not provided for herein, or any change to the provisions set forth above, shall be made by the parties in accordance with the provisions of the Agreement.

It is the intent of each party that the provisions of Section (b) shall be limited in their application to matters relating to income taxes and shall not in any way change, amend or affect the substantive rights and obligations of the parties otherwise contained in the Agreement.

(m) State Income Tax. In the event any other elections and procedures are required or become available other than those listed for Federal Income Tax purposes, the parties agree that the partnership will make all necessary elections and reports to minimize State Income Taxes.

(n) Ad Valorem Taxes. Beginning with the first calendar year after the effective date of this Agreement, Operator shall make and file with proper taxing authorities all necessary ad valorem tax renditions and returns and shall settle all valuations and pay all taxes arising therefrom before they become delinquent. If the interest of any party is subject to a separately assessed overriding royalty interest, production payment or other interest in excess of one-eighth (1/8th) royalty, then such party shall notify Operator of such interest prior to the rendition date and such party's tax allocation shall be reduced accordingly.

(o) Production Taxes. Each party receiving in kind or separately disposing of all or part of its share of all oil and gas produced hereunder shall pay or cause to be paid all production, severance and other taxes imposed upon or with respect to the production of such Unitized Substances and shall indemnify the other party against any liability for such payment; provided, however, that the party paying or causing to be paid such taxes on behalf of or for the benefit of any Royalty Owner shall be reimbursed by such Royalty Owner for the amount of such taxes attributable to the Royalty Owner's share of such production and shall have a lien on such Royalty Owner's oil and gas rights to secure payment thereof.

EXHIBIT "A" to Operating Agreement dated April 10, 1980 by and between Florida Exploration Company, as Operator and Getty Oil Company, et al, as Non-Operator:

DESCRIPTION:

The Unit Area shall consist of the following described lands as to all depths earned by the farmees by the drilling and completing of the test well (or a substitute well therefor) as a producer of oil or gas:

Township 25 South, Range 35 East, NMPM

Section 2 - S½
Section 3 - S½ NE¼, E½ SW¼, SE¼
Section 10 - All
Section 11 - All

situated in Lea County, New Mexico
containing 1920 acres, more or less

OWNERSHIP INTEREST:

In Proration Unit And Production From The Test Well

	Before Payout %		After Payout %	
Florida Exploration Company	61.73178	WI	31.26303	WI
Getty Oil Company	38.26822	WI	33.84114	WI
G. W. Gayle	0.000651	ORI	0.52083	WI*
American Trading and Production Company	2.47395	ORI	19.79167	WI*
Union Oil Company of California	0.78125	ORI	6.25000	WI*
Gulf Oil Corporation	1.04166	ORI	8.33333	WI*

*These interests assume that the parties farming out a part of their leasehold and working interest have exercised their optional right to convert their retained overriding royalty in the test well to a working interest therein.

In Unit Area Less and Except The Proration Unit For The Test Well and Production From Well(s) Subsequent To The Test Well

	Working Interest %
Florida Exploration Company	31.26303
Getty Oil Company	33.84114
G. W. Gayle	0.52083
American Trading and Production Company	19.79167
Union Oil Company of California	6.25000
Gulf Oil Corporation	8.33333

ADDRESSESS OF PARTIES FOR NOTICE PURPOSES

Florida Exploration Company
Suite 900, Vaughn Building
Midland, Texas 79701
Attention: James W. Rogers

Getty Oil Company
P. O. Box 1231
Midland, Texas 79702
Attention: Ted Meade

G. W. Gayle
c/o F. H. Mills, Jr.
1704 First National Bank Building
Midland, Texas 79701

American Trading and Production Company
P. O. Drawer 992
Midland, Texas 79702
Attention: Jim W. Wilson

ADDRESSESS OF PARTIES FOR NOTICE PURPOSES Cont'd

Union Oil Company of California
P. O. Box 671
Midland, Texas 79702
Attention: Robert V. Lockhart

Gulf Oil Corporation
P. O. Box 1150
Midland, Texas 79702
Attention: R. E. Griffith

HIBIT "A", Page 3
Operating Agreement dated April 10, 1980 by and between Florida Exploration Company as Operator and Getty Oil Company et al, as Non-Operator

L AND GAS LEASES SUBJECT TO THIS AGREEMENT:

SCRIPTION OF LANDS COVERED BY LEASES L SITUATED IN TOWNSHIP 25 S, RANGE 35 E A COUNTY, NEW MEXICO	LESSOR	LESSEE OF RECORD ON DATE OF OPERATING AGREEMENT	LEASE DATE	PRIMARY TERM
c. 3: S½ NE¼; D½SW¼; SE¼ c. 10: N½ NE¼; W½SW¼; S½SE¼ c. 11: E½ NE¼; N½NW¼; SW¼SW¼	USA #NM-19209	American Trading and Production Company	10-01-73	10 years
c. 10: S½ NE¼; N½SE¼ c. 11: N½ SW¼; S½NW¼	USA #NM-19209	American Trading and Production Company	10-01-73	10 years
	James B. Caylor, et ux	Getty Oil Company	02-07-77	5 years
	Clayton McCormick	"	02-14-76	5 years
	Geraldine A. Forrester	"	02-09-76	5 years
	P. E. Cosper, et ux	"	02-12-76	5 years
	Mildred G. Turner	"	02-16-76	5 years
	Helen Fields Harkins	"	09-02-75	5 years
	Roy Privott	"	07-25-75	5 years
	R. C. Hannah	"	07-15-75	5 years
	Harvey A. Heller, Jr., et ux	"	07-11-75	5 years
	Willard E. Lewis, et ux	"	07-25-75	5 years
	Ronald J. Byers (2 leases)	"	08-01-75	5 years
	Caroline Corbett Dewey, et vir	"	08-25-75	5 years
	Billy Floyd Humphreys	"	09-05-75	5 years
	John C. Sparling, et ux	"	08-28-75	5 years
	Stella H. Mills	"	09-05-75	5 years
	Mary Elsie Turner	"	08-20-75	5 years
	Charles P. Miller, et ux	Getty Oil Company and Florida Exploration Company	12-05-79	3 years
	Terrell E. Gibbins, et ux	"	12-05-79	3 years
	New Mexico Bank & Trust Co., Trustee	"	12-04-79	3 years
	Margaret Collier	G. W. Gayle	10-30-78	5 years
	Reed Collier	G. W. Gayle	10-30-78	5 years

IBIT "A", Page 4
Operating Agreement dated April 10, 1980 by and between Florida Exploration Company, as Operator and Getty Oil Company et al, as Non-Operator

AND GAS LEASES SUBJECT TO THIS AGREEMENT:

CRIPTION OF LANDS COVERED BY LEASES SITUATED IN TOWNSHIP 25 S, RANGE 35 E COUNTY, NEW MEXICO	LESSOR	LESSEE OF RECORD ON DATE OF OPERATING AGREEMENT	LEASE DATE	PRIMARY TERM
10: S½ NE¼; N½SE¼	Max Sims	G. W. Gayle	10-30-78	5 years
11: N½ SW¼; S½NW¼	Uta Collier Findley	"	10-30-78	5 years
	Peggy Sims Dillard	"	10-30-78	5 years
	Mary Helen Sims Sprinkle	"	10-30-78	5 years
	Clay Foster Collier	"	10-30-78	5 years
	Robert Sims	"	10-30-78	5 years
	Ward Collier	"	10-30-78	5 years
	Jack Sims	"	10-30-78	5 years
	Jane Sims Crayton	"	10-30-78	5 years
	Merl C. Hartung	"	10-30-78	5 years
	Pat Sims Fenly	"	10-30-78	5 years
	Mildred Guinn Anderson	"	10-30-78	5 years
	Cordon Collier	"	10-30-78	5 years
	Harriett Collier Nauert	"	10-30-78	5 years
	Ann Hartung Ellison	"	10-30-78	5 years
11: SW¼ SE¼; SE¼ SW¼; W½ NE¼	Troy Boulter, et al	Getty Oil Company	10-07-75	5 years
	Nell Frances Scallhorn, et al	"	10-07-75	5 years
	H. Dillard Schenck, et ux	"	10-07-75	5 years
	Liberty National Bank, Trustee	"	10-07-75	5 years
	Ben J. Roten, et ux	"	10-07-75	5 years
	Helen T. Cox	"	10-07-75	5 years
	Aura Ida Harper	"	10-07-75	5 years
	Mary Katherine Harless	"	10-07-75	5 years
	Jessie Leona Ammirati	"	10-07-75	5 years
	Annie Jane Resley	"	10-07-75	5 years
11: E½ SE¼	USA #NM-17245	Getty Oil Company	01-01-73	10 years
10: NW¼; E½ SW¼	USA #NM-17069	Union Oil Company of California	05-01-73	10 years
11: NW¼ SE¼	Lawrence J. Calley	Getty Oil Company	06-01-76	5 years
	Georgia Morgan, et al	"	06-08-76	5 years
	Robert L. Dublin	"	06-24-76	5 years

BIT "A", Page 5
perating Agreement dated April 10, 1980 by and between Florida Exploration Company, as Operator and Getty Oil Company et al, as Non-Operator

AND GAS LEASES SUBJECT TO THIS AGREEMENT:

RIPTION OF LANDS COVERED BY LEASES SITUATED IN TOWNSHIP 25 S, RANGE 35 E COUNTY, NEW MEXICO	LESSOR	LESSEE OF RECORD ON DATE OF OPERATING AGREEMENT	LEASE DATE	PRIMARY TERM
11: [redacted] SE¼	Mrs. Frank O. Bankes	Getty Oil Company	06-09-76	5 years
	Ila Coates, et al	"	07-12-76	5 years
	Thomas J. Potter	"	07-07-76	5 years
	Leslie Gann	"	07-01-76	5 years
	Mrs. George C. Coates, et al	"	07-09-76	5 years
	Mary Jones, et al	"	07-07-76	5 years
	Millard Dublin	"	06-23-76	5 years
	Joyce Mauldin	"	08-13-76	5 years
	Rose Bell Dublin Grounds	"	08-14-76	5 years
	Anita Dobbs, et al	"	08-14-76	5 years
	Mrs. Wilburn Griffith, et al	"	07-13-76	5 years
	Roberta Schmidt	"	08-17-76	5 years
	Florence Buzbee, et al	"	08-17-76	5 years
2: S/2	State of New Mexico (LG-1197)	Gulf Oil Corporation	06-01-73	10 years

EXHIBIT "B"

attached to and made a part of Operating Agreement dated April 10, 1980 by and between Florida Exploration Company, as Operator, and Getty Oil Company, et al, as Non-Operators

Producer's 88—(Producer's Revised 1965) (New Mexico) Form 342 Printed and for sale by Hall-Poorbaugh Press, Roswell, N. M.

OIL & GAS LEASE

THIS AGREEMENT made this _____ day of _____ 19___, between _____

_____

_____

_____ of _____
(Post Office Address)

herein called lessor (whether one or more) and _____, lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in _____ County, New Mexico, to-wit:

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of years from this date (called "primary term"), and as long thereafter as oil or gas, is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 3/16 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of $ _____ which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment or tender may be made to the lessor or to the credit of the lessor in the _____ Bank at _____, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or (if it be within the primary term) commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, rental, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its/his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____,

19____ by _____

_____

My Commission expires _____, 19____. _____ Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____,

19____ by _____

_____

My Commission expires _____, 19____. _____ Notary Public

STATE OF NEW MEXICO,

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____,

19____ by _____

_____

My Commission expires _____, 19____ _____ Notary Public

STATE OF _____

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____,

19____ by _____

_____

My Commission expires _____, 19____ _____ Notary Public

No. _____

OIL AND GAS LEASE
NEW MEXICO

FROM

_____

TO

_____

Date _____, 19____

Section _____, Township _____, Range _____

No. of Acres _____

_____

_____ County, New Mexico

Term _____

STATE OF NEW MEXICO
COUNTY OF _____

I hereby certify that this instrument was filed for record on the _____ day of _____, A. D., 19____, at _____ o'clock _____ m., and was duly recorded in Book _____ at Page _____ of the Records of said County.

_____ County Clerk.

By _____ Deputy.

STATE OF NEW MEXICO

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____

by _____, _____ President

of _____ a _____ corporation
on behalf of said corporation.

My Commission Expires: _____ _____ Notary Public

STATE OF _____

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of _____

The foregoing instrument was acknowledged before me this _____ day of _____, 19____

by _____, _____ President

of _____ a _____ corporation
on behalf of said corporation.

My Commission Expires: _____ _____ Notary Public

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated April 10, 1980 by and between Florida Exploration Company, as Operator and Getty Oil Company, et al, as Non-Operators

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at 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 $ 3,300.00
Producing Well Rate $ 350.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $ 25,000.00 :

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

B. 3 % of total costs in excess of $ 100,000.00 but less than $1,000,000; plus

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

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated April 10, 1980
by and between Florida Exploration Company, as Operator, and
Getty Oil Company, et al as Non-Operators.

Operator shall carry or provide for the benefit of the Joint Account of the parties the types and amounts of Insurance as are shown below:

1. Workmen's Compensation and Employers' Liability Insurance which shall comply with the laws of all States in which operations are conducted, with limits of $100,000 on Employers' Liability.

2. Comprehensive General Liability Insurance, or comparable, with limits of $100,000 per occurrence for death and bodily injury and $100,000 for property damage, with coverage to extend to all premises, operations, independent contractors, products and contractual liability. Coverage shall include explosion, collapse and underground damage, blow-out and cratering, personal injury liability, and extension of coverage to co-venturers.

3. Automobile Public Liability and Property Damage Insurance, or comparable, with combined limits of $250,000 per occurrence for death and bodily injury and for property damage.

4. Excess Umbrella Liability Insurance with limits of $30,000,000.

5. Cost of Well Control Insurance, including Oil Spill Clean-up expense which results from a well out of control, with combined single limits of $5,000,000 on dry land. Appropriate deductibles to be applied. Limits and deductibles to be on an interest basis.

All such insurance is subject to market availability. Premiums paid for all such insurance except automobile shall be charged as operation expense. No type of insurance, other than that shown above, shall be carried for the benefit of the Joint Account, except by mutual consent of the parties, although the coverage limits provided by any policy can be adjusted at Operator's discretion.

EXHIBIT " E "

GAS BALANCING AGREEMENT

Attached to and made a part of the Operating Agreement between Florida Exploration Company, as Operator, and Getty Oil Company et al, as Non-Operator

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement. Under the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any party hereto is not at any time taking or marketing its full share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

The parties actually taking or marketing gas produced from the Contract Area shall always be entitled to produce, take and deliver each month all gas which may be legally and efficiently produced by the wells in the Contract Area. All parties hereto shall, however, share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests under and subject to the Operating Agreement to which this agreement is attached.

On a cumulative basis, (a) each underproduced party (a party who has taken or delivered a lesser volume of gas than the quantity to which such party is entitled) shall be credited with a volume of gas equal to its full share of the gas produced from the Contract Area, less its share of gas used in Contract Area operations, vented or lost, and less that portion which such underproduced party took or delivered to its purchaser and (b) each overproduced party (a party who has taken or delivered a greater volume of gas than the quantity to which such party is entitled) shall be debited with a volume of gas equal to the excess which it has actually taken or marketed over its full share of the gas produced from the Contract Area after deduction of its share of gas used in Contract Area operations, vented or lost. The Operator will maintain a current account of the gas balance between the parties hereto and will furnish all parties monthly statements showing the total quantity of gas produced, the amount used in Contract Area operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

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

Any underproduced party shall, as soon as reasonably possible, begin and continue (subject to force majeure conditions), taking or delivering to its purchaser its full share of the gas produced from the Contract Area, less such party's share of gas used in Contract Area operations, vented or lost. In addition to such share, each such underproduced party, including the Operator, until it has brought its gas account into balance, shall (subject to force majeure conditions) take or deliver to its purchaser an additional share of the gas produced (or such part of said additional share as its gas purchaser is legally obligated to take or will voluntarily take) determined by multiplying Twenty-five Percent (25%) of the interest of the overproduced parties in the current gas production by a fraction, the numerator of which is the cumulative underage of such party and the denominator of which is the total cumulative underage of all underproduced parties then undertaking to recover overage and bring their gas accounts into balance.

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

Nothing herein shall be construed to deny any party the right from time to time, to produce and take or deliver to its purchaser an entire well stream, if necessary, for a deliverability test not to exceed Seventy-two (72) hours duration required under such party's gas sales contract.

Should production of gas be permanently discontinued before the gas accounts are balanced, cash settlement shall be made between the underproduced and overproduced parties. In making such settlement the underproduced parties shall be paid a sum of money by the overproduced parties equal to the value, computed as hereafter set forth, of the unrecouped cumulative balance of overproduction, less applicable taxes theretofore paid. In determining the value of the unrecouped cumulative balance of overproduction, beginning with the most recent month in which the overproduced parties took a volume of gas in excess of the quantity to which such parties were entitled, hereafter called "overage", the volume of overage occurring during such month shall be multiplied times the actual prices received for such overage during such month. The same calculation shall be made for the next preceding month in which the overage occurred and for each preceding month (progressing backward in time) in which an overage occurred until the total volume of the overages for these months equals the total volume of the unrecouped cumulative balance of overproduction. During the month in which the total volume of the overage equals the total volume of the unrecouped cumulative balance of overproduction, only the volume of overage necessary to reach such point of equality shall be used in computing a value for that month. The total of the sums or values so obtained for said months in which overage occurred shall be the value of the unrecouped cumulative balance of overproduction for purposes of the cash settlement here contemplated. For gas sales which are subject to governmental price controls, prices actually received by the overproduced parties shall be considered as the rates collected from time to time, which are not subject to possible refund as provided by law or applicable governmental authority, plus any additional amount which is not ultimately required by law or applicable governmental authority to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

It is the intent that all of the parties hereto, insofar as is reasonably possible, commence taking or delivering gas simultaneously, and that each party thereafter continuously take or deliver its full share of the gas produced from the Contract Area. It is, however, recognized that due to conditions beyond the control of the parties there may be occasions where there will be temporary delays in commencement of takes or deliveries and temporary reductions in takes or deliveries below a party's full share. Accordingly, this agreement is intended for use as an operating procedure to assist in bringing the gas accounts of the parties into balance as soon as possible and to assist in maintaining such accounts in balance. It is not the intent that this agreement be used as a gas storage arrangement nor as a device to delay marketing of gas or to unduly withhold gas from the market.

Notwithstanding any other provision to the contrary, this shall be considered as a separate agreement as to each reservoir within the Contract Area.

Attached to and made a part of Operating Agreement dated April 10, 1980 by and between Florida Exploration Company, as Operator and Getty Oil Company, et al, as Non-Operator.

In order to insure compliance with Federal Equal Employment provisions, Operator agrees and certifies as follows:

I. Equal Opportunity Clause (41 CFR §60-1.4) (Applicable to contracts and purchase orders in excess of $10,000.

Operator certifies that it shall comply with the Equal Opportunity Clause contained in Section 202 of Executive Order 11246, effective September 24, 1965, as amended by Executive Order 11375, dated October 13, 1967, and as set forth in 41 CFR §60-1.4(a), which clause is incorporated herein by reference thereto as though fully set forth herein in haec verba in accordance with 41 CFR §60-1.4(d).

II. Certification of Non-Segregated Facilities (41 CFR §60-1.8) (Applicable to contracts and purchase orders which are not exempt from the provisions of the Equal Opportunity Clause incorporated by reference hereinabove)

Operator certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its locations, and that it does not and will not permit its employees to perform their services at any location under its control where segregated facilities are maintained. Operator understands and agrees that a breach of this certification is a violation of the Equal Opportunity Clause incorporated by reference hereinabove. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, restaurants and other eating areas, time clocks, restrooms, wash rooms, locker rooms, and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin because of habit, local custom, or otherwise; Operator's policies and practices must assure appropriate physical facilities to both sexes. Operator further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that he will retain such certifications in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NON-SEGREGATED FACILITIES

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

III. Employer Information Report (41 CFR §60-1.7) (Applicable only if (a) Operator has 50 or more employees, (b) Operator is not exempt (pursuant to 41 CFR §60-1.5) from the requirement for filing Employer Information Report EEO-1, and (c) the contract or purchase order is for $50,000 or more)

Operator certifies that it will file with the appropriate federal agency annually, on or before the 31st day of March, complete and accurate reports on Standard Form 100 (EEO-1) promulgated jointly by Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress, or such form as may hereafter be promulgated in its place, in compliance with 41 CFR §60-1.7, and that it shall require a similar certification from each of its non-exempt sub-contractors.

IV. Affirmative Action Compliance Program (41 CFR §60-1.40) (Applicable only if (a) Operator has 50 or more employees and (b) the contract or purchase order is for $50,000 or more)

Operator certifies that it shall develop a written affirmative action compliance program for each of its establishments, and within 120 days from commencement of this contract or purchase order, shall maintain a copy of separate affirmative action compliance programs for each establishment, including evaluations of utilization of minority group personnel and job classification tables, at each local office responsible for the personnel matters of such establishment and that it shall require a similar certification from each of its non-exempt sub-contractors.

V. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause (41 CFR §60-250.4) (Applicable to contracts and purchase orders for $10,000 or more)

Operator agrees and certifies that it shall comply with the Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause set forth in 41 CFR §60-250.4, which clause and the regulations contained in 41 CFR Part 60-250 are incorporated herein by this reference thereto, as though fully set forth herein in haec verba, in accordance with 41 CFR §60-250.22. Operator also agrees and certifies that if (a) it has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, within 120 days of the commencement of this contract or purchase order, Operator shall prepare and maintain an affirmative action program at each establishment which shall set forth the Operator's policies, practices and procedures in accordance with 41 CFR §60-250.6.

VI. Affirmative Action for Handicapped Workers (41 CFR §60-741.4) (Applicable to contracts and purchase orders for $2,500 or more)

Operator agrees and certifies that it shall comply with the Affirmative Action for Handicapped Workers Clause contained in 41 CFR § 60-741.4, which clause and the regulations contained in 41 CFR Part 60-741 are incorporated herein by this reference therein, as though fully set forth herein in haec verba, in accordance with 41 CFR §60-741.22. Operator also agrees and certifies that if (a) it has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, within 120 days of the commencement of this contract or purchase order, Operator shall prepare and maintain an affirmative action program at each establishment which shall set forth the Operator's policies, practices and procedures in accordance with 41 CFR §60-741.6.

VII. Utilization of Minority Business Enterprises (41 CFR §1-1.1310-2(a) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (b) contracts for services which are personal in nature)

A. It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.

B. Operator agrees to use its best efforts to carry out this policy in the award of its subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos and American-Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

VIII. Minority Business Enterprises Subcontracting Program (41 CFR §1-1.310-2(b) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Minority Business Enterprises Clause and which offer substantial subcontracting possibilities)

A. Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, Operator shall —

1. Designate a liaison officer who will administer Operator's minority business enterprises program.

2. Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.

3. Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

4. Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

5. Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

6. Cooperate with the Contracting Officer (as defined in 41 CFR §1-1.207) in any studies and surveys of Operator's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.

7. Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph 4 above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

B. Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 provisions which shall conform substantially to the language of this clause, including this paragraph B., and to notify the Contracting Officer of the names of such subcontractors.

IX. Utilization of Small Business Concerns (41 CFR §1-1.710-3(a) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (b) contracts for services which are personal in nature)

A. It is the policy of the Government as declared by the Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.

B. The Operator agrees to accomplish the maximum amount of subcontracting to small business concerns that the Operator finds to be consistent with the efficient performance of this contract.

X. Small Business Subcontracting Program (41 CFR §1-1.710-3(b) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Small Business Concerns Clause and which offer substantial subcontracting possibilities)

A. The Operator agrees to establish and conduct a small business subcontracting program which will enable small business concerns to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Operator shall —

1. Designate a liaison officer who will (i) maintain liaison with the Government on small business matters, (ii) supervise compliance with the Utilization of Small Business Concerns clause, and (iii) administer the Operator's "Small Business Subcontracting Program."

2. Provide adequate and timely consideration of the potentialities of small business concerns in all "make-or-buy" decisions.

3. Assure that small business concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of small business concerns. Where the Operator's lists of potential small business subcontractors are excessively long, reasonable effort shall be made to give all such small business concerns an opportunity to compete over a period of time.

4. Maintain records showing (i) whether each prospective subcontractor is a small business concern, (ii) procedures which have been adopted to comply with the policies set forth in this clause, and (iii) with respect to the letting of any subcontract (including purchase orders) exceeding $10,000, information substantially as follows:

   a. Whether the award went to large or small business.

   b. Whether less than three or more than two small business firms were solicited.

   c. The reason for non-solicitation of small business if such was the case.

   d. The reason for small business failure to receive the award if such was the case when small business was solicited.

   The records maintained in accordance with (iii) above may be in such form as the Operator may determine, and the information shall be summarized quarterly and submitted by the purchasing department of each individual plant or division to the Operator's cognizant small business liaison officer. Such quarterly summaries will be considered to be management records only and need not be submitted routinely to the Government; however, records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulation.

5. Notify the Contracting Officer (as defined in 41 CFR §1-1.207) before soliciting bids or quotations on any subcontract (including purchase orders) in excess of $10,000 if (i) no small business concern is to be solicited, and (ii) the Contracting Officer's consent to the subcontract (or ratification) is required by a "Subcontracts" clause in this contract. Such notice will state the Operator's reasons for nonsolicitation of small business concerns, and will be given as early in the procurement cycle as possible so that the Contracting Officer may give SBA timely notice to permit SBA a reasonable period to suggest potentially qualified small business concerns through the Contracting Officer. In no case will the procurement action be held up when to do so would, in the Operator's judgement, delay performance under the contract.

6. Include the Utilization of Small Business Concerns clause in subcontracts which offer substantial small business subcontracting opportunities.

7. Cooperate with the Contracting Officer in any studies and surveys of the Operator's subcontracting procedures and practices that the Contracting Officer may from time to time conduct.

8. Submit quarterly reports of subcontracting to small business concerns on either Optional Form 61, Small Business Subcontracting Program Quarterly Report of Participating Large Company on Subcontract Commitments to Small Business Concerns, or such other form as may be specified in the contract. Except as otherwise provided in this contract, the reporting requirements of this subparagraph 8 do not apply to small business contractors, small business subcontractors, educational and nonprofit institutions, and contractors or subcontractors for standard commercial items.

B. A "small business concern" is a concern that meets the pertinent criteria established by the Small Business Administration and set forth in §1-1.701 of the Federal Procurement Regulations.

C. The Operator agrees that, in the event he fails to comply with his contractual obligations concerning the small business subcontracting program, this contract may be terminated, in whole or in part, for default.

D. The Operator further agrees to insert in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Small Business Concerns clause provisions which shall conform substantially to the language of this clause, including this paragraph D, and to notify the Contracting Officer of the names of such subcontractors.

XI. Utilization of Labor Surplus Area Concerns (41 CFR §1-1.805-3(a)) (Applicable to contracts and purchase orders in excess of $10,000 except (a) contracts with foreign contractors which, including all subcontracts thereunder, are to be performed entirely outside the United States, its territories and possessions, Puerto Rico, and Trust Territory of the Pacific Islands, and the District of Columbia; (b) contracts for services which are personal in nature; and (c) contracts for construction)

A. It is the policy of the Government to award contracts to labor surplus area concerns that (1) have been certified by the Secretary of Labor (hereafter referred to as certified-eligible concerns with first or second preferences) regarding the employment of a proportionate number of disadvantaged individuals and have agreed to perform substantially (i) in or near sections of concentrated unemployment or underemployment or in persistent or substantial labor surplus areas or (ii) in other areas of the United States, respectively, or (2) are non-certified concerns which have agreed to perform substantially in persistent or substantial labor surplus areas, where this can be done consistent with the efficient performance of the contract and at prices no higher than are obtainable elsewhere. The Operator agrees to use his best efforts to place his subcontracts in accordance with this policy.

B. In complying with paragraph A above, and with paragraph B of the clause of this contract entitled "Utilization of Small Business Concerns," the Operator in placing his subcontract shall observe the following order of preference: (1) Certified-eligible concerns with a first preference which are also small business concerns, (2) other certified-eligible concerns with a first preference; (3) certified-eligible concerns with a second preference which are also small business concerns, (4) other certified-eligible concerns with a second preference; (5) persistent or substantial labor surplus area concerns which are also small business concerns, (6) other persistent or substantial labor surplus area concerns, and (7) small business concerns which are not labor surplus area concerns.

XII. Labor Surplus Area Subcontracting Program (41 CFR §1-1.805-3(b)) (Applicable to contracts and purchase orders in excess of $500,000 which contain the Utilization of Labor Surplus Area Concerns Clause and which offer substantial subcontracting possibilities)

A. The Operator agrees to establish and conduct a program which will encourage labor surplus area concerns to compete for subcontracts within their capabilities. In this connection, the Operator shall —

   1. Designate a liaison officer who will (i) maintain liaison with duly authorized representatives of the Government on labor surplus area matters, (ii) supervise compliance with the Utilization of Concerns in Labor Surplus Areas clause, and (iii) administer the Operator's "Labor Surplus Area Subcontracting Program."

   2. Provide adequate and timely consideration of the potentialities of labor surplus area concerns in all "make-or-buy" decisions.

   3. Assure that labor surplus area concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of labor surplus area concerns.

   4. Maintain records showing procedures which have been adopted to comply with the policies set forth in this clause. Records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulations, and

   5. Include the Utilization of Concerns in Labor Surplus Areas clause in subcontracts which offer substantial labor surplus area subcontracting opportunities.

B. A "labor surplus area concern" is a concern that (1) has been certified by the Secretary of Labor (hereafter referred to as a certified-eligible concern) regarding the employment of a proportionate number of disadvantaged individuals and has agreed to perform substantially in or near sections of concentrated unemployment or underemployment, in persistent or substantial labor surplus areas, or in other areas of the United States or (2) is a non-certified concern which has agreed to perform a substantial proportion of a contract in persistent or substantial labor surplus area. A certified-eligible concern shall be deemed to have performed a substantial proportion of a contract in or near sections of concentrated unemployment or underemployment in persistent or substantial labor surplus areas, or in other areas if the costs that the concern will incur on account of manufacturing or production in or near such sections or in such areas (by itself, if a certified concern, or by certified concerns acting as first-tier subcontractors) amount to more than 25 percent of the contract price. A concern shall be deemed to have performed a substantial proportion of a contract in persistent or substantial labor surplus areas (by itself for its first-tier subcontractors) if the costs that the concern will incur on account of production or manufacturing in such areas amount to more than 50 percent of the contract price.

C. The Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Concerns in Labor Surplus Areas clause, provisions which shall conform substantially to the language of this clause, including this paragraph C, and to notify the Contracting Officer (as defined in 41 CFR §1-1.207) of the names of subcontractors.

XIII. Clean Air and Water (41 CFR §1-1.2302-2) (Applicable to contracts and purchase orders in excess of $100,000, or if the Contracting Officer (as defined in 41 CFR §1-1.207) has determined that orders under an indefinite quantity contract in any one year will exceed $100,000, or a facility to be used has been the subject of a conviction under the Clean Air Act (42 U.S.C. 1857c-8 (c) (1) or the Federal Water Pollution Control Act (33 U.S.C. 1319 (c) and is listed by EPA, or the contract is not otherwise exempt).

The Operator agrees as follows:

A. To comply with all the requirements of section 114 of the Clean Air Act, as amended (42 U.S.C. 1857, et seq., as amended by Pub. L. 91-604) and section 308 of the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq., and amended by Pub. L. 92-500) respectively, relating to inspection, monitoring, entry, reports, and information, as well as other requirements specified in section 114 and section 308 of the Air Act and the Water Act, respectively, and all regulations and guidelines issued thereunder before the award of the contract.

B. That no portion of the work required by this contract will be performed in a facility listed on the Environmental Protection Agency List of Violating Facilities on the date of contract award unless and until the EPA eliminates the name of such facility or facilities from such listing.

C. To use his best efforts to comply with clean air standards and clean water standards at the facility in which the contract is being performed.

D. To insert the substance of the provisions of this clause into any non-exempt subcontract, including this paragraph D.

LAW OFFICES OF
HUNKER-FEDRIC, P.A.
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POST OFFICE BOX 1837
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GEORGE H. HUNKER, JR.
DON M. FEDRIC

TELEPHONE 622-2700
AREA CODE 505

April 11, 1980

Case 6877

Mr. Joe D. Ramey, Secretary-Director
New Mexico Department of Energy
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Ramey:

We hand you herewith Florida Exploration Company's formal Application for Compulsory Pooling and for an Unorthodox Gas Well Location, Lea County, New Mexico, involving the N½ of Section 11, T-25-S, R-35-E, and a location 1,200 FNL and 1,200 FWL of said section. Will you please file this instrument and send us a copy of the docket; as we understand it, the case has been set for hearing on April 23.

Your continued help and assistance is appreciated.

Sincerely yours,

HUNKER-FEDRIC, P.A.

George H. Hunker, Jr.

GHH:dd
Enc.

xc: Mr. James W. Rogers
Florida Exploration Co.
900 Vaughn Bldg.
Midland, Texas 79701, w/enc.

NEW MEXICO DEPARTMENT OF ENERGY

BEFORE THE OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

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

CASE NO. 6877

APPLICATION OF FLORIDA EXPLORATION COMPANY FOR COMPULSORY POOLING AND FOR APPROVAL OF UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

A P P L I C A T I O N

COMES NOW Florida Exploration Company by and through its attorneys, Hunker-Fedric, P.A., P.O. Box 1837, Roswell, New Mexico 88201, and makes application to the Oil Conservation Division pursuant to § 70-2-17, NMSA 1978, for an order pooling for gas production all mineral interests as to the Wolfcamp Formation and all older formations (including the Ellenberger Formation) underlying a 320-acre standard gas proration unit, with the N½ Section 11, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico, to be dedicated to the well; and Applicant requests an order approving an unorthodox location approximately 1,200 FNL and 1,200 FWL of said Section 11, at which location Applicant proposes to drill a projected wildcat gas well to the Wolfcamp Formation and to formations of greater age than the said Wolfcamp Formation; and in support thereof Applicant states:

1. That Applicant is the owner of the right to drill and develop the Wolfcamp Formation and all older formations (including the Ellenberger Formation) underlying a 320-acre standard gas unit consisting of the N½ Section 11, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico; Applicant proposes to drill a projected wildcat gas well at an unorthodox location approximately 1,200 FNL and 1,200 FWL of said Section 11.

2. That a well at said unorthodox location will better enable Applicant to produce the gas and associated hydrocarbons underlying the proration unit.

3. That the approval of the subject application will afford the Applicant the opportunity to produce its just and equitable share of the gas and condensate in the pool, will prevent the economic loss caused by drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

4. Applicant has obtained voluntary agreement for pooling from all interest owners except the persons named in Exhibit "A" hereto whose addresses and mineral interests owned according to Applicant's best information and belief, are set forth on said Exhibit "A" hereto. Applicant believes that the interests of the United States under its oil and gas lease will be approved for communitization as to the Wolfcamp Formation and older formations underlying said tract.

5. Applicant has made a good-faith effort through Applicant's agent to contact the person named on Exhibit "A"; however, such person has failed to respond to contact attempts, and Applicant has been unable to locate such person.

6. In order to drill to a common source of supply, to protect correlative rights and to afford to the owners of each interest in said gas well spacing unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas and condensate from said common source of supply, it is necessary and proper that an order be entered herein pooling for gas production all mineral rights, whatever they may be, under the N½ of said Section 11 as to the Wolfcamp Formation and all older formations (including the Ellenberger Formation) underlying the same.

7. Applicant should be designated as Operator of said dedicated tract.

8. A hearing should be had for the purpose of determining and considering the cost of drilling and completing a well on said tract and the allocation of such costs as well as actual operating costs and charges for supervision. Applicant will ask that a charge be made for the risk involved in drilling said test well.

9. The person named on Exhibit "A" attached hereto is believed to be an interested party.

WHEREFORE, Applicant prays that an order be entered herein pooling all mineral interests as to the Wolfcamp Formation and all deeper formations (including the Ellenberger Formation) underlying the N½ of Section 11, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico, and approving an unorthodox location approximately 1,200 FNL and 1,200 FWL of said Section 11; naming Florida Exploration Company as Operator of the unit; and providing for the allocation of costs of drilling and operating said well, together with a reasonable charge for the risk involved therein, together with such further orders and rules as may be required by the Division.

Respectfully submitted,

HUNKER-FEDRIC, P.A.

By _____
George H. Hunker, Jr.
Attorneys for Applicant,
Florida Exploration Company
P.O. Box 1837
Roswell, New Mexico 88201
(505) 622-2700

EXHIBIT "A"
TO
FLORIDA EXPLORATION COMPANY APPLICATION FOR
COMPULSORY POOLING AND FOR UNORTHODOX GAS
WELL LOCATION, LEA COUNTY, NEW MEXICO

UNLEASED MINERAL INTEREST TO BE POOLED:

Description	Owner & Address	Fractional Interest
Twp. 25S, Rge. 35E Sec. 11: W½NE¼	Doc Coates El Paso, Texas	.0392/280

LEASED MINERAL INTEREST TO BE POOLED:

Description	Record Owner & Address	Frac. Interests Subject to Leases
Twp. 25S, Rge. 35E Sec. 11: S½NW¼	G.W. Gayle P.O. Box 3353 San Angelo, Texas 76902	1/16

NEW MEXICO DEPARTMENT OF ENERGY

BEFORE THE OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

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

CASE NO. 6877

APPLICATION OF FLORIDA EXPLORATION COMPANY FOR COMPULSORY POOLING AND FOR APPROVAL OF UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

A P P L I C A T I O N

COMES NOW Florida Exploration Company by and through its attorneys, Hunker-Fedric, P.A., P.O. Box 1837, Roswell, New Mexico 88201, and makes application to the Oil Conservation Division pursuant to § 70-2-17, NMSA 1978, for an order pooling for gas production all mineral interests as to the Wolfcamp Formation and all older formations (including the Ellenberger Formation) underlying a 320-acre standard gas proration unit, with the N½ Section 11, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico, to be dedicated to the well; and Applicant requests an order approving an unorthodox location approximately 1,200 FNL and 1,200 FWL of said Section 11, at which location Applicant proposes to drill a projected wildcat gas well to the Wolfcamp Formation and to formations of greater age than the said Wolfcamp Formation; and in support thereof Applicant states:

1. That Applicant is the owner of the right to drill and develop the Wolfcamp Formation and all older formations (including the Ellenberger Formation) underlying a 320-acre standard gas unit consisting of the N½ Section 11, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico; Applicant proposes to drill a projected wildcat gas well at an unorthodox location approximately 1,200 FNL and 1,200 FWL of said Section 11.

2. That a well at said unorthodox location will better enable Applicant to produce the gas and associated hydrocarbons underlying the proration unit.

3. That the approval of the subject application will afford the Applicant the opportunity to produce its just and equitable share of the gas and condensate in the pool, will prevent the economic loss caused by drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

4. Applicant has obtained voluntary agreement for pooling from all interest owners except the persons named in Exhibit "A" hereto whose addresses and mineral interests owned according to Applicant's best information and belief, are set forth on said Exhibit "A" hereto. Applicant believes that the interests of the United States under its oil and gas lease will be approved for communitization as to the Wolfcamp Formation and older formations underlying said tract.

5. Applicant has made a good-faith effort through Applicant's agent to contact the person named on Exhibit "A"; however, such person has failed to respond to contact attempts, and Applicant has been unable to locate such person.

6. In order to drill to a common source of supply, to protect correlative rights and to afford to the owners of each interest in said gas well spacing unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas and condensate from said common source of supply, it is necessary and proper that an order be entered herein pooling for gas production all mineral rights, whatever they may be, under the N½ of said Section 11 as to the Wolfcamp Formation and all older formations (including the Ellenberger Formation) underlying the same.

7. Applicant should be designated as Operator of said dedicated tract.

8. A hearing should be had for the purpose of determining and considering the cost of drilling and completing a well on said tract and the allocation of such costs as well as actual operating costs and charges for supervision. Applicant will ask that a charge be made for the risk involved in drilling said test well.

9. The person named on Exhibit "A" attached hereto is believed to be an interested party.

WHEREFORE, Applicant prays that an order be entered herein pooling all mineral interests as to the Wolfcamp Formation and all deeper formations (including the Ellenberger Formation) underlying the N½ of Section 11, Township 25 South, Range 35 East, NMPM, Lea County, New Mexico, and approving an unorthodox location approximately 1,200 FNL and 1,200 FWL of said Section 11; naming Florida Exploration Company as Operator of the unit; and providing for the allocation of costs of drilling and operating said well, together with a reasonable charge for the risk involved therein, together with such further orders and rules as may be required by the Division.

Respectfully submitted,

HUNKER-FEDRIC, P.A.

By _____
George R. Hunker, Jr.
Attorneys for Applicant,
Florida Exploration Company
P.O. Box 1837
Roswell, New Mexico 88201
(505) 622-2700

EXHIBIT "A"
TO
FLORIDA EXPLORATION COMPANY APPLICATION FOR
COMPULSORY POOLING AND FOR UNORTHODOX GAS
WELL LOCATION, LEA COUNTY, NEW MEXICO

UNLEASED MINERAL INTEREST TO BE POOLED:

Description	Owner & Address	Fractional Interest
Twp. 25S, Rge. 35E Sec. 11: W½NE¼	Doc Coates El Paso, Texas	.0392/280

LEASED MINERAL INTEREST TO BE POOLED:

Description	Record Owner & Address	Frac. Interests Subject to Leases
Twp. 25S, Rge. 35E Sec. 11: S½NW¼	G.W. Gayle P.O. Box 3353 San Angelo, Texas 76902	1/16

NEW MEXICO DEPARTMENT OF ENERGY

BEFORE THE OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

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

CASE NO. 6877

APPLICATION OF FLORIDA EXPLORATION
COMPANY FOR COMPULSORY POOLING AND
FOR APPROVAL OF UNORTHODOX GAS
WELL LOCATION, LEA COUNTY,
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2. That a well at said unorthodox location will better enable Applicant to produce the gas and associated hydrocarbons underlying the proration unit.

3. That the approval of the subject application will afford the Applicant the opportunity to produce its just and equitable share of the gas and condensate in the pool, will prevent the economic loss caused by drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

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Respectfully submitted,

HUNKER-FEDRIC, P.A.

By _____
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LEASED MINERAL INTEREST TO BE POOLED:

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Twp. 25S, Rge. 35E Sec. 11: S½NW¼	G.W. Gayle P.O. Box 3353 San Angelo, Texas 76902	1/16

Dockets Nos. 13-80 and 14-80 are tentatively set for May 7 and 21, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 23, 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 6803: (Continued from February 13, 1980, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit EPROC Associates, Hartford Accident and Indemnity Company, and all other interested parties to appear and show cause why its Monsanto State H Well No. 1 located in Unit E of Section 2, Township 30 North, Range 16 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6866: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Hare and McCoy and all other interested parties to appear and show cause why the H. L. Hare Well No. 2 located in Unit B of Section 23, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6867: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit all interested parties to appear and show cause why the following abandoned wells drilled by unknown party or parties and located in Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program: a well in the SW/4 of Section 24, a well in the SE/4 of Section 22, and a well in the SE/4 of Section 28.

CASE 6850: (Continued from April 9, 1980, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Jack F. Grimm, N. B. Hunt, George R. Brown, Am-Arctic, Ltd., The Travelers Indemnity Company, and all other interested parties to appear and show cause why the Mobil 32 Well No. 1 located in Unit D of Section 32, Township 25 South, Range 1 East, Dona Ana County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6870: Application of Bass Enterprises Production Company for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its Bass State 36 Well No. 1 located in Unit E of Section 36, Township 15 South, Range 34 East, to produce oil from the Townsend-Wolfcamp Pool and gas from an undesignated Morrow pool thru the tubing and casing-tubing annulus, respectively, by means of a cross-over assembly.

CASE 6871: Application of Bass Enterprises Production Company to amend Order No. R-5693, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks to amend Order No. R-5693 to remove the restriction as to the time limit in which salt water may be disposed into Big Eddy Unit Well No. 56 located in Unit G of Section 35, Township 21 South, Range 28 East.

CASE 6872: Application of Amoco Production Company for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its State "HQ" Well No. 1 located in Unit P of Section 26, Township 18 South, Range 34 East, Airstrip Field, to produce Bone Springs and Wolfcamp oil thru parallel strings of tubing.

CASE 6873: Application of Harvey E. Yates 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 Travis Deep Well No. 5, a Morrow test to be drilled 660 feet from the South line and 1650 feet from the East line of Section 12, Township 18 South, Range 28 East, the S/2 of said Section 12 to be dedicated to the well.

CASE 6874: Application of HNG Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 6, Township 22 South, Range 35 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. 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 6853: (Continued from April 9, 1980, Examiner Hearing)

Application of Caribou Four Corners, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Cha Cha-Gallup Pool underlying the N/2 NE/4 of Section 18, Township 29 North, Range 14 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 6875: Application of Maurice L. Brown Co. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the SE/4 NW/4 of Section 4, Township 9 South, Range 34 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. 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 6876: Application of Maurice L. Brown Co. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the SW/4 of Section 5, Township 9 South, Range 34 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. 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 6467: (Reopened and Readvertised)

In the matter of Case 6467 being reopened pursuant to the provisions of Order No. R-5958 which order created the Grama Ridge-Bone Spring Pool in Lea County with temporary special rules therefor providing for 160-acre spacing. All interested parties may appear and show cause why the Grama Ridge-Bone Spring Pool should not be developed on 40-acre spacing units.

CASE 6877: Application of Florida Exploration Company for compulsory pooling and unorthodox well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp thru Ellenburger formations underlying the N/2 of Section 11, Township 25 South, Range 35 East, to be dedicated to a well to be drilled at an unorthodox location 1200 feet from the North and West lines of said Section 11. 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 6878: Application of Stevens Oil Company for a non-standard gas proration unit, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard gas proration unit comprising the N/2 SW/4 and S/2 NW/4 of Section 25, Township 8 South, Range 28 East, Twin Lakes-San Andres Associated Pool, to be dedicated to its O'Brien "F" Well No. 4 located in Unit K of said Section 25.

CASE 6879: Application of Jake L. Hamon for a tubingless completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to produce his Amerada Federal Well No. 2 located in Unit F of Section 17, Township 20 South, Range 36 East, North Osudo-Morrow Gas Pool, thru 4 1/2-inch drill pipe cemented in the hole.

CASE 6861: (Continued from April 9, 1980, Examiner Hearing)

Application of Zia Energy, Inc. for pool creation, special pool rules, and an MGPA determination, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new San Andres oil pool for its State "C" Well No. 1 located in Unit F of Section 17, Township 22 South, Range 37 East, and special rules therefor, including a provision for a limiting gas-oil ratio of 10,000 to 1. Applicant further seeks a new onshore reservoir determination for said State "C" Well No. 1.

CASE 6837: (Continued from April 9, 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.

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CASE 6875: Application of Maurice L. Brown Co. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the SE/4 NW/4 of Section 4, Township 9 South, Range 34 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. 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.

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Florida Expl. Co.

Compulsory Pooling & Unorthodox Location

Wolfcamp & ~~older~~ thru Ellenburger formations

320-acre N/2 11-25S-35E Lea

unorthodox location:

1200' FNL 1200' FWL

Geo Hunker 9:30 am 4/1/80

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6877

Order No. R- 6348

APPLICATION OF FLORIDA EXPLORATION COMPANY FOR COMPULSORY POOLING AND UNORTHODOX WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 23, 1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets

NOW, on this _____ day of _____, 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, Florida Exploration Company, seeks an order pooling all mineral interests in the Wolfcamp through Ellenburger formations underlying the N/2 of Section 11, Township 25 South, Range 35 East, NMPM, _____, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 1200 feet from the North line and 1200 feet from the West line of said Section 11.

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit and authorizing the proposed unorthodox location.

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

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

Case No.
Order No. R-

$8000 per well to drilling and $350 per month while producing

(11) That _____ ~~per month~~ should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before August 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp through Ellenburger formations underlying the N/2 of Section 11, Township 25 South, Range 35 East, NMPM, _____, Lea County, New Mexico, are hereby pooled to form a standard 320 - acre gas spacing and proration unit to be dedicated to a well to be drilled, hereby approved, at an unorthodox location 1200 feet from the North line and 1200 feet from the West line of said Section 11.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of August, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of August, 1980, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Florida Exploration Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $3300.00 per month while drilling and $350.00 per month while producing are ~~per month is~~ hereby fixed as ~~a~~ reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.