

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

APPLICATION OF LONGFELLOW ENERGY, LP
FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO

Case No. 21651

APPLICATION OF SPUR ENERGY PARTNERS, LLC
FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO

Case No. 21733



Hendrix State Com 1314ABX
001H, 002H, 003H, 004H, 005H

June 17, 2021

Amended and Rebuttal Exhibits, submitted June 22, 2021

EXHIBITS

Amended Exhibit B-3 – Spacing Unit Schematic

Amended Exhibit B-5 – Yeso Structural Cross Section Map

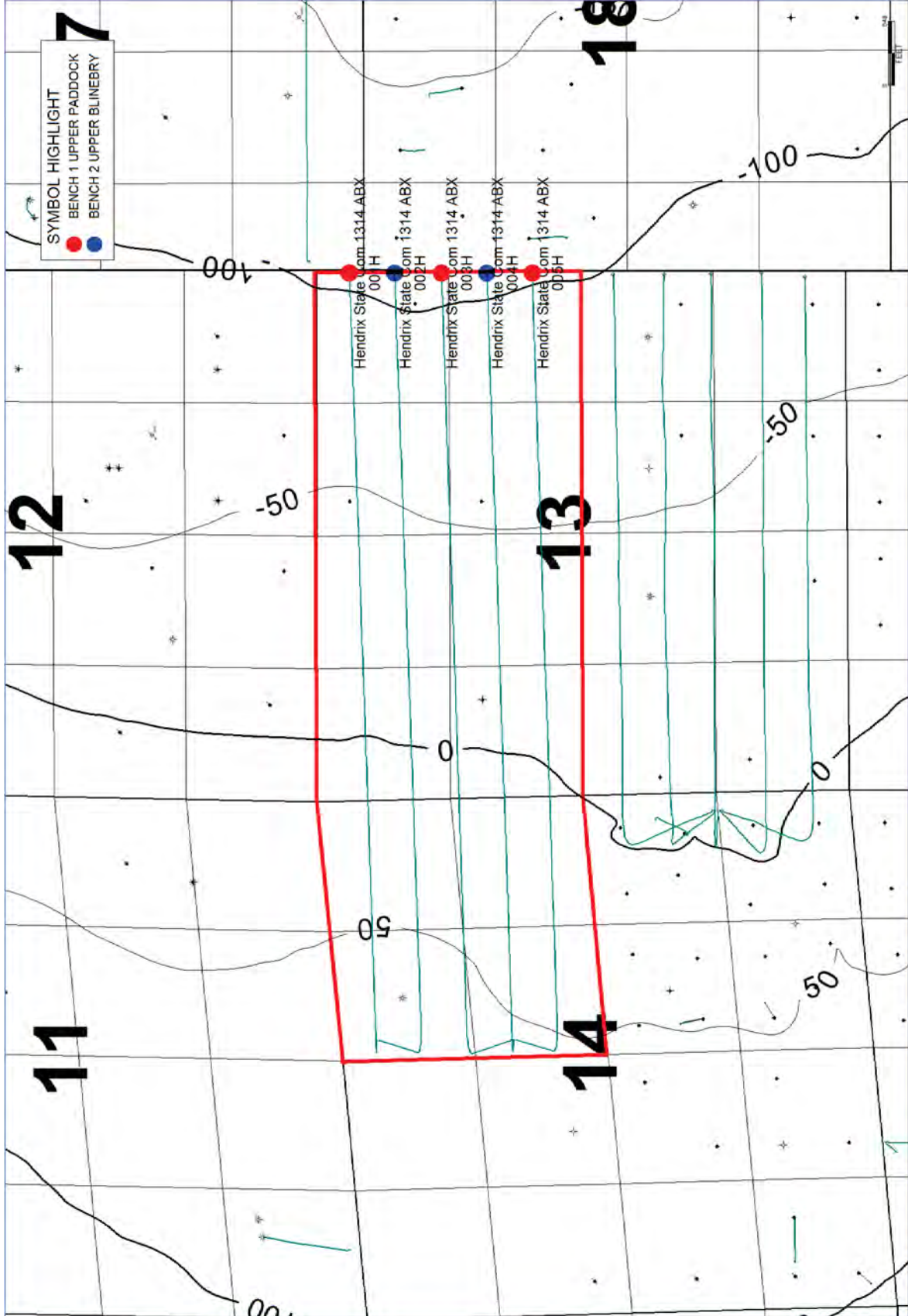
Rebuttal Exhibit A-11 – Comparison of Parties Working Interest Ownership Calculations

Rebuttal Exhibit A-12 – Puma JOA

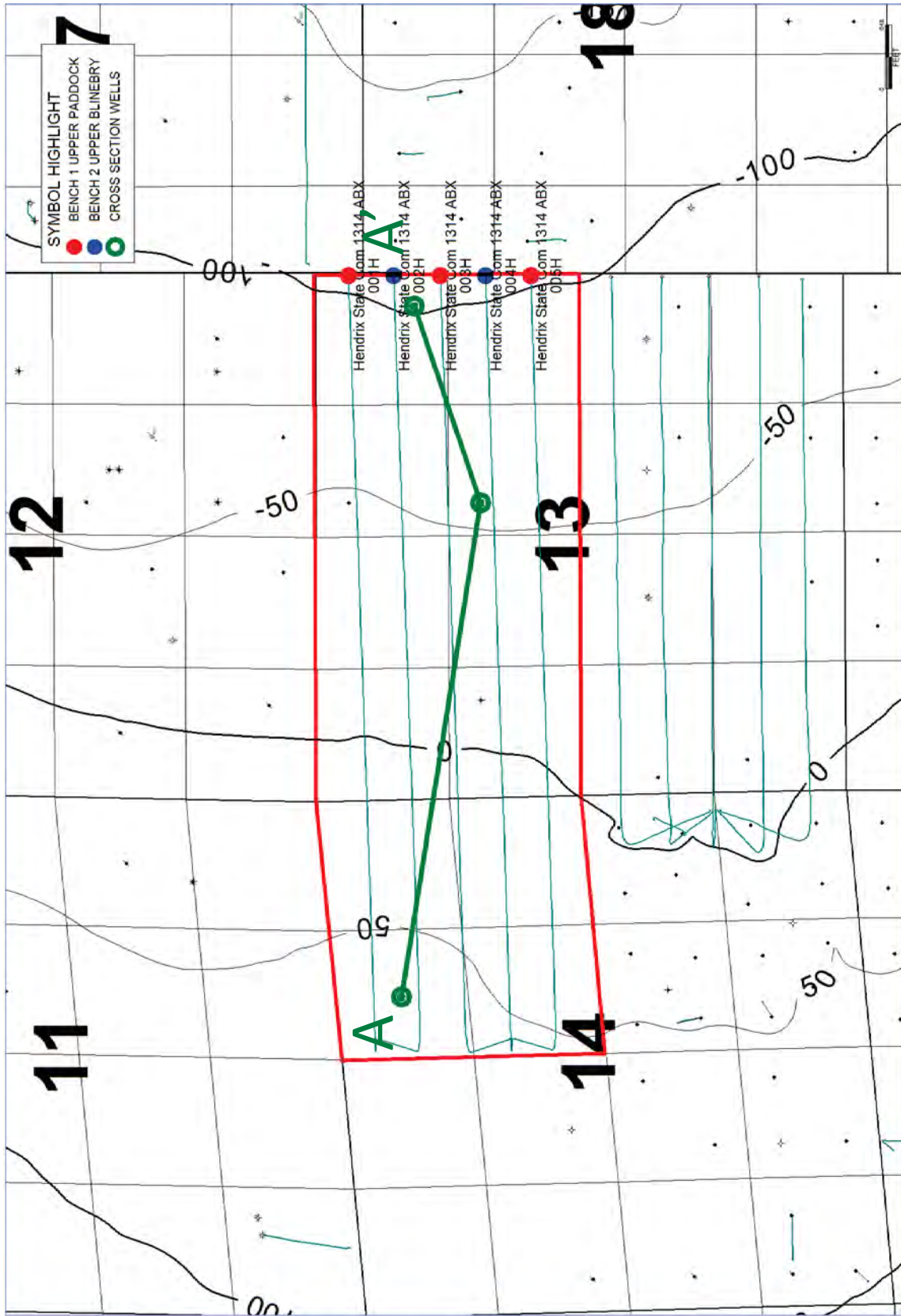
Rebuttal Exhibit A-13 – AID JOA

Rebuttal Exhibit C-21 – Engineering Rebuttal Slides

Paddock Structure (TVDSS)



Hendrix ABX Cross Section Line



Hendrix State 13/14ABX

Proposed HSU covering N/2 Sec. 13 and NE/4 Sec. 14 - T17S-R28E, Eddy county, New Mexico

Working Interest Ownership by Tract Percentage	Tract 1 NW/4 NE/4 Sec. 14	Tract 2 NE/4 NE/4 Sec. 14	Tract 3 S/2 NE/4 Sec. 14	Tract 5 NW/4 Sec. 13	Tract 6 NE/4 Sec. 13	Total HSU
Spur's Title - No JOA Contractual Rights considered						
Longfellow	0	0	14.84%		69.43%	25.62%
SEP Permian LLC (Spur)	0	0	27.50%	100.00%	25.00%	46.25%
American Standard Energy Corp.	68.00%	0	0	0	0	5.67%
G.P.C. Oil and Gas Corp.	16.00%	0	0	0	0	1.33%
Julia Ann Hightower Barnett	16.00%	0	0	0	0	1.33%
Murchison Oil & Gas, LLC	0	95.00%	0	0	0	7.92%
MEC Petroleum Corp.	0	5.00%	0	0	0	0.42%
Apache Corp.	0	0	25.00%	0	0	4.17%
ConocoPhillips Company	0	0	22.50%	0	0	3.75%
Chisos Ltd.	0	0	10.16%	0	0	1.69%
Yates Energy Corp.	0	0	0	0	4.33%	1.44%
Fred G. Yates Inc.	0	0	0	0	1.25%	0.42%
TOTALS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Longfellow's Title - w/JOA Contractual Rights						
	Puma JOA				Aid JOA	
Marathon Oil Permian LLC	0	0	0	0	18.57%	6.19%
Jalapeno Corp.	0	0	0	0	13.51%	4.50%
Fasken Acquisitions O2, Ltd	0	0	0	0	22.66%	7.55%
The Samberson, LLLP	0	0	0	0	1.25%	0.42%
Professional Investment & Trust Co.	0	0	0	0	1.25%	0.42%
MRC Delaware Res. (Matador)	0	0	0	0	12.34%	4.11%
MRC Spiral Resources, LLC (Matador)	0	0	0	0	2.06%	0.69%
MRC Explorers Resources, LLC (Matador)	0	0	0	0	2.06%	0.69%
Black Shale Minerals	5.47%	5.47%	5.47%	0	0	1.82%
Warfield Associates	0	0	0	0	3.13%	1.04%
Pioneer Resources USA, Inc.	0	0	0	0	0.39%	0.13%
Sabre Exploration LLC (Way West & Tenstrike)	0	0	0	0	0.39%	0.13%
EOG Resources Inc.	14.90%	14.90%	14.90%	0	0	4.97%
Murchison Oil & Gas, LLC	38.39%	38.39%	38.39%	0	0	12.80%
Oxy Y-1 Co.	5.32%	5.32%	5.32%	0	0	1.77%
Longfellow	64.08%	64.08%	64.08%	0	77.60%	47.23%
SEP Permian LLC (Spur)	6.88%	6.88%	6.88%	100.00%	14.06%	40.31%
American Standard Energy Corp.	8.50%	8.50%	8.50%	0	0	2.83%
G.P.C. Oil and Gas Corp.	2.00%	2.00%	2.00%	0	0	0.67%
Julia Ann Hightower Barnett	2.00%	2.00%	2.00%	0	0	0.67%
MEC Petroleum Corp.	1.90%	1.90%	1.90%	0	0	0.63%
Apache Corp.	6.25%	6.25%	6.25%	0	0	2.08%
ConocoPhillips Company	5.63%	5.63%	5.63%	0	0	1.88%
Chisos Ltd.	0.78%	0.78%	0.78%	0	0	0.26%
Yates Energy Corp.	0	0	0	0	6.67%	2.22%
Fred G. Yates Inc.	0	0	0	0	0	0.00%
The Bright Company, LLC	0	0	0	0	1.67%	0.56%
Vladin, LLC	1.06%	1.06%	1.06%	0	0	0.35%
Losee Investments LLC	0.93%	0.93%	0.93%	0	0	0.31%
TOTALS	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Puma JOA dated 12/14/2005 covers N/2 Section 14 as to depths from surface to 10,385'				WI Ownership under the Puma JOA is BPO as the Puma well has not paid out		
Original Operator - Murchison Oil & Gas; Current Operator - Longfellow						
Aid State JOA dated 9/15/1981 covers E/2 Section 13 as to depths from 2,300' to 10,896'				WI Ownership under the Aid JOA is APO as the Aid #1 well has paid out		
Original Operator - Harvey E. Yates Company; Current Operator - Longfellow						

Exhibit A-11 (Rebuttal)
 Longfellow Energy, LP
 NMOC Case No. 21651
 June 17, 2021

A.A.P.L. FORM 610-1982
MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

December 14 , 2005 ,
Year

OPERATOR **MURCHISON OIL & GAS, INC.**

CONTRACT AREA N/2 Section 14, Township 17 South, Range 28 East

COUNTY OR PARISH OF Eddy STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED
FORM. A.A.P.L. NO. 610 - 1982 REVISED

PUMA JOA - DECEMBER 14, 2005
N/2 SECTION 14, T17S, R28 EAST
EDDY CO., NEW MEXICO

Exhibit A-12 (Rebuttal)
Longfellow Energy, LP
NMOCD Case No. 21651
June 17, 2021

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

OPERATING AGREEMENT

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THIS AGREEMENT, entered into by and between MURCHISON OIL & GAS, INC., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

- A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated
- B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
- C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
- D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties
- F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located
- G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

ARTICLE II. EXHIBITS

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

- A. Exhibit "A", shall include the following information:
 - (1) Identification of lands subject to this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (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.
 - ~~G. Exhibit "G", Tax Partnership.~~
 - H. Exhibit "H" Recordation Notice and Memorandum
- If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of Twenty Five percent (25%) which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a 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 settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

See Article XV for additional provisions

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties / or is a burden owned by the burdened party or was not recorded in the county records prior to the date of this agreement (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

- 1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
- 2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

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 the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

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

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ARTICLE IV
continued

1 Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-
4 hibit "A" Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
5 functions
6

7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders
10 This shall not prevent any party from appearing on its own behalf at any such hearing.
11

12 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
13 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 par-
14 ticipate in the drilling of the well
15

B.—Loss of Title:

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18 ~~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~~
19 ~~reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days~~
20 ~~from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-~~
21 ~~tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil~~
22 ~~and gas leases and interests; and,~~

23 ~~— (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~~
24 ~~entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,~~
25 ~~but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

26 ~~— (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has~~
27 ~~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 oc-~~
28 ~~curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract~~
29 ~~Area by the amount of the interest lost;~~

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

34 ~~— (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~~
35 ~~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~~
36 ~~who bore the costs which are so refunded;~~

37 ~~— (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~~
38 ~~borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,~~

39 ~~— (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest~~
40 ~~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~~
41 ~~connection therewith.~~
42

43 ~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well~~
44 ~~payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,~~
45 ~~there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required~~
46 ~~payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,~~
47 ~~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~~
48 ~~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~~
49 ~~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~~
50 ~~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~~
51 ~~the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it~~
52 ~~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~~
53 ~~or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

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

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

60 ~~— (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~~
61 ~~lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~
62

63 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
65 the Contract Area.
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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, 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" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which 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 on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1 day of MAY, (year) 2006, Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FEL and 660' FNL Section 14, T17S, R28E, EDDY CO., NEW MEXICO

and shall thereafter continue the drilling of the well with due diligence to a depth of approximately 10,500 feet or a depth sufficient to test the Morrow formation

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

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

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ARTICLE VI
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

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6 **B. Subsequent Operations:**

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8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided
9 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
10 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
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.

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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
30 dance with the provisions hereof as if no prior proposal had been made.

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34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1 (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI B.2., shall comply with all terms and con-
43 ditions of this agreement.

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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer 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,
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ARTICLE VI
continued

1 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, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. 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:

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12 (a) ~~100%~~ ^{150%} 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%~~ ^{150%} 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 such Non-Consenting Party had it participated in the well from the beginning of the operations; and

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21 (b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred ~~percent (100%)~~ ^{fifty percent (50%)} of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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39 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, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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46 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.

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53 Within sixty (60) days after the ~~completion~~ ^{successful} 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

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ARTICLE VI
continued

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

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

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16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.
17 except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-
19 duction, ceases to produce in paying quantities.

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23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening
26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-
28 matical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-
31 ties

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35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole
37 location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

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44 (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in
45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated

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49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's
50 salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning

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55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and
57 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days

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65 **C. TAKING PRODUCTION IN KIND:**

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67 Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,
68 exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for
69 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any
70 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

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ARTICLE VI
continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses
2

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

6
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 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
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year.

15
16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 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
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

20
21 D. Access to Contract Area and Information:

22
23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of
27 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the Information.

30
31 E. Abandonment of Wells:

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

41
42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 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 in-
52 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
53 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 in-
54 tervals of the formation or formations then open to production, / ~~for a term of one (1) year and so long thereafter as oil and/or gas is pro-~~
^{from such well bore}
~~duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit~~

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ARTICLE VI
continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of
4 interests in the remaining portion of the Contract Area

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6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 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 re-
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 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
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.
29 **It is not the intention of the parties that this contract is made or intended for the benefit of any third person.**

B. Liens and Payment Defaults:

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32 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
33 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
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 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 ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 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
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 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
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

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ARTICLE VII
continued

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

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4 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) / hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 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,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of Twenty Five Thousand Dollars (\$ 25,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of Fifteen Thousand
28 Dollars (\$ 15,000.00) but less than the amount first set forth above in this paragraph

29
30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 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 con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 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
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2- 3.

39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 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
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45
46 **F. Taxes:**

47
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".

59
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

66
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
68 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

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ARTICLE VII
continued1 **G. Insurance:**

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3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 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
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9

10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12

13 **ARTICLE VIII.**14 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

15

16 **A. Surrender of Leases:**

17

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

20

21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such
27 ~~lease to be on the form attached hereto as Exhibit "B"~~. Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

35

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

40

41 **B. Renewal or Extension of Leases:**

42

43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
44 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
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper
46 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
47 interests held at that time by the parties in the Contract Area

48

49 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
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

53

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

56

57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 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
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted 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
61 the provisions of this agreement

62

63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64

65 **C. Acreage or Cash Contributions:**

66

67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
69 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 con-
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

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ARTICLE VIII
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8
9 **D. Maintenance of Uniform Interests:**

10
11 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no
12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,
13 equipment and production unless such disposition covers either:

- 14
15 1. the entire interest of the party in all leases and equipment and production; or
16
17 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

18
19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
20 and shall be made without prejudice to the right of the other parties.

21
22 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
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
24 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
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28
29 **E. Waiver of Rights to Partition:**

30
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
32 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
33 interest therein.

34
35 **F. ~~Preferential Right to Purchase:~~**

36
37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~
39 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~
40 ~~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~~
41 ~~on the same terms and conditions the interest which the other party proposes to sell, and, if this optional right is exercised, the purchas-~~
42 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties.~~
43 ~~However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~
44 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~
45 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46
47 **ARTICLE IX.**48 **INTERNAL REVENUE CODE ELECTION**

49
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.

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ARTICLE X.
CLAIMS AND LAWSUITS

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Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed ~~Ten Thousand and no/100~~ Dollars (\$ 10,000.00) 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 expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. 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, such party shall immediately notify all other parties, 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 suspending 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 mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties 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 mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

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 subject 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.

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete 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, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

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ARTICLE XIV.

COMPLIANCE WITH LAWS AND REGULATIONS

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A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area 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:

This agreement and all matters pertaining hereto, 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 of Texas shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators 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, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy / ~~or predecessor or successor agencies~~ **and or Federal Energy Regulatory Commission** to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.

OTHER PROVISIONS

A. Priority of Operations

Article VI.B.1., Proposed Operations, is amended by addition of the following;

Priority. Whenever there is more than one proposal in connection with any well subject to this Agreement, such proposals shall be considered and disposed of in the following order of priority:

- (a) A proposal to drill a well to a depth sufficient to test the Morrow formation or attempt a completion thereof, including testing and logging of such well;
- (b) A proposal to do additional testing, coring, or logging;
- (c) A proposal to plug back and attempt a completion in a shallower zone, in ascending order;
- (d) A proposal to side-track a well; and
- (e) A proposal to deepen a well, in descending order.

B. Excess Royalties, Overriding Royalties, and Other Payments

In the event a lease contributed to the Contract Area is subject to royalty, overriding royalty and other lease burdens totaling less than 25% of production, then the party or parties contributing that lease to the Contract Area shall be entitled to the additional production or net revenue interest equal to the difference between 25% and the total lease burdens on that lease, proportionately reduced to the fractional mineral interest covered by the lease, and insofar as the lease covers lands committed to the spacing and proration unit for a producing oil or gas well. Should such interest become a non-consenting interest in a subsequent operation or operations, such excess revenue shall be credited to the consenting parties until such time as the consenting parties have recovered all of their costs and applicable penalty provisions. At such time as this occurs, the excess revenues shall revert to the original interest owner.

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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 Contract Area 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:

This agreement and all matters pertaining hereto, 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 of Texas shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators 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, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy / ~~and or Federal Energy Regulatory Commission~~ or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS

A. Priority of Operations

Article VI.B.1., Proposed Operations, is amended by addition of the following;

Priority. Whenever there is more than one proposal in connection with any well subject to this Agreement, such proposals shall be considered and disposed of in the following order of priority:

- (a) A proposal to drill a well to a depth sufficient to test the Morrow formation or attempt a completion thereof, including testing and logging of such well;
- (b) A proposal to do additional testing, coring, or logging;
- (c) A proposal to plug back and attempt a completion in a shallower zone, in ascending order;
- (d) A proposal to side-track a well; and
- (e) A proposal to deepen a well, in descending order.

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ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 14 day of December, (year) 2005.

Michael S. Daugherty, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles II, III, IV, VI, VII, VIII, XV have been made to the form

OPERATOR

MURCHISON OIL & GAS, INC.

Michael S. Daugherty
Vice President Operations

NON-OPERATORS

YATES PETROLEUM CORPORATION

YATES DRILLING COMPANY

LOS CHICOS

ABO PETROLEUM CORPORATION

MYCO INDUSTRIES, INC.

MARK D. WILSON

BY _____

LOSEE INVESTMENTS LLC

JOEL M. CARSON

BY _____

JOHN A. YATES

JOHN A. YATES, TRUSTEE OF TRUST Q

BY _____

BY _____

ACKNOWLEDGEMENTS

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ for Losee Investments LLC, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ for Myco Industries, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ of Abo Petroleum Corporation, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ of Los Chicos, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ of Yates Drilling Company, a _____ corporation, on behalf of
said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ of Yates Petroleum Corporation, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by Mark D. Wilson.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

ACKNOWLEDGEMENTS CONTINUED

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by Joel M. Carson.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by John A. Yates.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by John A. Yates, as
Trustee of Trust Q u/w/o Peggy A. Yates, deceased.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE XVI.
MISCELLANEOUS

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

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

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OPERATOR

MURCHISON OIL & GAS, INC.

Michael S. Daugherty

Michael S. Daugherty
Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

MARION E. CHASEY
PRINTED NAME AND TITLE

Marion E. Chasey

CONOCO PHILLIPS COMPANY

PRINTED NAME AND TITLE

PURE ENERGY GROUP, INC.

PRINTED NAME AND TITLE

BY _____

CHISOS LTD.

PRINTED NAME AND TITLE

BY _____

XERIC OIL & GAS CORP.

PRINTED NAME AND TITLE

BY _____

EDGE PETROLEUM EXPLORATION CO.

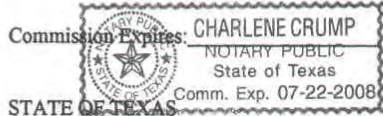
PRINTED NAME AND TITLE

BY _____

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name

STATE OF TEXAS
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 20 day of December, 2005, by Marion E. Causey, as President of MEC Petroleum Corp., a Texas corporation, on behalf of said corporation.



Diana Huntington
Notary Public in and for the State of Texas
Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Chisos, Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE XVI.
MISCELLANEOUS

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OPERATOR

MURCHISON OIL & GAS, INC.



Michael S. Daugherty
Vice President Operations

NON-OPERATORS

YATES PETROLEUM CORPORATION


Peyton Yates, Attorney-in-Fact

LOS CHICOS


John A. Yates, Jr., Attorney-in-Fact

MYCO INDUSTRIES, INC.


Frank Yates, Jr., Attorney-in-Fact

LOSEE INVESTMENTS LLC

BY _____

JOHN A. YATES, individually

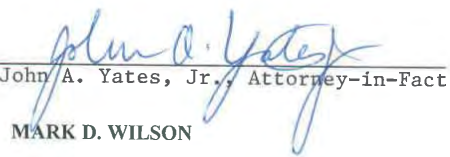


BY _____

YATES DRILLING COMPANY


Peyton Yates, Attorney-in-Fact

ABO PETROLEUM CORPORATION


John A. Yates, Jr., Attorney-in-Fact

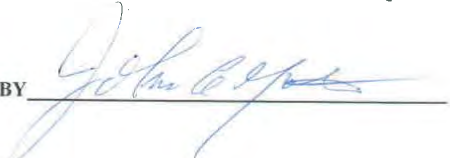
MARK D. WILSON

BY _____

JOEL M. CARSON

BY _____

JOHN A. YATES, TRUSTEE OF TRUST Q


BY _____

BY _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE XVI.
MISCELLANEOUS

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

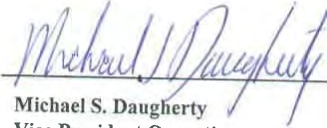
This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

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OPERATOR

MURCHISON OIL & GAS, INC.


Michael S. Daugherty
Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

PRINTED NAME AND TITLE

CONOCO PHILLIPS COMPANY

J. P. Gregory
Attorney-In-Fact

PRINTED NAME AND TITLE

PURE ENERGY GROUP, INC.

PRINTED NAME AND TITLE

BY _____

CHISOS LTD.

PRINTED NAME AND TITLE

BY _____

XERIC OIL & GAS CORP.

PRINTED NAME AND TITLE

BY _____

EDGE PETROLEUM EXPLORATION CO.

PRINTED NAME AND TITLE

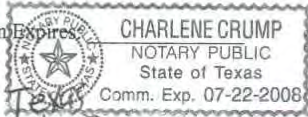
BY _____

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.

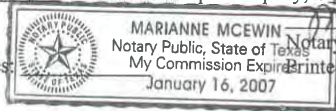
Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name



STATE OF Texas
COUNTY OF Harris

The foregoing instrument was acknowledged before me this 16th day of May, 2006, by J.P. Gregory, as Attorney-in-Fact of ConocoPhillips Company, a Delaware corporation, on behalf of said corporation.

Marianne Mcewin
Notary Public in and for the State of TEXAS
Notary's Printed Name



STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Chisos Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation Co., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

ACKNOWLEDGEMENTS

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____
as _____ for Losee Investments LLC, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of Texas
Notary's Printed Name _____

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by Frank Yates, Jr.,
as Attorney-in-Fact for Myco Industries, Inc., a New Mexico corporation, on behalf of said corporation.

 **OFFICIAL SEAL**
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09
Notary Public in and for the State of _____
Notary's Printed Name _____


STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by John A. Yates, Jr.,
as Attn-in-Fact of Abo Petroleum Corporation, a New Mexico corporation, on behalf of said corporation.

 **OFFICIAL SEAL**
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09
Notary Public in and for the State of _____
Notary's Printed Name _____


STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by John A. Yates, Jr.,
as Attorney-in-Fact of Los Chicos, a New Mexico corporation, on behalf of said corporation.

 **OFFICIAL SEAL**
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by Peyton Yates,
as Attorney-in-Fact of Yates Drilling Company, a New Mexico corporation, on behalf of
said corporation.

 **OFFICIAL SEAL**
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by Peyton Yates,
as Attn-in-Fact of Yates Petroleum Corporation, a New Mexico corporation, on behalf of said corporation.

 **OFFICIAL SEAL**
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by Mark D. Wilson.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

ACKNOWLEDGEMENTS CONTINUED

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by Joel M. Carson.

Commission Expires: _____

Notary Public in and for the State of

Notary's Printed Name

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by John A. Yates.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of

Notary's Printed Name

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by John A. Yates, as
Trustee of Trust Q u/w/o Peggy A. Yates, deceased.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO

My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of

Notary's Printed Name

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 16 day of February, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas

Notary's Printed Name

STATE OF TEXAS
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by Marion E. Causey, as President of MEC Petroleum Corp., a _____ corporation, on behalf of said corporation.

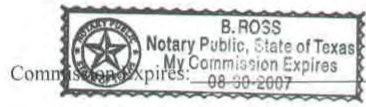
Notary Public in and for the State of _____

Notary's Printed Name

Commission Expires: _____

STATE OF Texas
COUNTY OF midland

The foregoing instrument was acknowledged before me this 3rd day of March, 2005, by Roger Alexander as Attorney-in-fact of Magnum Hunter Production, Inc., a Texas corporation, on behalf of said corporation.



B. Ross
Notary Public in and for the State of _____
B. Ross
Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as _____ of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of _____

Notary's Printed Name

Commission Expires: _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as _____ of Chisos, Ltd., a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of _____

Notary's Printed Name

Commission Expires: _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of _____

Notary's Printed Name

Commission Expires: _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation, a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of _____

Notary's Printed Name

Commission Expires: _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE XVI
MISCELLANEOUS

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OPERATOR

MURCHISON OIL & GAS, INC.

Michael S. Daugherty

Michael S. Daugherty
Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

PRINTED NAME AND TITLE

CONOCO PHILLIPS COMPANY

PRINTED NAME AND TITLE

PURE ENERGY GROUP, INC.

Lawrence J. Risley VP of Exploration & Production
PRINTED NAME AND TITLE

BY *Lawrence J. Risley*

CHISOS LTD.

PRINTED NAME AND TITLE

BY

XERIC OIL & GAS CORP.

PRINTED NAME AND TITLE

BY

EDGE PETROLEUM EXPLORATION CO.

PRINTED NAME AND TITLE

BY

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF Texas
COUNTY OF Bexar

The foregoing instrument was acknowledged before me this 20th day of January, 2006, by Lawrence J. Risley as of Pure Energy Group, Inc., a Texas corporation, on behalf of said corporation.



Joana Kessler
Notary Public in and for the State of Texas
Printed Name JOANA KESSLER

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of Chisos Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of Edge Petroleum Corporation Co., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE XVI
MISCELLANEOUS

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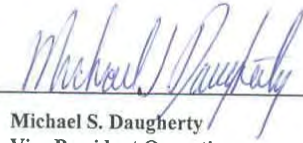
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OPERATOR

MURCHISON OIL & GAS, INC.


Michael S. Daugherty
Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

PRINTED NAME AND TITLE

CONOCO PHILLIPS COMPANY

PRINTED NAME AND TITLE

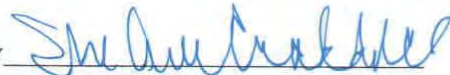
PURE ENERGY GROUP, INC.

PRINTED NAME AND TITLE

BY _____

CHISOS LTD.

PRINTED NAME AND TITLE

BY 

XERIC OIL & GAS CORP.

PRINTED NAME AND TITLE

BY _____

EDGE PETROLEUM EXPLORATION CO.

PRINTED NAME AND TITLE

BY _____

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF New Mexico
COUNTY OF Luna

The foregoing instrument was acknowledged before me this 30th day of January, 2005, by Sue Ann Craddock as Sue Ann Craddock of Chisos Ltd., a TEXAS corporation, on behalf of said corporation.

Commission Expires: June 9, 2009
Lane G Costilow
Notary Public in and for the State of New Mexico
Printed Name LANE G COSTILOW



STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation Co., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE XVI
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 14 day of December, (year) 2005.

Michael S. Daugherty, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles II, III, IV, VI, VII, VIII, XV, have been made to the form.

OPERATOR

MURCHISON OIL & GAS, INC.


Michael S. Daugherty
Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

PRINTED NAME AND TITLE

CONOCO PHILLIPS COMPANY

PRINTED NAME AND TITLE

PURE ENERGY GROUP, INC.

PRINTED NAME AND TITLE

BY _____

CHISOS LTD.

PRINTED NAME AND TITLE

BY _____

~~MURCHISON OIL & GAS CORP.~~
GERONIMO HOLDING CORPORATION

Randall Capps, President

PRINTED NAME AND TITLE

BY 
Randall Capps, President

EDGE PETROLEUM EXPLORATION CO.

PRINTED NAME AND TITLE

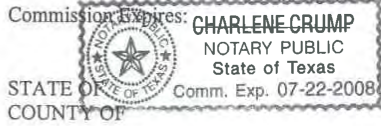
BY _____

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.

Charlene Crump
Notary Public in and for the State of Texas



Notary's Printed Name _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as _____ of Chisos Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

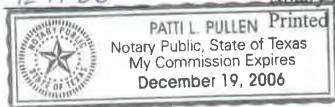
Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF TEXAS
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 18 day of January, 2006, by Randall Capps, as President of Xenia Oil & Gas Corp., a Texas corporation, on behalf of said corporation.

Patti L. Pullen
Notary Public in and for the State of Texas

Commission Expires: 12-19-06 Notary's Printed Name Patti L. Pullen



STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ____ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation Co., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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ARTICLE XVI.
MISCELLANEOUS

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

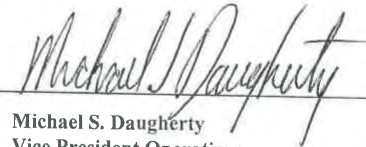
This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes

IN WITNESS WHEREOF, this agreement shall be effective as of 14 day of December, (year) 2005

Michael S. Daugherty, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles II, III, IV, VI, VII, VIII, XV have been made to the form

OPERATOR

MURCHISON OIL & GAS, INC.



Michael S. Daugherty
Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

PRINTED NAME AND TITLE

CONOCO PHILLIPS COMPANY

PRINTED NAME AND TITLE

PURE ENERGY GROUP, INC.

PRINTED NAME AND TITLE

BY _____

CHISOS LTD.

PRINTED NAME AND TITLE

BY _____

XERIC OIL & GAS CORP.

PRINTED NAME AND TITLE

BY _____

EDGE PETROLEUM EXPLORATION CO.


BY _____ *ant*

MARK J. GABRISCH
AGENT AND ATTORNEY-IN-FACT

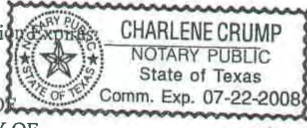
ACKNOWLEDGEMENT PAGE FOLLOWS Signature Page to Puma JOA
December 14, 2005

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.

Commission Expires: _____
STATE OF _____
COUNTY OF _____



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name _____

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Chisos Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this 9th day of March, 2005, by Mark J. Gabrisch as Agent and Attorney-in-Fact of Edge Petroleum Corporation Co., a Delaware corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of Texas
Printed Name Heather R. Campbell



A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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ARTICLE XVI.
MISCELLANEOUS

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

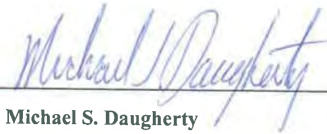
This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes

IN WITNESS WHEREOF, this agreement shall be effective as of 14 day of December, (year) 2005.

Michael S. Daugherty, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles II, III, IV, VI, VII, VIII, XV, have been made to the form.

OPERATOR

MURCHISON OIL & GAS, INC.



Michael S. Daugherty
Vice President Operations

NON-OPERATORS

YATES PETROLEUM CORPORATION

YATES DRILLING COMPANY

LOS CHICOS

ABO PETROLEUM CORPORATION

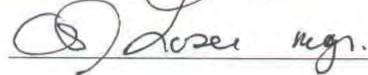
MYCO INDUSTRIES, INC.

MARK D. WILSON

BY _____

LOSEE INVESTMENTS LLC

JOEL M. CARSON



BY _____

JOHN A. YATES

JOHN A. YATES, TRUSTEE OF TRUST Q

BY _____

BY _____

ACKNOWLEDGEMENTS

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 23 day of June, 2006, by A.J. Losee,
as manager for Losee Investments LLC, a _____ corporation, on behalf of said corporation.

Commission Expires: March 4, 2008

Elida Lintz
Notary Public in and for the State of Texas New Mexico
Elida Lintz
Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ for Myco Industries, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of _____

Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ of Abo Petroleum Corporation, a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of _____

Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ of Los Chicos, a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of _____

Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ of Yates Drilling Company, a _____ corporation, on behalf of
said corporation.

Commission Expires: _____

Notary Public in and for the State of _____

Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____,
as _____ of Yates Petroleum Corporation, a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of _____

Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by Mark D. Wilson.

Commission Expires: _____

Notary Public in and for the State of _____

Notary's Printed Name

FOURTH REVISED EXHIBIT "A"

**Attached to and made a part of that certain December 14, 2005
Operating Agreement by and between Murchison Oil & Gas, Inc., as Operator, and
MEC Petroleum Corporation, et al as Non-Operators**

1) IDENTIFICATION OF LANDS SUBJECT TO THIS OPERATING AGREEMENT:

Section 14: N/2, Township 17 South, Range 28 East, Eddy County, New Mexico

2) RESTRICTIONS, AS TO DEPTHS:

Depths to be included are from surface, unless a lease has a depth limitation, down to 100 feet below total depth drilled

3) INTEREST OF WORKING INTEREST OWNERS:

	<u>BPO</u>	<u>APO</u>
Murchison Oil & Gas, Inc.	38.38637%	36.06590%
MEC Petroleum Corp.	1.89820%	1.89820%
Magnum Hunter Production, Inc.	6.87500%	6.87500%
ConocoPhillips Company	5.62500%	5.62500%
Pure Energy	3.12500%	3.12500%
Chisos Ltd.	3.12500%	3.12500%
Geronimo Holding Corporation	12.50000%	12.50000%
Edge Petroleum Exploration	6.25000%	6.25000%
Losee Investments LLC	0.92819%	0.92819%
Myco Industries, Inc.	5.32181%	5.32181%
John A. Yates	1.06436%	1.06436%
John A. Yates, Trustee of Trust Q	1.06436%	1.06436%
Abo Petroleum Corporation	2.12873%	2.12873%
Los Chicos	1.06436%	1.06436%
Yates Drilling Company	5.32181%	5.32181%
Yates Petroleum Corporation	5.32181%	5.32181%
Mark D. Wilson	0.00000%	1.85638%
Joel M. Carson	<u>0.00000%</u>	<u>0.46409%</u>
	100.0000%	100.0000%

4) OIL & GAS LEASE SUBJECT TO THIS OPERATING AGREEMENT:

Date: June 27, 2005
 Lessor: Mossman-Midwest Company
 Lessee: Murchison Oil & Gas, Inc.
 Description: T17S, R28E Section 14: NE/4 NE/4
 Recorded: Book 604, Page 1191
 County & State: Eddy County, New Mexico

Date: April 1, 1951
 Lessor: United States of America
 BLM Lease: NM-068712
 Lessee: Maurine Barnett
 Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
 Recorded: Book 547, Page 0023
 County & State: Eddy County, New Mexico

Date: April 1, 1951
 Lessor: United States of America
 BLM Lease: NM-068712
 Lessee: Maurine Barnett
 Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
 Recorded: Book 557, Page 0126
 County & State: Eddy County, New Mexico

Date: June 10, 1935
 Lessor: State of New Mexico
 State Lease: B-4456-3
 Lessee: Manuel A. Sanchez
 Description: T17S, R28E Section 14: S/2 NE/4, as to all depths below 3000' below the surface
 Recorded: Book 80, Page 151
 County & State: Eddy County, New Mexico

Date: April 1, 2004
Lessor: State of New Mexico
State Lease: VO-7021
Lessee: Xeric Oil & Gas Corp.
Description: T17S, R28E Section 14: NW/4 NE/4

5) WORKING INTEREST OWNERS ADDRESS

Murchison Oil & Gas, Inc.
1100 Mira Vista Blvd.
Plano, TX. 75093
Michael S. Daugherty, VP Operations
972-931-0700
972-931-0701 fax

MEC Petroleum Corp.
P.O. Box 11265
Midland, TX. 79702
Marion E. Causey, President
432-686-1059
432-686-1069 fax

Magnum Hunter Production, Inc.
508 W. Wall Street
Suite 600
Midland, TX. 79701
Mr. Jon P. Tate
432-571-7800
432-571-7832 fax

Pure Energy Group
153 Treeline Park
Suite 220
San Antonio, TX. 78209
Larry Cochran, President/CEO
210-226-6700
210-930-3967 fax

Chisos Ltd.
670 Dona Ana Rd. SW
Deming, NM 88030
Sue Ann Craddock, Manager
505-546-8802
505-546-7551 fax

Geronimo Holding Corporation
P.O. Box 352
Midland, TX. 79702
Carl Brinenstool
432-683-3171

Edge Petroleum Corporation Co.
1301 Travis, Suite 200
Houston, TX. 77002
Mark J. Gabrisch
713-427-8824
713-654-8910 fax

Mark D. Wilson
4501 Green Tree Blvd.
Midland, TX. 79707
432-697-2206

*Losee Investments LLC
P.O. Box 1720
Artesia, NM 88211-1720
505-746-4634
505-746-6316 fax

*Joel M. Carson
P.O. Box 1720
Artesia, NM 88211-1720
505-746-3505
505-746-6316 fax

* street address: 207 South Fourth Street, Artesia, NM 88210

BOOK PAGE 0527

Chad Dickerson
409 Leisure Drive
Cedar Hill, TX. 75104
469-272-0885

Rebecca L. Reese
407 West Millen
Hobbs, NM 88242
505-939-2556
505-393-5803 fax

Myco Industries, Inc.
John A. Yates
Abo Petroleum Corporation
Los Chicos
Yates Drilling Company
Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM88210
505-748-1471
505-748-4572 fax

RECEPTION NO: 0702115 STATE OF
NEW MEXICO, COUNTY OF EDDY
RECORDED 02/22/2007 8:16 AM
BOOK 0582 PAGE 0527 *U. Spratt*
DARLENE ROSPRIM, COUNTY CLERK



THIRD REVISED EXHIBIT "A"

**Attached to and made a part of that certain December 14, 2005
Operating Agreement by and between Murchison Oil & Gas, Inc., as Operator, and
MEC Petroleum Corporation, et al as Non-Operators**

1) IDENTIFICATION OF LANDS SUBJECT TO THIS OPERATING AGREEMENT:

Section 14: N/2, Township 17 South, Range 28 East, Eddy County, New Mexico

2) RESTRICTIONS, AS TO DEPTHS:

Depths to be included are from surface, unless a lease has a depth limitation, down to 100 feet below total depth drilled

3) INTEREST OF WORKING INTEREST OWNERS:

Murchison Oil & Gas, Inc.	35.62500%
MEC Petroleum Corp.	1.87500%
Magnum Hunter Production, Inc.	6.87500%
ConocoPhillips Company	5.62500%
Pure Energy	3.12500%
Chisos Ltd.	3.12500%
Geronimo Holding Corporation	12.50000%
Edge Petroleum Exploration	6.25000%
Mark D. Wilson	1.85638%
Losee Investments LLC	0.92819%
Joel M. Carson	0.46409%
Chad Dickerson	0.23205%
Rebecca L. Reese	0.23205%
Myco Industries, Inc.	5.32181%
John A. Yates	1.06436%
John A. Yates, Trustee of Trust Q	1.06436%
Abo Petroleum Corporation	2.12873%
Los Chicos	1.06436%
Yates Drilling Company	5.32181%
Yates Petroleum Corporation	5.32181%

4) OIL & GAS LEASE SUBJECT TO THIS OPERATING AGREEMENT:

Date: June 27, 2005
 Lessor: Mossman-Midwest Company
 Lessee: Murchison Oil & Gas, Inc.
 Description: T17S, R28E Section 14: NE/4 NE/4
 Recorded: Book 604, Page 1191
 County & State: Eddy County, New Mexico

Date: April 1, 1951
 Lessor: United States of America
 BLM Lease: NM-068712
 Lessee: Maurine Barnett
 Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
 Recorded: Book 547, Page 0023
 County & State: Eddy County, New Mexico

Date: April 1, 1951
 Lessor: United States of America
 BLM Lease: NM-068712
 Lessee: Maurine Barnett
 Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
 Recorded: Book 557, Page 0126
 County & State: Eddy County, New Mexico

Date: June 10, 1935
 Lessor: State of New Mexico
 State Lease: B-4456-3
 Lessee: Manuel A. Sanchez
 Description: T17S, R28E Section 14: S/2 NE/4, as to all depths below 3000' below the surface
 Recorded: Book 80, Page 151
 County & State: Eddy County, New Mexico

Date: April 1, 2004
Lessor: State of New Mexico
State Lease: VO-7021
Lessee: Xeric Oil & Gas Corp.
Description: T17S, R28E Section 14: NW/4 NE/4

5) WORKING INTEREST OWNERS ADDRESS

Murchison Oil & Gas, Inc.
1100 Mira Vista Blvd.
Plano, TX. 75093
Michael S. Daugherty, VP Operations
972-931-0700
972-931-0701 fax

MEC Petroleum Corp.
P.O. Box 11265
Midland, TX. 79702
Marion E. Causey, President
432-686-1059
432-686-1069 fax

Magnum Hunter Production, Inc.
508 W. Wall Street
Suite 600
Midland, TX. 79701
Mr. Jon P. Tate
432-571-7800
432-571-7832 fax

Pure Energy Group
153 Treeline Park
Suite 220
San Antonio, TX. 78209
Larry Cochran, President/CEO
210-226-6700
210-930-3967 fax

Chisos Ltd.
670 Dona Ana Rd. SW
Deming, NM 88030
Sue Ann Craddock, Manager
505-546-8802
505-546-7551 fax

Geronimo Holding Corporation
P.O. Box 352
Midland, TX. 79702
Carl Brinenstool
432-683-3171

Edge Petroleum Corporation Co.
1301 Travis, Suite 200
Houston, TX. 77002
Mark J. Gabrisch
713-427-8824
713-654-8910 fax

Mark D. Wilson
4501 Green Tree Blvd.
Midland, TX. 79707
432-697-2206

*Losee Investments LLC
P.O. Box 1720
Artesia, NM 88211-1720
505-746-4634
505-746-6316 fax

*Joel M. Carson
P.O. Box 1720
Artesia, NM 88211-1720
505-746-3505
505-746-6316 fax

* street address: 207 South Fourth Street, Artesia, NM 88210

Chad Dickerson
409 Leisure Drive
Cedar Hill, TX. 75104
469-272-0885

Rebecca L. Reese
407 West Millen
Hobbs, NM 88242
505-939-2556
505-393-5803 fax

Myco Industries, Inc.
John A. Yates
Abo Petroleum Corporation
Los Chicos
Yates Drilling Company
Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM88210
505-748-1471
505-748-4572 fax

**SECOND REVISED PAGE 1
EXHIBIT "A"**

**Attached to and made a part of that certain December 14, 2005
Operating Agreement by and between Murchison Oil & Gas, Inc., as Operator, and
MEC Petroleum Corporation, et al as Non-Operators**

1) IDENTIFICATION OF LANDS SUBJECT TO THIS OPERATING AGREEMENT:

Section 14: N/2, Township 17 South, Range 28 East, Eddy County, New Mexico

2) RESTRICTIONS, AS TO DEPTHS:

Depths to be included are from surface, unless a lease has a depth limitation, down to 100 feet below total depth drilled

3) INTEREST OF WORKING INTEREST OWNERS BEFORE CASING POINT

Murchison Oil & Gas, Inc.	35.62500%
MEC Petroleum Corp.	1.87500%
*Magnum Hunter Production, Inc.	12.50000%
Pure Energy	3.12500%
Chisos Ltd.	3.12500%
Geronimo Holding Corporation	12.50000%
Edge Petroleum Exploration	6.25000%
Mark D. Wilson	1.85638%
Losee Investments LLC	0.92819%
Joel M. Carson	0.46409%
Chad Dickerson	0.23205%
Rebecca L. Reese	0.23205%
Myco Industries, Inc.	5.32181%
John A. Yates	1.06436%
John A. Yates, Trustee of Trust Q	1.06436%
Abo Petroleum Corporation	2.12873%
Los Chicos	1.06436%
Yates Drilling Company	5.32181%
Yates Petroleum Corporation	5.32181%

*ConocoPhillips Company and Magnum Hunter Production, Inc. have entered into an Agreement pertaining to the lands described above. Under the terms of the Agreement, ConocoPhillips will have the option to elect to participate at casing point with 45% of the interest credited to Magnum Hunter. Murchison Oil & Gas, Inc. as operator will look to Magnum Hunter for payment of all costs attributable to this interest. In the event that ConocoPhillips elects to participate at casing point, Magnum Hunter and ConocoPhillips will jointly notify Murchison and request that Murchison bill ConocoPhillips and Magnum Hunter to reflect their Agreement and amend the Exhibit "A" to reflect the working interest of Magnum Hunter and ConocoPhillips pursuant to their Agreement.

4) OIL & GAS LEASE SUBJECT TO THIS OPERATING AGREEMENT:

Date: June 27, 2005
Lessor: Mossman-Midwest Company
Lessee: Murchison Oil & Gas, Inc.
Description: T17S, R28E Section 14: NE/4 NE/4
Recorded: Book 604, Page 1191
County & State: Eddy County, New Mexico

Date: April 1, 1951
Lessor: United States of America
BLM Lease: NM-068712
Lessee: Maurine Barnett
Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
Recorded: Book 547, Page 0023
County & State: Eddy County, New Mexico

Date: April 1, 1951
Lessor: United States of America
BLM Lease: NM-068712
Lessee: Maurine Barnett
Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
Recorded: Book 557, Page 0126
County & State: Eddy County, New Mexico
Date: June 10, 1935
Lessor: State of New Mexico

State Lease: B-4456-3
 Lessee: Manuel A. Sanchez
 Description: T17S, R28E Section 14: S/2 NE/4, as to all depths below 3000' below the surface
 Recorded: Book 80, Page 151
 County & State: Eddy County, New Mexico

Date: April 1, 2004
 Lessor: State of New Mexico
 State Lease: VO-7021
 Lessee: Xeric Oil & Gas Corp.
 Description: T17S, R28E Section 14: NW/4 NE/4

5) WORKING INTEREST OWNERS ADDRESS

Murchison Oil & Gas, Inc.
 1100 Mira Vista Blvd.
 Plano, TX. 75093
Michael S. Daugherty, VP Operations
 972-931-0700
 972-931-0701 fax

MEC Petroleum Corp.
 P. O. Box 11265
 Midland, TX. 79702
Marion E. Causey, President
 432-686-1059
 432-686-1069 fax

Magnum Hunter Production, Inc.
 508 W. Wall Street
 Suite 600
 Midland, TX. 79701
Mr. Jon P. Tate
 432-571-7800
 432-571-7832 fax

Pure Energy Group
 153 Treeline Park
 Suite 220
 San Antonio, TX. 78209
Larry Cochran, President/CEO
 210-226-6700
 210-930-3967 fax

Chisos Ltd.
 670 Dona Ana Rd. SW
 Deming, NM 88030
Sue Ann Craddock, Manager
 505-546-8802
 505-546-7551 fax

Xeric Oil & Gas Corp.
 P.O. Box 352
 Midland, TX. 79702
Carl Brinenstool
 432-683-3171

Edge Petroleum Corporation Co.
 1301 Travis, Suite 200
 Houston, TX. 77002
Mark J. Gabrisch
 713-427-8824
 713-654-8910 fax

Mark D. Wilson
 4501 Green Tree Blvd.
 Midland, TX. 79707
 432-697-2206

*Losee Investments LLC
 P.O. Box 1720
 Artesia, NM 88211-1720
 505-746-4634
 505-746-6316 fax

*Joel M. Carson
P.O. Box 1720
Artesia, NM 88211-1720
505-746-3505
505-746-6316 fax

* street address: 207 South Fourth Street, Artesia, NM 88210

Chad Dickerson
409 Leisure Drive
Cedar Hill, TX. 75104
469-272-0885

Rebecca L. Reese
407 West Millen
Hobbs, NM 88242
505-939-2556
505-393-5803 fax

Myco Industries, Inc.
John A. Yates
Abo Petroleum Corporation
Los Chicos
Yates Drilling Company
Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM88210
505-748-1471
505-748-4572 fax

REVISED PAGE 1
EXHIBIT "A"

**Attached to and made a part of that certain December 14, 2005
Operating Agreement by and between Murchison Oil & Gas, Inc., as Operator, and
MEC Petroleum Corporation, et al as Non-Operators**

1) IDENTIFICATION OF LANDS SUBJECT TO THIS OPERATING AGREEMENT:

Section 14: N/2, Township 17 South, Range 28 East, Eddy County, New Mexico

2) RESTRICTIONS, AS TO DEPTHS:

Depths to be included are from surface, unless a lease has a depth limitation, down to 100 feet below total depth drilled

3) INTEREST OF WORKING INTEREST OWNERS BEFORE CASING POINT

Murchison Oil & Gas, Inc.	59.375%
MEC Petroleum Corp.	3.125%
*Magnum Hunter Production, Inc.	12.500%
Pure Energy	3.125%
Chisos Ltd.	3.125%
Geronimo Holding Corporation	12.500%
Edge Petroleum Exploration	6.250%

*ConocoPhillips Company and Magnum Hunter Production, Inc. have entered into an Agreement pertaining to the lands described above. Under the terms of the Agreement, ConocoPhillips will have the option to elect to participate at casing point with 45% of the interest credited to Magnum Hunter. Murchison Oil & Gas, Inc. as operator will look to Magnum Hunter for payment of all costs attributable to this interest. In the event that ConocoPhillips elects to participate at casing point, Magnum Hunter and ConocoPhillips will jointly notify Murchison and request that Murchison bill ConocoPhillips and Magnum Hunter to reflect their Agreement and amend the Exhibit "A" to reflect the working interest of Magnum Hunter and ConocoPhillips pursuant to their Agreement.

4) OIL & GAS LEASE SUBJECT TO THIS OPERATING AGREEMENT:

Date: June 27, 2005
Lessor: Mossman-Midwest Company
Lessee: Murchison Oil & Gas, Inc.
Description: T17S, R28E Section 14: NE/4 NE/4
Recorded: Book 604, Page 1191
County & State: Eddy County, New Mexico

Date: April 1, 1951
Lessor: United States of America
BLM Lease: NM-068712
Lessee: Maurine Barnett
Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
Recorded: Book 547, Page 0023
County & State: Eddy County, New Mexico

Date: April 1, 1951
Lessor: United States of America
BLM Lease: NM-068712
Lessee: Maurine Barnett
Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
Recorded: Book 557, Page 0126
County & State: Eddy County, New Mexico

Date: June 10, 1935
Lessor: State of New Mexico
State Lease: B-4456-3
Lessee: Manuel A. Sanchez
Description: T17S, R28E Section 14: S/2 NE/4, as to all depths below 3000' below the surface
Recorded: Book 80, Page 151
County & State: Eddy County, New Mexico

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement
dated **December 14, 2005**

**By and between Murchison Oil & Gas, Inc., as Operator, and
MEC Petroleum Corporation, et al as Non-Operators**

1) IDENTIFICATION OF LANDS SUBJECT TO THIS OPERATING AGREEMENT:

Section 14: N/2, Township 17 South, Range 28 East, Eddy County, New Mexico

2) RESTRICTIONS, AS TO DEPTHS:

Depths to be included are from surface, unless a lease has a depth limitation, down to 100 feet below total depth drilled

3) INTEREST OF WORKING INTEREST OWNERS BEFORE PAYOUT

Murchison Oil & Gas, Inc.	59.375%
MEC Petroleum Corp.	3.125%
ConocoPhillips Company	12.500%
Pure Energy	3.125%
Chisos Ltd.	3.125%
Xeric Oil & Gas Corp.	12.500%
Edge Petroleum Exploration	6.250%

4) OIL & GAS LEASE SUBJECT TO THIS OPERATING AGREEMENT:

Date: June 27, 2005
Lessor: Mossman-Midwest Company
Lessee: Murchison Oil & Gas, Inc.
Description: T17S, R28E Section 14: NE/4 NE/4
Recorded: Book 604, Page 1191
County & State: Eddy County, New Mexico

Date: April 1, 1951
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Description: T17S, R28E Section 14: NW/4, as to all depths below 3000' below the surface
Recorded: Book 557, Page 0126
County & State: Eddy County, New Mexico

Date: June 10, 1935
Lessor: State of New Mexico
State Lease: B-4456-3
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Description: T17S, R28E Section 14: S/2 NE/4, as to all depths below 3000' below the surface
Recorded: Book 80, Page 151
County & State: Eddy County, New Mexico

Date: April 1, 2004
Lessor: State of New Mexico
State Lease: VO-7021
Lessee: Xeric Oil & Gas Corp.
Description: T17S, R28E Section 14: NW/4 NE/4

Date: April 1, 2004
Lessor: State of New Mexico
State Lease: VO-7021
Lessee: Xeric Oil & Gas Corp.
Description: T17S, R28E Section 14: NW/4 NE/4

5) WORKING INTEREST OWNERS ADDRESS

Murchison Oil & Gas, Inc.
1100 Mira Vista Blvd.
Plano, TX. 75093
Michael S. Daugherty, VP Operations
972-931-0700
972-931-0701 fax

MEC Petroleum Corp.
P.O. Box 11265
Midland, TX. 79702
Marion E. Causey, President
432-686-1059
432-686-1069 fax

Magnum Hunter Production, Inc.
508 W. Wall Street
Suite 600
Midland, TX. 79701
Mr. Jon P. Tate
432-571-7800
432-571-7832 fax

Pure Energy Group
153 Treeline Park
Suite 220
San Antonio, TX. 78209
Larry Cochran, President/CEO
210-226-6700
210-930-3967 fax

Chisos Ltd.
670 Dona Ana Rd. SW
Deming, NM 88030
Sue Ann Craddock, Manager
505-546-8802
505-546-7551 fax

Xeric Oil & Gas Corp.
P.O. Box 352
Midland, TX. 79702
Carl Brinenstool
432-683-3171

Edge Petroleum Corporation Co.
1301 Travis, Suite 200
Houston, TX. 77002
Mark J. Gabrisch
713-427-8824
713-654-8910 fax

COPAS

EXHIBIT " C "

1 Attached to and made a part of that certain Operating Agreement dated December 14, 2005 by and between
2 Murchison Oil & Gas, Inc., as Operator and MEC Petroleum Corp., et al, as Non-Operator
3 _____
4 _____
5 _____

7 ACCOUNTING PROCEDURE
8
9 JOINT OPERATIONS

11 I. GENERAL PROVISIONS

14 1. Definitions

15
16 "Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached
17 "Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the
18 Joint Property
19 "Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which
20 are to be shared by the Parties.
21 "Operator" shall mean the party designated to conduct the Joint Operations.
22 "Non-Operators" shall mean the Parties to this agreement other than the Operator
23 "Parties" shall mean Operator and Non-Operators.
24 "First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other
25 employees and/or contract labor directly employed on the Joint Property in a field operating capacity
26 "Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills,
27 and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the
28 Joint Property
29 "Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees
30 "Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
31 "Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most
32 recently recommended by the Council of Petroleum Accountants Societies.
33

34 2. Statement and Billings

35
36 Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the
37 preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all
38 charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material
39 and unusual charges and credits shall be separately identified and fully described in detail
40

41 3. Advances and Payments by Non-Operators

42
43 A Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated
44 cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month
45 for which the advance is required, whichever is later Operator shall adjust each monthly billing to reflect advances received from
46 the Non-Operators.
47
48 B Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time,
49 the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of America base rate on the first day of the month
50 in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which
51 the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the
52 collection of unpaid amounts.
53

54 4. Adjustments

55
56 Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided,
57 however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to
58 be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24)
59 month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable
60 to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent
61 adjustments resulting from a physical inventory of Controllable Material as provided for in Section V
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1 **5. Audits**

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A. 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 a joint audit 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. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

15 **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.

23 **II. DIRECT CHARGES**

Operator shall charge the Joint Account with the following items:

27 **1. Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

33 **2. Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations

37 **3. 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
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or 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 3A of this Section II. Such costs under this Paragraph 3B 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 3A 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 3A and 3B of this Section II
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A of this Section II.

61 **4. 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 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies

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1 **5. Material**

2
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV Only such Material shall
4 be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent
5 with efficient and economical operations The accumulation of surplus stocks shall be avoided
6

7 **6. Transportation**

8
9 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations
10

11 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the
12 Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available
13 or railway receiving point nearest the Joint Property unless agreed to by the Parties
14

15 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
16 distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway
17 receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for
18 moving Material to other properties belonging to Operator, unless agreed to by the Parties
19

20 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the
21 actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by
22 the Council of Petroleum Accountants Societies
23

24 **7. Services**

25
26 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II
27 and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel
28 directly engaged on the Joint Property if such charges are excluded from the overhead rates The cost of professional consultant services
29 or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account
30 unless previously agreed to by the Parties
31

32 **8. Equipment and Facilities Furnished By Operator**

33
34 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs
35 of ownership and operation Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes,
36 depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %)
37 per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property
38

39 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of
40 the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor
41 Transport Association
42

43 **9. Damages and Losses to Joint Property**

44
45 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by
46 fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct
47 Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has
48 been received by Operator.
49

50 **10. Legal Expense**

51
52 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid
53 for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint
54 Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless
55 previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III
56 unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3
57

58 **11. Taxes**

59
60 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the
61 production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based
62 in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein,
63 charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's
64 working interest
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COPAS

1 **12. Insurance**
 2
 3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint
 4 Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability
 5 under the respective state's laws, Operator may, at its election, include the risk under its self- insurance program and in that event,
 6 Operator shall include a charge at Operator's cost not to exceed manual rates
 7

8 **13. Abandonment and Reclamation**
 9
 10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority
 11

12 **14. Communications**
 13
 14 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave
 15 facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator
 16 owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.
 17

18 **15. Other Expenditures**
 19
 20 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct
 21 benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations
 22
 23

24 **III. OVERHEAD**

25
26 **I. Overhead - Drilling and Producing Operations**

27
 28 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and
 29 producing operations on either:

- 30
 31 () Fixed Rate Basis, Paragraph 1A, or
 32 () Percentage Basis, Paragraph 1B
 33

34 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages
 35 plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost
 36 and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or
 37 involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph
 38 of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account
 39

40 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and
 41 contract services of technical personnel directly employed on the Joint Property:

- 42
 43 () shall be covered by the overhead rates, or
 44 () shall not be covered by the overhead rates.
 45

46 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and
 47 contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of
 48 the Joint Property:

- 49
 50 () shall be covered by the overhead rates, or
 51 () shall not be covered by the overhead rates.
 52

53 **A Overhead - Fixed Rate Basis**

54
 55 (1) Operator shall charge the Joint Account at the following rates per well per month:

56
 57 Drilling Well Rate \$ 5,000.00
 58 (Prorated for less than a full month)

59
 60 Producing Well Rate \$ 500.00
 61

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

63 (a) Drilling Well Rate

64
 65 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling
 66 rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no
 67
 68
 69
 70

COPAS

1 charge shall be made during suspension of drilling or completion operations for fifteen (15) or more
2 consecutive calendar days

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

9
10 (b) Producing Well Rates

11
12 (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well
13 charge for the entire month

14
15 (2) Each active completion in a multi-completed well in which production is not commingled down hole shall
16 be considered as a one-well charge providing each completion is considered a separate well by the
17 governing regulatory authority.

18
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall
20 be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet

21
22 (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on
23 any well. This one-well charge shall be made whether or not the well has produced except when drilling well
24 rate applies.

25
26 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease
27 allowable, transferred allowable, etc.) shall not qualify for an overhead charge

28
29 (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
30 this Accounting Procedure is attached. **The adjustment shall be computed by applying the adjustment factor most recently
31 published by COPAS.** ~~by the percent increase or decrease published by COPAS.~~

32
33 B Overhead - Percentage Basis

34
35 (1) Operator shall charge the Joint Account at the following rates:

36
37 (a) Development

38
39 _____ Percent (____%) of the cost of development of the Joint Property exclusive of costs
40 provided under Paragraph 10 of Section II and all salvage credits.

41
42 (b) Operating

43
44 _____ Percent (____%) of the cost of operating the Joint Property exclusive of costs provided
45 under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for
46 secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in
47 and to the Joint Property.

48
49 (2) Application of Overhead - Percentage Basis shall be as follows:

50
51 For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall
52 include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving
53 the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary
54 expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed
55 as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other
56 project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All
57 other costs shall be considered as operating.

58
59 2. Overhead - Major Construction

60
61 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and
62 any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall
63 either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates
64 for any Major Construction project in excess of \$ 25,000.00

- 65
66 A. * % of first \$100,000 or total cost if less, plus * To be negotiated
67
68 B. * % of costs in excess of \$100,000 but less than \$1,000,000, plus
69
70 C. * % of costs in excess of \$1,000,000.

COPAS

1 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
2 not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded

3 **Note: When design and engineering is furnished by third party contractors and charged to the joint account, the construction**
4 **Overhead charges on projects in excess of \$25,000.00 shall be 1 ½% of total cost.**

5 **3. Catastrophe Overhead**
6

7 To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill,
8 blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint
9 Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate
10 prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:
11

12 A ____*____ % of total costs through \$100,000; plus * To be negotiated
13

14 B ____*____ % of total costs in excess of \$100,000 but less than \$1,000,000; plus
15

16 C ____*____ % of total costs in excess of \$1,000,000.
17

18 Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this
19 Section III shall apply.
20

21 **4. Amendment of Rates**
22

23 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto
24 if, in practice, the rates are found to be insufficient or excessive
25
26

27 **IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS**
28

29 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the
30 Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied
31 by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to
32 Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest
33 of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed
34 to by the Parties.
35

36 **1. Purchases**
37

38 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found
39 to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received
40 by the Operator.
41

42 **2. Transfers and Dispositions**
43

44 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless
45 otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:
46

47 A. New Material (Condition A)
48

49 (1) Tubular Goods Other than Line Pipe
50

51 (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload
52 base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis
53 to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the
54 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges
55 for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
56

57 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation
58 cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a).
59 For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate
60 truck rate shall be used.
61

62 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas,
63 plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving
64 point nearest the Joint Property.
65

66 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the
67 supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of
68 tubing transferred, to the railway receiving point nearest the Joint Property.
69
70

COPAS

- 1 (2) Line Pipe
- 2
- 3 (a) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) 30,000 pounds or more
- 4 shall be priced under provisions of tubular goods pricing in Paragraph A (1)(a) as provided above. Freight charges
- 5 shall be calculated from Lorain, Ohio.
- 6
- 7 (b) Line Pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) less than 30,000 pounds
- 8 shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus the percent most
- 9 recently recommended by COPAS, plus transportation costs based on freight rates as set forth under provisions of
- 10 tubular goods pricing in Paragraph A (1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio
- 11
- 12 (c) Line pipe 24 inch OD and over and ¼ inch wall and larger shall be priced f.o.b. the point of manufacture at current
- 13 new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
- 14
- 15 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at
- 16 quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties
- 17
- 18 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store
- 19 nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point
- 20 nearest the Joint Property
- 21
- 22 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect
- 23 on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus
- 24 transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be
- 25 priced as provided above in Paragraph 2 A (1) and (2)
- 26
- 27 B. Good Used Material (Condition B)
- 28
- 29 Material in sound and serviceable condition and suitable for reuse without reconditioning
- 30
- 31 (1) Material moved to the Joint Property
- 32
- 33 At seventy-five percent (75%) of current new price, as determined by Paragraph A
- 34
- 35 (2) Material used on and moved from the Joint Property
- 36
- 37 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally
- 38 charged to the Joint Account as new Material or
- 39
- 40 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged
- 41 to the Joint Account as used Material
- 42
- 43 (3) Material not used on and moved from the Joint Property
- 44
- 45 At seventy-five percent (75%) of current new price as determined by Paragraph A
- 46
- 47 The cost of reconditioning, if any, shall be absorbed by the transferring property.
- 48
- 49 C Other Used Material
- 50
- 51 (1) Condition C
- 52
- 53 Material which is not in sound and serviceable condition and not suitable for its original function until after
- 54 reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost
- 55 of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning
- 56 does not exceed Condition B value
- 57
- 58 (2) Condition D
- 59
- 60 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced
- 61 on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally
- 62 used by Operator without prior approval of Non-Operators.
- 63
- 64 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable
- 65 size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices
- 66
- 67 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall
- 68 be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced
- 69 on a non upset basis
- 70



1 (3) Condition E
2
3 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally
4 utilized by Operator without prior approval of Non-Operators
5

6 D. Obsolete Material
7
8 Material which is serviceable and usable for its original function but condition and/or value of such Material is not
9 equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such
10 price should result in the Joint Account being charged with the value of the service rendered by such Material
11

12 E. Pricing Conditions
13
14 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred
15 weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point.
16 The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same
17 percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1 A.(3). Each year, the
18 rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year.
19 Such rate shall be published each year by the Council of Petroleum Accountants Societies.
20

21 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of
22 new Material.
23

24 **3. Premium Prices**
25
26 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual
27 causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's
28 actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided
29 notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each
30 Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish
31 in kind all or part of his share of such Material suitable for use and acceptable to Operator.
32

33 **4. Warranty of Material Furnished By Operator**
34
35 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account
36 until adjustment has been received by Operator from the manufacturers or their agents.
37
38

39 **V. INVENTORIES**
40

41 The Operator shall maintain detailed records of Controllable Material.
42

43 **1. Periodic Inventories, Notice and Representation**
44
45 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to
46 take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be
47 represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept
48 the inventory taken by Operator.
49

50 **2. Reconciliation and Adjustment of Inventories**
51
52 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following
53 the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but,
54 Operator shall be held accountable only for shortages due to lack of reasonable diligence.
55

56 **3. Special Inventories**
57
58 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be
59 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
60 the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed
61 by such inventory.
62

63 **4. Expense of Conducting Inventories**
64
65 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
66
67 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories
68 required due to change of Operator shall be charged to the Joint Account.
69
70

EXHIBIT "C" ADDENDUM

The following provision will apply to the well rate adjustments as provided under Section III (Overhead) of the hereto attached COPAS.

- (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 by the percent increase or decrease published by COPAS. The adjusted rates shall be the initial or amended rates agreed to by the Parties increased or decreased by the adjustment facta described herein, for each year from the effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").

Puma #1 - Eddy County, New Mexico

N/2 Section 14, T17S, R28E

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated December 14, 2005 by and between
Murchison Oil & Gas, Inc., as Operator
and MEC Petroleum Corp., et al, as Non-Operators

- I. Operator shall at all times while operations are conducted by it for the Joint Account on the jointly owned acreage, carry or cause to be carried, pay for, and charge to the Joint Account Worker's Compensation and Occupation Disease Insurance including Employer's Liability Insurance covering the employees of Operator engaged in operations hereunder in compliance with all applicable State and Federal Laws. Such policies shall contain underwriters of subrogation in favor of the Parties.
- II. Operator shall carry for its interest and for the interest of any non-operator so electing to participate in writing, within 60 days of the date of the Operating Agreement, the following types and limits of insurance:
 - (A) Comprehensive General Liability covering operations conducted hereunder by Operator for the Parties with Limits of:
 - Combined Bodily Injury & Property Damage
 - \$1,000,000 per occurrence
 - \$1,000,000 Aggregate
 - (B) Automobile Liability covering all vehicles owned, non-owned, or hired and used in connection with operations conducted hereunder by Operator for the Joint Account with limits of:
 - Combined Bodily Injury & Property Damage
 - \$1,000,000 per occurrence
 - \$1,000,000 Aggregate

The premiums for all such optional insurance so carried in Paragraph II shall be paid by Operator and may be charges directly to such non-operators as elect in writing to participate to the extent that their interest is insured.
- III. Each party hereto may acquire at its own expense, any additional insurance to protect itself. Each such policy shall provide for underwriters waiver of subrogation in favor of the other Parties.
- IV. Operator shall have the right, but not the obligation, to require satisfactory evidence of insurance or self-insurance from each non-operator which does not elect to participate in the optional insurance in Paragraph II above.
- V. Operator shall have the right, but not the obligation, to require satisfactory evidence insurance or self-insurance for cost of control of well and pollution liability form each non-operator. Operator shall not provide this coverage for the benefit of the Joint Account. In the event that any party fails to provide evidence of insurance as required herein ("failing party"), the Operator may, at its sole discretion, provide such insurance for and at the direct expense of the failing party. Such expense shall be a Joint Account expense if not paid by the failing party. The Operator is under no obligation to provide such insurance for the party so failing to provide satisfactory evidence of its own insurance and nothing contained herein shall be construed to alter the obligations of any party hereunder.

Non-Operator Election for paragraph II above. Failure to make your election will be deemed an election to be included under Operator's Optional Insurance Coverage.

I/WE do ____ do not ____ elect to participate in the Operator's Optional Insurance as outlined in paragraph II above.

Name: _____
Title: _____
Company: _____

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated December 14, 2005 by and between **Murchison Oil & Gas, Inc., as Operator** and **MEC Petroleum Corp., et al, as Non-Operators**

- I. Operator shall at all times while operations are conducted by it for the Joint Account on the jointly owned acreage, carry or cause to be carried, pay for, and charge to the Joint Account Worker's Compensation and Occupation Disease Insurance including Employer's Liability Insurance covering the employees of Operator engaged in operations hereunder in compliance with all applicable State and Federal Laws. Such policies shall contain underwriters of subrogation in favor of the Parties.
- II. Operator shall carry for its interest and for the interest of any non-operator so electing to participate in writing, within 60 days of the date of the Operating Agreement, the following types and limits of insurance:
 - (A) Comprehensive General Liability covering operations conducted hereunder by Operator for the Parties with Limits of:
 - Combined Bodily Injury & Property Damage
 - \$1,000,000 per occurrence
 - \$1,000,000 Aggregate
 - (B) Automobile Liability covering all vehicles owned, non-owned, or hired and used in connection with operations conducted hereunder by Operator for the Joint Account with limits of:
 - Combined Bodily Injury & Property Damage
 - \$1,000,000 per occurrence
 - \$1,000,000 Aggregate

The premiums for all such optional insurance so carried in Paragraph II shall be paid by Operator and may be charges directly to such non-operators as elect in writing to participate to the extent that their interest is insured.
- III. Each party hereto may acquire at its own expense, any additional insurance to protect itself. Each such policy shall provide for underwriters waiver of subrogation in favor of the other Parties.
- IV. Operator shall have the right, but not the obligation, to require satisfactory evidence of insurance or self-insurance from each non-operator which does not elect to participate in the optional insurance in Paragraph II above.
- V. Operator shall have the right, but not the obligation, to require satisfactory evidence insurance or self-insurance for cost of control of well and pollution liability form each non-operator. Operator shall not provide this coverage for the benefit of the Joint Account. In the event that any party fails to provide evidence of insurance as required herein ("failing party"), the Operator may, at its sole discretion, provide such insurance for and at the direct expense of the failing party. Such expense shall be a Joint Account expense if not paid by the failing party. The Operator is under no obligation to provide such insurance for the party so failing to provide satisfactory evidence of its own insurance and nothing contained herein shall be construed to alter the obligations of any party hereunder.

Non-Operator Election for paragraph II above. Failure to make your election will be deemed an election to be included under Operator's Optional Insurance Coverage.

I/WE do ___ do not elect to participate in the Operator's Optional Insurance as outlined in paragraph II above.

Name: [Signature]
Title: Attorney-In-Fact
Company: ConocoPhillips Company

EXHIBIT "E"
GAS BALANCING AGREEMENT

THIS GAS BALANCING AGREEMENT is entered into by the parties named below who own and are entitled to share in the oil and gas production from the Contract Area covered by the Operating Agreement described below.

There may be periods when one (or more) of the parties has no market for, or its purchaser is unable to take, or for some other reason it does not dispose of its interest, or a portion thereof, in the gas production. Therefore, to permit each party to produce and dispose of its interest in the gas from the Contract Area with as much flexibility as possible to provide an equitable method of balancing accounts and to discourage undue seasonal marketing manipulations, the parties hereto agree to this Gas Balancing Agreement as hereinafter set forth:

- 1) For the purposes of this Agreement, the following terms shall be defined as hereinafter set out:
 - (a) "Operating Agreement", means the Operating Agreement dated December 14, 2005 and executed by the parties or their predecessors.
 - (b) "Gas", shall mean natural gas or oil well gas obtained from primary field separation.
 - (c) "Liquid Hydrocarbons", are those liquids obtained from primary field separation.
 - (d) "Percentage Ownership", is the percentage interest of each party as set forth in the Operating Agreement.
 - (e) "Over-produced Party", is a party who has utilized or sold a greater volume of gas at any given time (individually or through its gas purchaser) than the party's Percentage Ownership of the total cumulative volume of gas produced and utilized or sold.
 - (f) "Under-produced Party", is a party who has utilized or sold a lesser volume of gas at any given time (individually or through its gas purchaser) than the party's Percentage Ownership of the total cumulative volume of gas produced and utilized or sold.

- 2)
 - (a) If fewer than all the parties are producing gas, the parties so producing shall have the right and option, but not the obligation, to produce and dispose of all or any part of such gas that may be produced. The parties hereto shall share in and own the liquid hydrocarbons, as produced, in accordance with their respective interests, as set forth in and subject to the terms of the Operating Agreement. The gas attributable to the interest of each non-producing party shall remain in the reservoir for production at a later date.

 - (b) Each Under-produced Party shall, upon commencing the sale of gas, have the right to take a greater percentage of the current gas production than such Under-produced Party's Percentage Ownership, subject to the following limitations:
 - (1) For the purposes of balancing gas production accounts, as soon as practical, any Over-produced Party or Parties will make available to any Under-produced Party or Parties a portion of the Over-produced Party's or Parties' share of gas production, but Over-produced Parties shall not be liable to Under-produced Parties under this paragraph except as provided in Section 3 hereof. In no event will any Over-produced Party be required to reduce the volume of gas which it is entitled to take from the Unit Area during any calendar month to less than 50% of such Over-produced Party's Percentage Ownership in the gas produced; provided, however, during a winter peak season (November through March) any Over-produced Party shall not be required to reduce the volume it is entitled to take from the Unit Area to less than 75% of such Over-produced Party's Percentage Ownership in the gas produced. If at any time more than one Under-produced Party is taking in excess of its gas production account, then each such Under-produced Party shall be entitled to a share of the gas production made available by the Over-produced Parties in the ratio that the Percentage Ownership of each Under-produced Party bears to the total Percentage Ownership of all Under-produced Parties currently taking gas.

- (2) For the purposes of balancing production accounts as provided in Section 3 hereof, the Under-produced Party to the extent it is taking gas in excess of that attributable to its Percentage Ownership, shall be deemed to be recovering volumes of gas offsetting prior over production by the Over-produced Party on a last-in, first-out basis. (Last over-production volume is offset by First Makeup volume).
 - (3) Each party's gas production account is in balance when such party has utilized or sold the same percentage of the total cumulative production from joint wells in a reservoir as such party's Percentage Ownership.
 - (4) It is contemplated that some of the parties may arrange to have their gas processed in a gas processing plant for the recovery of liquefiable hydrocarbons. This Agreement does provide a basis for balancing any liquefiable hydrocarbons recovered from a gas processing plant.
- 3) When production from a proration unit permanently ceases, there shall be an accounting between the parties hereto so that any Under-produced Party shall receive a sum of money equal to the lesser of: (1) the Under-produced Party's contract price if contracted for or (2) the amount actually received, (including processed liquid proceeds), less applicable taxes, royalty, and costs, such as processing, dehydration, compression and transportation, if not participated in by the Under-produced Party, by any Over-produced Party from the sale or utilization by it of that part of the total cumulative volumes of gas produced from the proration unit to which any Under-produced Party was entitled. If a portion of a Party's gas is taken for its own use and a portion thereof is sold, the gas value will be based on the price received simultaneously by such party for gas being sold from the proration unit. During periods in which a party is taking all of its gas for its own use, any gas so taken will be valued at the maximum price which such party could have received for such gas if actually delivered under such party's contract, or if not, the weighted average price received simultaneously by all parties for gas sold from the proration unit. All Over-produced Parties shall maintain adequate records of prices and volumes of over production and provide same to Under-produced Parties at the time of settlement when production permanently ceases.
- 4) During the term hereof, each party selling gas from a proration unit in any month will furnish or cause to be furnished to each of the other Parties a statement showing the volume utilized and sold. The Operator shall furnish monthly to each party a statement showing the status of the over and short accounts of all parties.
- 5) Each Party taking gas shall pay any and all production taxes due on the gas.
- 6) At all times while gas is produced from the proration unit, each Party hereto shall make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to its purchaser its share, and its share only, of the total gas production. The Over-produced Party will report said production within 30 days following the month of production so that the Under-produced Party can make his royalty payments in a timely manner. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owners" shall include owners of: royalty, overriding royalties, production payments and similar interests.
- 7) The operating expenses are to be borne as provided in the Operating Agreement, regardless of whether all parties are selling or using gas or whether the sales and use of each are in proportion to Percentage Ownership. The Operator under the Operating Agreement is authorized to carry out the provisions of this Agreement, but shall not be liable for its failure to do so as long as it acts in good faith and as would a reasonably prudent Operator in the same or similar circumstances.
- 8) This Agreement shall constitute a separate agreement as to each well and as to each separately metered reservoir produced from each well within the proration unit.
- 9) This Agreement shall terminate when production permanently ceases and the parties' gas production accounts are balanced according to this Agreement.
- 10) Each party indemnifies the other parties against all liability for and agrees to defend the parties against all claims which may be asserted by third parties who now or hereafter stand in

OPERATOR

MURCHISON OIL & GAS, INC.

Michael S. Daugherty
Vice President Operations

NON-OPERATORS

YATES PETROLEUM CORPORATION

YATES DRILLING COMPANY

LOS CHICOS

ABO PETROLEUM CORPORATION

MYCO INDUSTRIES, INC.

MARK D. WILSON

BY _____

LOSEE INVESTMENTS LLC

JOEL M. CARSON

BY _____

JOHN A. YATES

JOHN A. YATES, TRUSTEE OF TRUST Q

BY _____

ADDITIONAL SIGNATURE PAGE
TO GAS BALANCING AGREEMENT
EXHIBIT "E"
PUMA JOA DECEMBER 14, 2005

a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under, its provision, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

- 11) The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
- 12) This Agreement is attached to and made a part of that certain Operating Agreement dated December 14, 2005, which may be signed in counterpart and each counterpart when taken with all other counterparts shall constitute a binding agreement between the parties. This Agreement shall become effective as to the parties who have executed the Agreement, even though it has not been executed by all parties named herein.

Executed before the undersigned competent witnesses as of the dates shown below to be effective as of the date of first production.

OPERATOR:

Witness:

Murchison Oil & Gas, Inc.

By:

Michael S. Daugherty
Michael S. Daugherty, V. P. Operations

NON-OPERATORS:

Witness:

MEC Petroleum Corp.

By:

Marion E. Causey, President

Witness:

ConocoPhillips Company

By:

Name & Title: _____

Witness:

Chisos, Ltd..

By:

Name & Title: _____

Witness:

Pure Energy Group, Inc.

By:

Name & Title: _____

Witness:

Xeric Oil & Gas Corp.

By:

Name & Title: _____

Witness:

Edge Petroleum Exploration Co.

By:

Name & Title: _____

**Signature Page to Exhibit "E"
Gas Balancing Agreement
Puma JOA December 14, 2005**

a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under, its provision, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

- 11) The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
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Executed before the undersigned competent witnesses as of the dates shown below to be effective as of the date of first production.

OPERATOR:

Witness:

Murchison Oil & Gas, Inc.

By:

Michael S. Daugherty
Michael S. Daugherty, V. P. Operations

NON-OPERATORS:

Witness:

Diana Huntington

MEC Petroleum Corp.

By:

Marion E. Causey
Marion E. Causey, President

Witness:

ConocoPhillips Company

By:

Name & Title: _____

Witness:

Chisos, Ltd..

By:

Name & Title: _____

Witness:

Pure Energy Group, Inc.

By:

Name & Title: _____

Witness:

Xeric Oil & Gas Corp.

By:

Name & Title: _____

Witness:

Edge Petroleum Exploration Co.

By:

Name & Title: _____

Signature Page to Exhibit "E"
Gas Balancing Agreement
Puma JOA December 14, 2005

OPERATOR

MURCHISON OIL & GAS, INC.

Michael S. Daugherty
Michael S. Daugherty
Vice President Operations

NON-OPERATORS

YATES PETROLEUM CORPORATION

Peyton Yates
Peyton Yates, Attorney-in-Fact

LOS CHICOS

John A. Yates, Jr.
John A. Yates, Jr., Attorney-in-Fact

MYCO INDUSTRIES, INC.

Frank Yates, Jr.
Frank Yates, Jr., Attorney-in-Fact

LOSEE INVESTMENTS LLC

JOHN A. YATES, individually

John A. Yates

YATES DRILLING COMPANY

Tobin Rhodes
Tobin Rhodes, Vice-President

ABO PETROLEUM CORPORATION

John A. Yates, Jr.
John A. Yates, Jr., Attorney-in-Fact

MARK D. WILSON

BY _____

JOEL M. CARSON

BY _____

JOHN A. YATES, TRUSTEE OF TRUST Q

BY John A. Yates

Yates Drilling Company-Tobin Rhodes

Attested:

By: Janet Richardson
Janet Richardson, Assistant Secretary

ADDITIONAL SIGNATURE PAGE
TO GAS BALANCING AGREEMENT
EXHIBIT "E"
PUMA JOA DECEMBER 14, 2005

- 9) This Agreement shall terminate when production permanently ceases and the parties' gas production accounts are balanced according to this Agreement.
- 10) Each party indemnifies the other parties against all liability for and agrees to defend the parties against all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under, its provision, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.
- 11) The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
- 12) This Agreement is attached to and made a part of that certain Operating Agreement dated April 15, 2005, which may be signed in counterpart and each counterpart when taken with all other counterparts shall constitute a binding agreement between the parties. This Agreement shall become effective as to the parties who have executed the Agreement, even though it has not been executed by all parties named herein.

Executed before the undersigned competent witnesses as of the dates shown below to be effective as of the date of first production.

OPERATOR:

Witness:

Murchison Oil & Gas, Inc.

By:



Michael S. Daugherty, V. P. Operations

NON-OPERATORS:

Witness:

MEC Petroleum Corp.

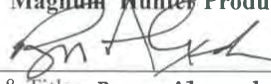
By:

Marion E. Causey, President

Witness:

Magnum Hunter Production, Inc.

By:



Name & Title: **Roger Alexander, Attorney In Fact**

Witness:

Chisos, Ltd..

By:

Name & Title: _____

Witness:

Pure Energy Group, Inc.

By:

Name & Title: _____

Witness:

Xeric Oil & Gas Corp.

By:

Name & Title: _____

Witness:

Edge Petroleum Exploration Co.

By:

Name & Title: _____

**Signature page to Puma #1
Gas Balancing Exhibit "E"**

a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under, its provision, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

- 11) The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
- 12) This Agreement is attached to and made a part of that certain Operating Agreement dated December 14, 2005, which may be signed in counterpart and each counterpart when taken with all other counterparts shall constitute a binding agreement between the parties. This Agreement shall become effective as to the parties who have executed the Agreement, even though it has not been executed by all parties named herein.

Executed before the undersigned competent witnesses as of the dates shown below to be effective as of the date of first production.

OPERATOR:

Witness:

Murchison Oil & Gas, Inc.

By:

Michael S. Daugherty
Michael S. Daugherty, V. P. Operations

NON-OPERATORS:

Witness:

MEC Petroleum Corp.

By:

Marion E. Causey, President

Witness:

ConocoPhillips Company

By:

J. P. Gregory
Name & Title: J. P. Gregory
Attorney-in-Fact

JHG

Witness:

Chisos, Ltd..

By:

Name & Title: _____

Witness:

Pure Energy Group, Inc.

By:

Name & Title: _____

Witness:

Xeric Oil & Gas Corp.

By:

Name & Title: _____

Witness:

Edge Petroleum Exploration Co.

By:

Name & Title: _____

Signature Page to Exhibit "E"
Gas Balancing Agreement
Puma JOA December 14, 2005

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- 11) The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
- 12) This Agreement is attached to and made a part of that certain Operating Agreement dated December 14, 2005, which may be signed in counterpart and each counterpart when taken with all other counterparts shall constitute a binding agreement between the parties. This Agreement shall become effective as to the parties who have executed the Agreement, even though it has not been executed by all parties named herein.

Executed before the undersigned competent witnesses as of the dates shown below to be effective as of the date of first production.

OPERATOR:

Witness:

Murchison Oil & Gas, Inc.

By:

Michael S. Daugherty
Michael S. Daugherty, V. P. Operations

NON-OPERATORS:

Witness:

MEC Petroleum Corp.

By:

Marion E. Causey, President

Witness:

ConocoPhillips Company

By:

Name & Title: _____

Witness:

Chisos, Ltd..

By:

Name & Title: _____

Witness:

Pure Energy Group, Inc.

By:

Lawrence J. Risley
Name & Title: Lawrence J. Risley VP of Exploration & Production

Witness:

Xeric Oil & Gas Corp.

By:

Name & Title: _____

Witness:

Edge Petroleum Exploration Co.

By:

Name & Title: _____

**Signature Page to Exhibit "E"
Gas Balancing Agreement
Puma JOA December 14, 2005**

a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under, its provision, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

- 11) The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
- 12) This Agreement is attached to and made a part of that certain Operating Agreement dated December 14, 2005, which may be signed in counterpart and each counterpart when taken with all other counterparts shall constitute a binding agreement between the parties. This Agreement shall become effective as to the parties who have executed the Agreement, even though it has not been executed by all parties named herein.

Executed before the undersigned competent witnesses as of the dates shown below to be effective as of the date of first production.

OPERATOR:

Witness:

Murchison Oil & Gas, Inc.

By:

Michael S. Daugherty
Michael S. Daugherty, V. P. Operations

NON-OPERATORS:

Witness:

MEC Petroleum Corp.

By:

Marion E. Causey, President

Witness:

ConocoPhillips Company

By:

Name & Title: _____

Witness:

Chisos, Ltd.

By:

Sue Ann Craddock
Name & Title: Sue Ann Craddock
Manager

Witness:

Pure Energy Group, Inc.

By:

Name & Title: _____

Witness:

Xeric Oil & Gas Corp.

By:

Name & Title: _____

Witness:

Edge Petroleum Exploration Co.

By:

Name & Title: _____

**Signature Page to Exhibit "E"
Gas Balancing Agreement
Puma JOA December 14, 2005**

a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under, its provision, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

- 11) The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
- 12) This Agreement is attached to and made a part of that certain Operating Agreement dated December 14, 2005, which may be signed in counterpart and each counterpart when taken with all other counterparts shall constitute a binding agreement between the parties. This Agreement shall become effective as to the parties who have executed the Agreement, even though it has not been executed by all parties named herein.


Executed before the undersigned competent witnesses as of the dates shown below to be effective as of the date of first production.

OPERATOR:

Witness:

Murchison Oil & Gas, Inc.

By:


Michael S. Daugherty, V. P. Operations

NON-OPERATORS:

Witness:

MEC Petroleum Corp.

By:

Marion E. Causey, President

Witness:

ConocoPhillips Company

By:

Name & Title: _____

Witness:

Chisos, Ltd..

By:

Name & Title: _____

Witness:

Pure Energy Group, Inc.

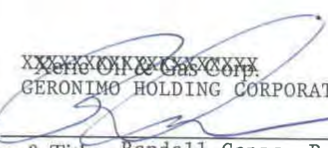
By:

Name & Title: _____

Witness:

~~Murchison Oil & Gas, Inc.~~
GERONIMO HOLDING CORPORATION

By:


Name & Title: Randall Capps, President

Witness:

Edge Petroleum Exploration Co.

By:

Name & Title: _____

**Signature Page to Exhibit "E"
Gas Balancing Agreement
Puma JOA December 14, 2005**

a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under, its provision, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

- 11) The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
- 12) This Agreement is attached to and made a part of that certain Operating Agreement dated December 14, 2005, which may be signed in counterpart and each counterpart when taken with all other counterparts shall constitute a binding agreement between the parties. This Agreement shall become effective as to the parties who have executed the Agreement, even though it has not been executed by all parties named herein.

Executed before the undersigned competent witnesses as of the dates shown below to be effective as of the date of first production.

OPERATOR:

Witness:

Murchison Oil & Gas, Inc.

By:

Michael S. Daugherty
Michael S. Daugherty, V. P. Operations

NON-OPERATORS:

Witness:

MEC Petroleum Corp.

By:

Marion E. Causey, President

Witness:

ConocoPhillips Company

By:

Name & Title: _____

Witness:

Chisos, Ltd..

By:

Name & Title: _____

Witness:

Pure Energy Group, Inc.

By:

Name & Title: _____

Witness:

Xeric Oil & Gas Corp.

By:

Name & Title: _____

Witness:

Edge Petroleum Exploration Co.

By:

Mark J. Gabrisch
Name & Title: _____

**MARK J. GABRISCH
AGENT AND ATTORNEY-IN-FACT**

**Signature Page to Exhibit "E"
Gas Balancing Agreement
Puma JOA December 14, 2005**

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated December 14, 2005
By and between Murchison Oil & Gas, Inc., as Operator, and MEC Petroleum Corp., et al., as Non-Operators

CONTRACTOR'S CERTIFICATION FOR**A. EQUAL EMPLOYMENT OPPORTUNITY**

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

1. Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following:
Employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for the training, including apprenticeship. Contractor agrees to post in conspicuous places, available to employees and applicants of employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.
2. Contractor will, in all solicitations or advertisements for employees placed by or on behalf of Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
3. Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representatives of the Operator's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
4. Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
5. Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
6. In the event of Contractor's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rules, regulations or order of the Secretary of Labor, or as otherwise provided by law.
7. Contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulation, or order of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. Contractor will take such action with respect to any subcontractor or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event Contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interest of the United States.

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

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

C. AFFIRMATIVE ACTION COMPLIANCE REPORTING

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

D. CERTIFICATION OF NONSEGREGATED FACILITIES

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

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

NOTICE TO PROSPECTIVE SUBCONTRACTORS
OF REQUIREMENT FOR CERTIFICATIONS
OF NONSEGREGATED FACILITIES

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

E. EMPLOYMENT OF VETERANS

1. The Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era Clause set forth at Section 60-250.4 of Title 41 Code of Federal Regulations is hereby incorporated herein by reference. (This clause is applicable to all contracts or purchase order for \$10,000 or more.)
2. Contractor agrees further to place the above provisions in any subcontract nonexempt under the rules and regulations promulgated by the Secretary under the Vietnam Era Veterans Readjustment Assistance Act of 1974.

F. EMPLOYMENT OF HANDICAPPED PERSONS

1. The Affirmative Action for Handicapped Workers Clause set forth in Section 60-741.41 of Title 41 Code of Federal Regulations is hereby incorporated herein by reference. (This clause is applicable to all contracts or purchase order for \$2,500 or more.)
2. Contractor agrees further to place the above provision in any subcontract nonexempt under the rules and regulations promulgated by the Secretary under the Rehabilitation Act of 1973.

EXHIBIT "H"

RECORDATION NOTICE AND MEMORANDUM OF JOINT DEVELOPMENT AGREEMENT

THIS RECORDATION NOTICE AND MEMORANDUM OF OPERATING AGREEMENT will evidence the existence of that certain Operating Agreement dated December 14, 2005, by and between Murchison Oil and Gas, Inc., whose address is 1100 Mira Vista Blvd., Plano, TX. 75093, as Operator and MEC Petroleum Corp., et al as Non-Operators, pertaining to and affecting the interests of the parties in the oil and gas leases and lands more particularly described in Exhibit "A" attached hereto and made a part hereof.

Among other provisions, Article VII.B., of the Operating Agreement expressly grants to the Operator a lien upon the oil and gas rights of the Non-Operator in the lands described in Exhibit "A" and a security interest in the Non-Operator's share of oil and/or gas when extracted and in the Non-Operator's interest in equipment to secure payment of its share of expense. Article VII.B. also grants a like lien and security interest to the Operator's share of expenses, if any.

The Operating Agreement additionally confers upon the Operator, under the provisions of Article VII.B., the optional right to receive from purchasers of production all proceeds attributable to the interest of the Non-Operator and to deduct therefrom the applicable Non-Operator's share of expenses and costs under the Operating Agreement before remitting the balance, if any, to the Non-Operator.

A copy of the Operating Agreement is on file at the offices of Murchison Oil & Gas, Inc., 1100 Mira Vista Blvd., Plano, TX., and is available for review and copying by all interested parties during normal business hours.

IN WITNESS WHEREOF this instrument is executed on this ____ day of _____, 2005, but effective for all purposes as of December 14, 2005.

OPERATOR

MURCHISON OIL AND GAS, INC.

By: Michael S. Daugherty, Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

By: Marion E. Causey, President

CONOCOPHILLIPS COMPANY

By: Name & Title:

PURE ENERGY GROUP, INC.

By: Name & Title:

CHISOS LTD.

By: Name & Title:

XERIC OIL & GAS CORP.

By: Name & Title:

EDGE PETROLEUM EXPLORATION CO.

By: Name & Title:

ACKNOWLEDGEMENT PAGE FOLLOWS

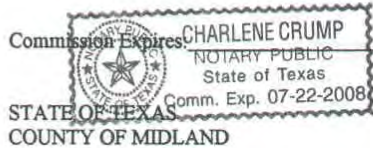
Recording requested by and when recorded mail to: Attn: Rebecca Edwards Murchison Oil & Gas, Inc. 1100 Mira Vista Blvd Plano, Texas 75093-4698

Signature Page to Exhibit "H" Memorandum of JOA for Puma December 14, 2005

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas

Notary's Printed Name

The foregoing instrument was acknowledged before me this 20 day of December, 2005, by Marion E. Causey, as President of MEC Petroleum Corp., a Texas corporation, on behalf of said corporation.



Diana Huntington
Notary Public in and for the State of Texas

Notary's Printed Name

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of

Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of

Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Chisos, Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of

Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of

Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation, a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of

Notary's Printed Name

EXHIBIT "H"

RECORDATION NOTICE AND MEMORANDUM OF JOINT DEVELOPMENT AGREEMENT

THIS RECORDATION NOTICE AND MEMORANDUM OF OPERATING AGREEMENT will evidence the existence of that certain Operating Agreement dated December 14, 2005, by and between Murchison Oil and Gas, Inc., whose address is 1100 Mira Vista Blvd., Plano, TX. 75093, as Operator and MEC Petroleum Corp., et al as Non-Operators, pertaining to and affecting the interests of the parties in the oil and gas leases and lands more particularly described in Exhibit "A" attached hereto and made a part hereof.

Among other provisions, Article VII.B., of the Operating Agreement expressly grants to the Operator a lien upon the oil and gas rights of the Non-Operator in the lands described in Exhibit "A" and a security interest in the Non-Operator's share of oil and/or gas when extracted and in the Non-Operator's interest in equipment to secure payment of its share of expense. Article VII.B. also grants a like lien and security interest to the Operator's share of expenses, if any.

The Operating Agreement additionally confers upon the Operator, under the provisions of Article VII.B., the optional right to receive from purchasers of production all proceeds attributable to the interest of the Non-Operator and to deduct therefrom the applicable Non-Operator's share of expenses and costs under the Operating Agreement before remitting the balance, if any, to the Non-Operator.

A copy of the Operating Agreement is on file at the offices of Murchison Oil & Gas, Inc., 1100 Mira Vista Blvd., Plano, TX., and is available for review and copying by all interested parties during normal business hours.

IN WITNESS WHEREOF this instrument is executed on this ____ day of _____, 2005, but effective for all purposes as of December 14, 2005.

OPERATOR

MURCHISON OIL AND GAS, INC.

By: Michael S. Daugherty
Michael S. Daugherty, Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

By: Marion E. Causey, President

CONOCOPHILLIPS COMPANY

By: J.P. Gregory
Name & Title: J. P. Gregory Attorney-in-Fact

PURE ENERGY GROUP, INC.

By:
Name & Title:

CHISOS LTD.

By:
Name & Title:

XERIC OIL & GAS CORP.

By:
Name & Title:

EDGE PETROLEUM EXPLORATION CO.

By:
Name & Title:

ACKNOWLEDGEMENT PAGE FOLLOWS

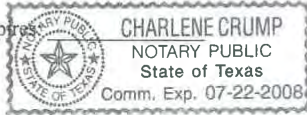
Signature Page to Exhibit "H"
Memorandum of JOA for Puma
December 14, 2005

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.

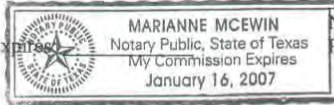
Commission Expires: _____
Notary Public in and for the State of Texas
Notary's Printed Name: Charlene Crump



STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this 16th day of May, 2005, by J.P. Gregory, as Atomaria Fact of ConocoPhillips Company, a Delaware corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of Texas
Notary's Printed Name: Marianne McEwin



STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Chisos Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation Co., a _____ corporation, on behalf of said corporation.

Commission Expires: _____
Notary Public in and for the State of _____
Printed Name _____

EXHIBIT "H"

RECORDATION NOTICE AND MEMORANDUM OF JOINT DEVELOPMENT AGREEMENT

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Among other provisions, Article VII.B., of the Operating Agreement expressly grants to the Operator a lien upon the oil and gas rights of the Non-Operator in the lands described in Exhibit "A" and a security interest in the Non-Operator's share of oil and/or gas when extracted and in the Non-Operator's interest in equipment to secure payment of its share of expense. Article VII.B. also grants a like lien and security interest to the Operator's share of expenses, if any.

The Operating Agreement additionally confers upon the Operator, under the provisions of Article VII.B., the optional right to receive from purchasers of production all proceeds attributable to the interest of the Non-Operator and to deduct therefrom the applicable Non-Operator's share of expenses and costs under the Operating Agreement before remitting the balance, if any, to the Non-Operator.

A copy of the Operating Agreement is on file at the offices of Murchison Oil & Gas, Inc., 1100 Mira Vista Blvd., Plano, TX., and is available for review and copying by all interested parties during normal business hours.

IN WITNESS WHEREOF this instrument is executed on this ____ day of _____, 2005, but effective for all purposes as of December 14, 2005.

OPERATOR

MURCHISON OIL AND GAS, INC.

By: [Signature] Michael S. Daugherty, Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

By: _____ Marion E. Causey, President

MAGNUM HUNTER PRODUCTION, INC.

By: [Signature] Name & Title: Roger Alexander, Attorney In Fact

PURE ENERGY GROUP, INC.

By: _____ Name & Title: _____

CHISOS LTD.

By: _____ Name & Title: _____

XERIC OIL & GAS CORP.

By: _____ Name & Title: _____

EDGE PETROLEUM EXPLORATION CO.

By: _____ Name & Title: _____

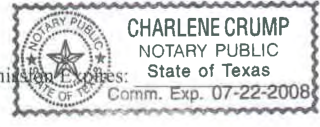
ACKNOWLEDGEMENT PAGE FOLLOWS

Signature page to Puma #1 Exhibit "H"

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 6 day of February, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name

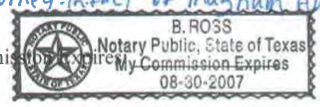
STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by ___ as ___ of ConocoPhillips Company, a ___ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF Texas
COUNTY OF midland

The foregoing instrument was acknowledged before me this 3rd day of March, 2005, by Roger Alexander as of Pure Energy Group, Inc. a TEXAS corporation, on behalf of said corporation.
Attorney-in-fact of Magnum Hunter Production Inc.



B. Ross
Notary Public in and for the State of Texas
Printed Name B. Ross

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by ___ as ___ of Chisos Ltd., a ___ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by ___ as ___ of Pure Energy Group, a ___ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by ___ as ___ of Xeric Oil & Gas Corp., a ___ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by ___ as ___ of Edge Petroleum Corporation Co., a ___ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

EXHIBIT "H"

RECORDATION NOTICE AND MEMORANDUM OF JOINT DEVELOPMENT AGREEMENT

THIS RECORDATION NOTICE AND MEMORANDUM OF OPERATING AGREEMENT will evidence the existence of that certain Operating Agreement dated December 14, 2005, by and between Murchison Oil and Gas, Inc., whose address is 1100 Mira Vista Blvd., Plano, TX. 75093, as Operator and MEC Petroleum Corp., et al as Non-Operators, pertaining to and affecting the interests of the parties in the oil and gas leases and lands more particularly described in Exhibit "A" attached hereto and made a part hereof.

Among other provisions, Article VII.B., of the Operating Agreement expressly grants to the Operator a lien upon the oil and gas rights of the Non-Operator in the lands described in Exhibit "A" and a security interest in the Non-Operator's share of oil and/or gas when extracted and in the Non-Operator's interest in equipment to secure payment of its share of expense. Article VII.B. also grants a like lien and security interest to the Operator's share of expenses, if any.

The Operating Agreement additionally confers upon the Operator, under the provisions of Article VII.B., the optional right to receive from purchasers of production all proceeds attributable to the interest of the Non-Operator and to deduct therefrom the applicable Non-Operator's share of expenses and costs under the Operating Agreement before remitting the balance, if any, to the Non-Operator.

A copy of the Operating Agreement is on file at the offices of Murchison Oil & Gas, Inc., 1100 Mira Vista Blvd., Plano, TX., and is available for review and copying by all interested parties during normal business hours.

IN WITNESS WHEREOF this instrument is executed on this ____ day of _____, 200~~5~~⁶, but effective for all purposes as of December 14, 2005.

OPERATOR

MURCHISON OIL AND GAS, INC.

By: Michael S. Daugherty
Michael S. Daugherty, Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

CONOCOPHILLIPS COMPANY

By: _____
Marion E. Causey, President

By: _____
Name & Title: _____

PURE ENERGY GROUP, INC.

CHISOS LTD.

By: Lawrence J. Risley
Name & Title: VP of Exploration & Production

By: _____
Name & Title: _____

XERIC OIL & GAS CORP.

EDGE PETROLEUM EXPLORATION CO.

By: _____
Name & Title: _____

By: _____
Name & Title: _____

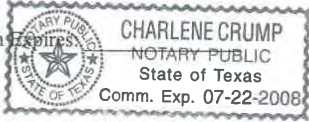
ACKNOWLEDGEMENT PAGE FOLLOWS

Signature Page to Exhibit "H"
Memorandum of JOA for Puma
December 14, 2005

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name _____

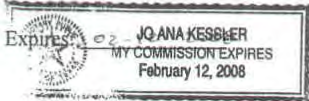
STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF TEXAS
COUNTY OF BEXAR

The foregoing instrument was acknowledged before me this 20th day of January, 2005, by Lawrence J. Risley as of Pure Energy Group, Inc., a TEXAS corporation, on behalf of said corporation.



Joana Kessler
Notary Public in and for the State of TEXAS
Printed Name Joana Kessler

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Chisos Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation Co., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

EXHIBIT "H"

RECORDATION NOTICE AND MEMORANDUM OF JOINT DEVELOPMENT AGREEMENT

THIS RECORDATION NOTICE AND MEMORANDUM OF OPERATING AGREEMENT will evidence the existence of that certain Operating Agreement dated December 14, 2005, by and between Murchison Oil and Gas, Inc., whose address is 1100 Mira Vista Blvd., Plano, TX. 75093, as Operator and MEC Petroleum Corp., et al as Non-Operators, pertaining to and affecting the interests of the parties in the oil and gas leases and lands more particularly described in Exhibit "A" attached hereto and made a part hereof.

Among other provisions, Article VII.B., of the Operating Agreement expressly grants to the Operator a lien upon the oil and gas rights of the Non-Operator in the lands described in Exhibit "A" and a security interest in the Non-Operator's share of oil and/or gas when extracted and in the Non-Operator's interest in equipment to secure payment of its share of expense. Article VII.B. also grants a like lien and security interest to the Operator's share of expenses, if any.

The Operating Agreement additionally confers upon the Operator, under the provisions of Article VII.B., the optional right to receive from purchasers of production all proceeds attributable to the interest of the Non-Operator and to deduct therefrom the applicable Non-Operator's share of expenses and costs under the Operating Agreement before remitting the balance, if any, to the Non-Operator.

A copy of the Operating Agreement is on file at the offices of Murchison Oil & Gas, Inc., 1100 Mira Vista Blvd., Plano, TX., and is available for review and copying by all interested parties during normal business hours.

IN WITNESS WHEREOF this instrument is executed on this ____ day of _____, 2005, but effective for all purposes as of December 14, 2005.

OPERATOR

MURCHISON OIL AND GAS, INC.

By: Michael S. Daugherty
Michael S. Daugherty, Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

CONOCOPHILLIPS COMPANY

By: Marion E. Causey, President

By: Name & Title:

PURE ENERGY GROUP, INC.

CHISOS LTD.

By: Name & Title:

By: Sue Ann Craddock
Sue Ann Craddock
Manager

XERIC OIL & GAS CORP.

EDGE PETROLEUM EXPLORATION CO.

By: Name & Title:

By: Name & Title:

ACKNOWLEDGEMENT PAGE FOLLOWS

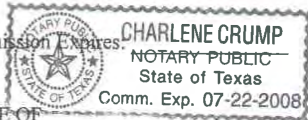
Signature Page to Exhibit "H"
Memorandum of JOA for Puma
December 14, 2005

682 PAGE 0536

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF New Mexico
COUNTY OF LUNA

The foregoing instrument was acknowledged before me this 30 day of January, 2005, by San Antonio as Chisos Ltd., a Texas corporation, on behalf of said corporation.

Commission Expires: June 9, 2009 Notary Public in and for the State of New Mexico
Printed Name LANE G COSTILOW



STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of ___, 2005, by _____, as _____ of Edge Petroleum Corporation Co., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

EXHIBIT "H"

RECORDATION NOTICE AND MEMORANDUM OF JOINT DEVELOPMENT AGREEMENT

THIS RECORDATION NOTICE AND MEMORANDUM OF OPERATING AGREEMENT will evidence the existence of that certain Operating Agreement dated December 14, 2005, by and between Murchison Oil and Gas, Inc., whose address is 1100 Mira Vista Blvd., Plano, TX. 75093, as Operator and MEC Petroleum Corp., et al as Non-Operators, pertaining to and affecting the interests of the parties in the oil and gas leases and lands more particularly described in Exhibit "A" attached hereto and made a part hereof.

Among other provisions, Article VII.B., of the Operating Agreement expressly grants to the Operator a lien upon the oil and gas rights of the Non-Operator in the lands described in Exhibit "A" and a security interest in the Non-Operator's share of oil and/or gas when extracted and in the Non-Operator's interest in equipment to secure payment of its share of expense. Article VII.B. also grants a like lien and security interest to the Operator's share of expenses, if any.

The Operating Agreement additionally confers upon the Operator, under the provisions of Article VII.B., the optional right to receive from purchasers of production all proceeds attributable to the interest of the Non-Operator and to deduct therefrom the applicable Non-Operator's share of expenses and costs under the Operating Agreement before remitting the balance, if any, to the Non-Operator.

A copy of the Operating Agreement is on file at the offices of Murchison Oil & Gas, Inc., 1100 Mira Vista Blvd., Plano, TX., and is available for review and copying by all interested parties during normal business hours.

IN WITNESS WHEREOF this instrument is executed on this ____ day of _____, 2005, but effective for all purposes as of December 14, 2005.

OPERATOR

MURCHISON OIL AND GAS, INC.

By: Michael S. Daugherty, Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

By: Marion E. Causey, President

CONOCOPHILLIPS COMPANY

By: Name & Title:

PURE ENERGY GROUP, INC.

By: Name & Title:

CHISOS LTD.

By: Name & Title:

MURCHISON OIL AND GAS CORP. GERONIMO HOLDING CORPORATION

By: Randall Capps, President

EDGE PETROLEUM EXPLORATION CO.

By: Name & Title:

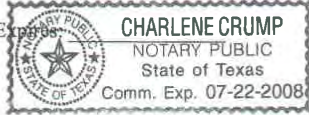
ACKNOWLEDGEMENT PAGE FOLLOWS

Signature Page to Exhibit "H" Memorandum of JOA for Puma December 14, 2005

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Chisos Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

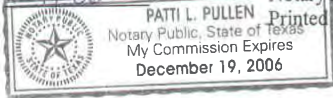
STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF TEXAS
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 18 day of January, ~~2005~~ 2006 by Randall Capps as President of ~~XXXXXXXXXXXX~~ GERONIMO HOLDING CORPORATION, a Texas corporation, on behalf of said corporation.



Commission Expires: 12-19-06 Notary Public in and for the State of Texas
Printed Name Patti L Pullen

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Edge Petroleum Corporation Co., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

EXHIBIT "H"

RECORDATION NOTICE AND MEMORANDUM OF JOINT DEVELOPMENT AGREEMENT

THIS RECORDATION NOTICE AND MEMORANDUM OF OPERATING AGREEMENT will evidence the existence of that certain Operating Agreement dated December 14, 2005, by and between Murchison Oil and Gas, Inc., whose address is 1100 Mira Vista Blvd., Plano, TX. 75093, as Operator and MEC Petroleum Corp., et al as Non-Operators, pertaining to and affecting the interests of the parties in the oil and gas leases and lands more particularly described in Exhibit "A" attached hereto and made a part hereof.

Among other provisions, Article VII.B., of the Operating Agreement expressly grants to the Operator a lien upon the oil and gas rights of the Non-Operator in the lands described in Exhibit "A" and a security interest in the Non-Operator's share of oil and/or gas when extracted and in the Non-Operator's interest in equipment to secure payment of its share of expense. Article VII.B. also grants a like lien and security interest to the Operator's share of expenses, if any.

The Operating Agreement additionally confers upon the Operator, under the provisions of Article VII.B., the optional right to receive from purchasers of production all proceeds attributable to the interest of the Non-Operator and to deduct therefrom the applicable Non-Operator's share of expenses and costs under the Operating Agreement before remitting the balance, if any, to the Non-Operator.

A copy of the Operating Agreement is on file at the offices of Murchison Oil & Gas, Inc., 1100 Mira Vista Blvd., Plano, TX., and is available for review and copying by all interested parties during normal business hours.

IN WITNESS WHEREOF this instrument is executed on this 14 day of December, 2005, but effective for all purposes as of December 14, 2005.

OPERATOR

MURCHISON OIL AND GAS, INC.

By: Michael S. Daugherty, Vice President Operations

NON-OPERATORS

MEC PETROLEUM CORP.

By: Marion E. Causey, President

CONOCOPHILLIPS COMPANY

By: Name & Title:

PURE ENERGY GROUP, INC.

By: Name & Title:

CHISOS LTD.

By: Name & Title:

XERIC OIL & GAS CORP.

By: Name & Title:

EDGE PETROLEUM EXPLORATION CO.

By: Mark J. Gabrisch, Agent and Attorney-in-Fact

MARK J. GABRISCH AGENT AND ATTORNEY-IN-FACT

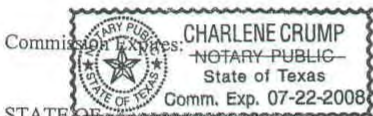
ACKNOWLEDGEMENT PAGE FOLLOWS

Signature Page to Exhibit "H" Memorandum of JOA for Puma December 14, 2005

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF COLLIN

The foregoing instrument was acknowledged before me this 14 day of December, 2005, by Michael S. Daugherty, as Vice President of Operations for Murchison Oil & Gas, Inc., an Oklahoma corporation, on behalf of said corporation.



Charlene Crump
Notary Public in and for the State of Texas
Notary's Printed Name

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of ConocoPhillips Company, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as of Pure Energy Group, Inc., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Chisos Ltd., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Pure Energy Group, a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this ___ day of _____, 2005, by _____, as _____ of Xeric Oil & Gas Corp., a _____ corporation, on behalf of said corporation.

Commission Expires: _____ Notary Public in and for the State of _____
Printed Name _____

STATE OF
COUNTY OF

The foregoing instrument was acknowledged before me this 9th day of March, 2005, by Mark J. Gabrisch as Agent and Attorney-in-Fact of Edge Petroleum Corporation Co., a Delaware corporation, on behalf of said corporation.

Heather R. Campbell
Notary Public in and for the State of Texas
Printed Name



OPERATOR

MURCHISON OIL & GAS, INC.

Michael S. Daugherty

Michael S. Daugherty
Vice President Operations

NON-OPERATORS

YATES PETROLEUM CORPORATION

Peyton Yates
Peyton Yates, Attorney-in-Fact

LOS CHICOS

John A. Yates, Jr.
John A. Yates, Jr., Attorney-in-Fact

MYCO INDUSTRIES, INC.

Frank Yates, Jr.
Frank Yates, Jr., Attorney-in-Fact

LOSEE INVESTMENTS LLC

JOHN A. YATES, individually

John A. Yates

YATES DRILLING COMPANY

Tobin Rhodes
Tobin Rhodes, Vice-President

ABO PETROLEUM CORPORATION

John A. Yates, Jr.
John A. Yates, Jr., Attorney-in-Fact

MARK D. WILSON

BY _____

JOEL M. CARSON

BY _____

JOHN A. YATES, TRUSTEE OF TRUST Q

BY John A. Yates

Yates Drilling Company-Tobin Rhodes

Attested:

By: Janet Richardson
Janet Richardson, Assistant Secretary



ADDITIONAL SIGNATURE PAGE TO
EXHIBIT "H" MEMORANDUM
PUMA JOA DEMCEMBER 14, 2005

ACKNOWLEDGEMENTS

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by _____
as _____ for Losee Investments LLC, a _____ corporation, on behalf of said corporation.

Commission Expires: _____

Notary Public in and for the State of Texas

Notary's Printed Name

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by Frank Yates, Jr.,
as Attorney-in-Fact for Myco Industries, Inc., a New Mexico corporation, on behalf of said corporation.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of _____

Notary's Printed Name

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by John A. Yates, Jr.
as Attn-in-Fact of Abco Petroleum Corporation, a New Mexico corporation, on behalf of said corporation.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of _____

Notary's Printed Name

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by John A. Yates, Jr.
as Attorney-in-Fact of Los Chicos, a New Mexico corporation, on behalf of said corporation.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of _____

Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by Tobin Rhodes
as Vice-President of Yates Drilling Company, a New Mexico corporation, on behalf of
said corporation.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of _____

Notary's Printed Name

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by Peyton Yates
as Attn-in-Fact of Yates Petroleum Corporation, a New Mexico corporation, on behalf of said corporation.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of _____

Notary's Printed Name

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____, 2006, by Mark D. Wilson.

Commission Expires: _____

Notary Public in and for the State of _____

Notary's Printed Name

ACKNOWLEDGEMENTS CONTINUED

STATE OF _____
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 2006, by Joel M. Carson.

Commission Expires: _____
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by John A. Yates.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of _____
Notary's Printed Name _____

STATE OF New Mexico
COUNTY OF Eddy

The foregoing instrument was acknowledged before me this 9th day of June, 2006, by John A. Yates, as Trustee of Trust O u/w/o Peggy A. Yates, deceased.



OFFICIAL SEAL
Antonia G. Hernandez
NOTARY PUBLIC-STATE OF NEW MEXICO
My commission expires: 5-18-09

Antonia G. Hernandez
Notary Public in and for the State of _____
Notary's Printed Name _____

HEYCO NO. 9080

Aid State #3
Aid State #4
Aid State #6
Aid State #8
Aid State #9
Aid State #10
Aid State #5

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

MODEL FORM OPERATING AGREEMENT



AID MORROW WORKING INTEREST UNIT

OPERATING AGREEMENT

DATED

September 15, 19 81,

OPERATOR HARVEY E. YATES COMPANY

CONTRACT AREA Township 17 South, Range 28 East, N.M.P.M.

Section 13: E/2

COUNTY OR PARISH OF EDDY STATE OF NEW MEXICO

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

Exhibit A-13 (Rebuttal)
Longfellow Energy, LP
NMOCD Case No. 21651
June 17, 2021

CONTRACT

NO. 8109006-J

Approved As To Form (T.S.)
Approved As To Substance (JEC)

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

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OPERATING AGREEMENT

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THIS AGREEMENT, entered into by and between HARVEY E. YATES 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.

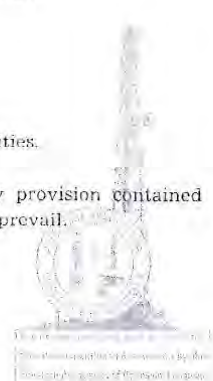
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II. EXHIBITS

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

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

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



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**ARTICLE III.
INTERESTS OF PARTIES**

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

**ARTICLE IV.
TITLES**

A. Title Examination:

Title examination shall be made on the leases and/or oil and gas interests included or planned to be included, in the drilling unit of any proposed well prior to commencement of drilling operations.

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.
24

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

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

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

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-
50 coming a party to this agreement.
51

52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.
56

ARTICLE V. OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

61
62 HARVEY E. YATES COMPANY shall be the
63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on
64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
67 negligence or willful misconduct.
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1 **B. Resignation or Removal of Operator and Selection of Successor:**

2
3 **1. Resignation or Removal of Operator:** Operator may resign at any time by giving written notice
4 thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the
5 Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any
6 action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or
7 refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership,
8 by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on owner-
9 ship as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting
10 interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M.
11 on the first day of the calendar month following the expiration of ninety (90) days after the giving of
12 notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor
13 Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective
14 date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of
15 a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary,
16 parent or successor corporation shall not be the basis for removal of Operator.
17

18 **2. Selection of Successor Operator:** Upon the resignation or removal of Operator, a successor Op-
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the
22 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown
23 on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the
24 Operator that was removed.
25

26 **C. Employees:**

27
28 The number of employees used by Operator in conducting operations hereunder, their selection,
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,
30 and all such employees shall be the employees of Operator.
31

32 **D. Drilling Contracts:**

33
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-
38 menced, and such work shall be performed by Operator under the same terms and conditions as are
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-
40 ilar nature.
41

42 **ARTICLE VI.**
43 **DRILLING AND DEVELOPMENT**
44

45 **A. Initial Well:**

46
47 On or before the 30th day of September, 1982, Operator shall commence the drill-
48 ing of a well for oil and gas at the following location:
49

50 NE/4 SE/4
51 Section 13, Township 17 South, Range 28 East, N.M.P.M.,
52 Eddy County, New Mexico

53 and shall thereafter continue the drilling of the well with due diligence to a depth adequate to
54 test the Morrow formation or to a depth of 10,850 feet whichever is shallower,
55

56
57
58 unless granite or other practically impenetrable substance or condition in the hole, which renders
59 further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or
60 abandon the well at a lesser depth. Operators only liability for failure to commence
61 said test well shall be the ipsofacto termination of this agreement.

62 Operator shall make reasonable tests of all formations encountered during drilling which give in-
63 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited
64 in its application to a specific formation or formations, in which event Operator shall be required to
65 test only the formation or formations to which this agreement may apply.
66

67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes
68 to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall
69 plug and abandon same as provided in Article VI.E.1. hereof.
70

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1 **B. Subsequent Operations:**

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

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

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

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

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

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

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

4
5 Until the Consenting Parties recover from the Non-Consenting Party's relinquished
6 interest the amounts provide for above, the Consenting Parties' shall have the option
7 to sell any gas produced, attributable to such Non-Consenting Party's relinquished
8 interest, to the Consenting Parties or Non-Consenting Parties' purchasers. In the
9 event a sale is made at a price less than the price available to a Non-Consenting
10 Party under an existing contract or a bona fide offer, then the price contained in
11 such contract or offer shall be used to determine when the Non-Consenting Party's
12 interest reverts to it. During such recovery period, if a sale is made to a Non-
13 Consenting Party's purchaser under terms of its gas sales contract, such Non-Con-
14 senting Party shall direct its purchaser to remit the proceeds from such sale direct
15 to the Consenting Parties.

16 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
17 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
18 all production, severance, gathering/^{Windfall Profits Tax} and other taxes, and all royalty, overriding royalty and other
19 burdens applicable to Non-Consenting Party's share of production.

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

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

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

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

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

63 C. Right to Take Production in Kind:

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

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

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

7
8
9 In the event any party shall fail to make arrangements necessary to take in kind or separately
10 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator
11 shall have the right, subject to revocation at will by the party owning it, but not the obligation,
12 to purchase such oil and gas or sell it to others at any time and from time to time; provided, however,
13 that should one or more of the parties to this agreement have a market and all
14 facilities necessary to transport and deliver gas to their market have been completed, but the
15 Operator cannot at such time commence selling its gas due to lack of a market, then the party or
16 parties which desire to commence selling or utilizing gas shall have the option, but not the
17 obligation, to dispose of all the gas produced from the well pursuant to Paragraph III B of the
18 Operating Agreement as if such party or parties were the Operator. Any such purchase or sale by
19 Operator or Non-Operator shall be subject always to the right of the owner of the production to
20 exercise at any time its right to take in kind, or separately dispose of, its share of all oil
21 and gas not previously delivered to a purchaser. Any purchase or sale by Operator or Non-Operator
22 of any other party's share of oil and gas shall be only for such reasonable periods of time as
23 are consistent with the minimum needs of the industry under the particular circumstances, but
24 in no event for a period in excess of one (1) year.

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

32 D. Access to Contract Area and Information:

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

42 E. Abandonment of Wells:

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

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

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

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

14
 15 **ARTICLE VII.**
 16 **EXPENDITURES AND LIABILITY OF PARTIES**

17
 18 **A. Liability of Parties:**

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

26
 27 **B. Liens and Payment Defaults:**

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

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

50
 51 **C. Payments and Accounting:**

52
 53 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses
 54 incurred in the development and operation of the Contract Area pursuant to this agreement and shall
 55 charge each of the parties hereto with their respective proportionate shares upon the expense basis pro-
 56 vided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate
 57 record of the joint account hereunder, showing expenses incurred and charges and credits made and
 58 received.

59
 60 Operator, at its election, shall have the right from time to time to demand and receive from the
 61 other parties payment in advance of their respective shares of the estimated amount of the expense to
 62 be incurred in operations hereunder during the next succeeding month, which right may be exercised only
 63 by submission to each such party of an itemized statement of such estimated expense, together with
 64 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-
 65 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party
 66 shall pay to Operator its proportionate share of such estimate within thirty(30)days after such es-
 67 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the
 68 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be
 69 made monthly between advances and actual expense to the end that each party shall bear and pay its
 70 proportionate share of actual expenses incurred, and no more.

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1 **D. Limitation of Expenditures:**

2

3 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:

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~~1. 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).

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

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Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of One-eighth (1/8) due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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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 Saturdays, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments,

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

3
4 **G. Taxes:**

5
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad
7 valorem taxation all property subject to this agreement which by law should be rendered for such
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments. If the Operator
16 is required hereunder to pay ad valorem taxes based in whole or in part upon separate
17 valuation of each party's working interest, then notwithstanding anything to the con-
18 trary herein, charges to the joint account shall be made and paid by the parties hereto
19 in accordance with the percentage of tax value generated by each party's working interest.
20 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within
21 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all
22 parties agree to abandon the protest prior to final determination. During the pendency of administrative
23 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and
24 penalty. When any such protested assessment shall have been finally determined, Operator shall pay
25 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then
26 be assessed against the parties, and be paid by them, ~~as provided in Exhibit "G"~~.

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

30 **H. Insurance:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

69
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1 2. If the owner of the interest from which the subsequently created interest is derived (1) fails to
 2 pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under pro-
 3 visions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A.
 4 hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses
 5 hereunder in the same manner as if such interest were a working interest. For purposes of collecting
 6 such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above
 7 shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created
 8 interest
 9

10 **E. Maintenance of Uniform Interest:**

11
 12 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests
 13 covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall
 14 sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Con-
 15 tract Area and in wells, equipment and production unless such disposition covers either:
 16

- 17 1. the entire interest of the party in all leases and equipment and production; or
- 18
- 19 2. an equal undivided interest in all leases and equipment and production in the Contract Area.
- 20

21 Every such sale, encumbrance, transfer or other disposition made by any party shall be made ex-
 22 pressly subject to this agreement, and shall be made without prejudice to the right of the other parties.
 23

24 If, at any time the interest of any party is divided among and owned by four or more co-owners,
 25 Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full
 26 authority to receive notices, approve expenditures, receive billings for and approve and pay such party's
 27 share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such
 28 party's interests within the scope of the operations embraced in this agreement; however, all such
 29 co-owners shall have the right to enter into and execute all contracts or agreements for the disposition
 30 of their respective shares of the oil and gas produced from the Contract Area and they shall have the
 31 right to receive, separately, payment of the sale proceeds hereof.
 32

33 **F. Waiver of Right to Partition:**

34
 35 If permitted by the laws of the state or states in which the property covered hereby is located, each
 36 party hereto owning an undivided interest in the Contract Area waives any and all rights it may have
 37 to partition and have set aside to it in severalty its undivided interest therein.
 38

39 ~~**G. Preferential Right to Purchase:**~~

40
 41 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and~~
 42 ~~interests in the Contract Area, it shall promptly give written notice to the other parties, with full infor-~~
 43 ~~mation concerning its proposed sale, which shall include the name and address of the prospective pur-~~
 44 ~~chaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of~~
 45 ~~the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after~~
 46 ~~receipt of the notice, to purchase on the same terms and conditions the interest which the other party~~
 47 ~~proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the pur-~~
 48 ~~chased interest in the proportions that the interest of each bears to the total interest of all purchasing~~
 49 ~~parties. However, there shall be no preferential right to purchase in those cases where any party wishes~~
 50 ~~to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale~~
 51 ~~of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent~~
 52 ~~company, or to any company in which any one party owns a majority of the stock.~~
 53

54 **ARTICLE IX.**
 55 **INTERNAL REVENUE CODE ELECTION**
 56

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

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

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

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

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

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

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

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

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

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

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

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

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

70

1 Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled
 2 under any provision of this agreement, results in production of oil and or gas in paying quantities, this
 3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-
 4 tion, and for an additional period of 90 days from cessation of all production; provided, however,
 5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in
 6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-
 7 erations have been completed and if production results therefrom, this agreement shall continue in
 8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well
 9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil
 10 and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-
 11 tions are commenced within 90 days from the date of abandonment of said well.
 12

13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from
 14 any liability which has accrued or attached prior to the date of such termination.
 15

16 **ARTICLE XIV.**
 17 **COMPLIANCE WITH LAWS AND REGULATIONS**
 18

19 **A. Laws, Regulations and Orders:**
 20

21 This agreement shall be subject to the conservation laws of the state in which the committed
 22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of
 23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and
 24 orders.
 25

26 **B. Governing Law:**
 27

28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-
 29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-
 30 terpretation or construction, shall be governed and determined by the law of the state in which the
 31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most
 32 of the land in the Contract Area is located shall govern.
 33

34 **ARTICLE XV.**
 35 **OTHER PROVISIONS**
 36

37 **A. METERING OF PRODUCTION:**
 38

39 If a diversity of the working interest ownership in production from a lease
 40 subject to this agreement occurs as a result of operations by less than all parties
 41 pursuant to any provision of this agreement, it is agreed that the oil and other
 42 hydrocarbons produced from the well or wells completed by the consenting parties
 43 shall be separately measured by standard metering equipment to be properly tested
 44 periodically for accuracy, and the setting of a separate tank battery will not be
 45 required unless the purchaser of the production or governmental regulatory body
 46 having jurisdiction will not approve metering for separately measuring the pro-
 47 duction.
 48

49 **B. NONDISCRIMINATION:**
 50

51 In the performance of this agreement, Operator shall not engage in any con-
 52 duct or practice which violates any law, order or regulation prohibiting discrimi-
 53 nation against any person by reason of his or her race, religion, color, sex,
 54 national origin, or age; and Operator further agrees to comply fully with the
 55 nondiscrimination provisions of Section 202 of Executive Order No. 11246 (30 F.
 56 R. 12319), as amended which are hereby included as Exhibit "F".
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C. DEPARTMENT OF ENERGY REGULATIONS:

Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith.

Non-Operators further agree to reimburse Operator for their proportionate share of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the Non-Operators' part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

D. REAL COVENANT:

The terms, covenants and conditions of this Agreement shall be covenants running with the lands covered hereby and the leasehold estates therein, and with each transfer or assignment of said lands or leasehold estates. Each party making an assignment or transfer of any lands or leasehold estates covered hereby shall state in such assignment or transfer that it is subject to all of the terms, covenants and conditions hereof, and shall promptly give notice to the Operator of any such assignment or transfer.

E. WORKOVER OPERATIONS:

It is agreed that without the mutual consent of all parties no workover operations will be conducted under the provisions of Article VI so long as any completion in the well proposed to be worked over is producing in paying quantities.

F. FILINGS WITH GOVERNMENTAL AGENCIES:

The parties hereto authorize and direct the Operator to prepare and submit to the appropriate jurisdictional agency such filings as the Operator may deem necessary in order that proper well classification may be made for the purposes of the Natural Gas Policy Act of 1978 (NGPA). In the event that Operator shall have determined that a well does not qualify for a classification requiring a jurisdictional agency determination under the NGPA and any other party hereto desires to request a jurisdictional agency determination that a well qualifies for a particular category under the NGPA, Operator shall, at the request of such party, advise such party in writing that Operator does not intend to request a jurisdictional agency determination for such well. Operator shall use its best efforts to make such filings under the NGPA in sufficient time after completion of a well to enable any party to make such additional filings as may be necessary to enable such party to collect the maximum rate to which it may be entitled. However, Operator shall not be held liable or responsible for failure to file an appropriate request with a jurisdictional agency unless such resulted from gross or willful negligence or misconduct.

Operator's responsibility for filing shall cease at such time as filings must be made by each party separately.

G. WINDFALL PROFITS TAX ACT OF 1980:

The Non-Operators hereto authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Windfall Profits Tax Act of 1980" (WPTA) and the Non-Operators further agree to submit to Operator such certifications as Operator may deem necessary in order to comply with the WPTA. The Non-Operators agree to indemnify and hold Operator harmless for any and all liabilities caused as a result of any action taken by Operator on the basis of any certification prepared by any party hereto and for any other action undertaken, or certification prepared, by Operator unless Operator is grossly negligent or acts with willful misconduct in taking such action or preparing such certification. Operator agrees to submit all documents on behalf of Non-Operators unless Operator gives written notice to the contrary.

H. OPERATING AGREEMENT DATED NOVEMBER 9, 1970:

It is understood and recognized by all parties that the leasehold interest committed to this agreement covering the NE/4 of Section 13, Township 17 South, Range 28 East, Eddy County, New Mexico, has been previously committed to an Operating Agreement dated November 9, 1970, as amended by 'Amendment to Operating Agreement' dated February 8, 1971 between Pennzoil United, Inc., as Operator and Tenneco Oil Company, et al, as Non-Operators. Notwithstanding anything to the contrary, this agreement shall prevail over the November 9, 1970 Operating Agreement only insofar as the terms and provisions of this agreement conflict with those of the prior agreement. However, if for any reason this September 15, 1981 Operating Agreement should terminate, said land shall again become fully subject to the terms and provisions of the November 9, 1970 Operating Agreement.

I. BUSINESS ETHICS PROVISIONS:

1. Operator agrees to comply with all laws and lawful regulations applicable to any activities carried out in the name of or on behalf of any one or more parties to this agreement under the provisions of this agreement and or any amendments to it.
2. Operator agrees that all financial settlements, billings, and reports rendered to any one or more of the parties to this agreement, as provided for in this agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all activities and transactions handled for the account of such party or parties, which data may be relied upon as being complete and accurate in any further recording and reporting made by such party or parties for whatever purpose.
3. Operator agrees to notify the other parties to this agreement promptly upon discovery of any instance where the Operator fails to comply with the provision (1) above or where Operator has reason to believe data covered by (2) above is no longer accurate and complete.

J. PENNZOIL COMPANY FARMOUT PROVISIONS:

1. This Article XV-I constitutes a farmout agreement between Pennzoil Company, hereinafter referred to as Farmout Party, and Harvey E. Yates Company, hereinafter referred to as Drilling Party, whereby Drilling Party shall bear Farmout Party's share of all costs and risks of drilling, testing and completing the Initial and Substitute Test Wells provided for in Article VI-A and Article XV-A hereof.

2. In consideration of Drilling Party's payment of Farmout Party's share of said costs and completion of the Initial or Substitute Test Well as a well capable of producing oil and/or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), Drilling Party shall earn all of Farmout Party's oil and gas rights, whether leasehold or contractual, under the proration unit for said well for the depths covered by this Operating Agreement. Farmout Party shall reserve and retain as an overriding royalty the lesser of $1/16$ of $8/8$ or the difference between 75% of $8/8$ both the current burdens on Farmout Party's oil and gas rights, whether leasehold or contractual, under the proration unit for said well of all the oil and gas produced, saved and marketed from the proration unit, with said overriding royalty to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement. Farmout Party shall execute and deliver to Drilling Party any instruments necessary to effect the intent and purpose of this Agreement.

3. Farmout Party shall have the option at Payout of said well to elect to convert its overriding royalty to its share of a 50% working interest in said well and proration unit, with such working interest to be proportionately reduced in accordance with Farmout Party's interest in the Contract Area as set forth on Exhibit "A" of this Operating Agreement.

4. "Payout" is defined to be the date on which the net proceeds attributable to Operator's total interest in said proration unit shall equal Operator's total share of the costs and expenses, both tangible and intangible, of drilling, equipping (an oil well through the oil storage tanks and a gas well through the Christmas tree), testing and completing said well for production, and of operating the said well to produce such amount. "Net proceeds" are defined as the total proceeds received from or credited or allocated to Operator's total interest in the production, less severance, production, windfall profits and other taxes payable on production, together with all royalties, shut-in gas royalties, overriding royalties and payments out of production presently in effect or created by this agreement. Charges and expenses to be made by the Operator shall be made in accordance with and accounted for as set forth in Exhibit "C" hereto.

5. During payout, Drilling Party shall furnish Farmout Party with current monthly statements summarizing income and expenses properly chargeable to Payout. Within thirty (30) days after Payout has occurred, Drilling Party shall give Farmout Party written notice of Payout, and Farmout Party shall have thirty (30) days after receipt of such notice within which to notify Drilling Party in writing of its election to convert, effective at 7:00 a.m. on the first day after Payout occurs, its respective overriding royalty into working interest as provided in Article XV-C, 3 above. The failure of a Farmout Party to make such election within the said 30-day period shall be deemed an election by the Farmout Party not to convert

14c

Operating Agreement dated September 15, 1981
between
Harvey E. Yates Company - Operator
and
Pennzoil Company - Non-operator

its overriding royalty to working interest. If the Farmout Party elects to convert, the Drilling Party shall furnish the Farmout Party with appropriate instruments of conveyance in recordable form and the Farmout Party shall furnish Drilling Party with appropriate instruments in recordable form to effect the release of the overriding royalty.

14d

Operating Agreement dated September 15, 1981
between
Harvey E. Yates Company - Operator
and
Pennzoil Company - Non-operator

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

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**ARTICLE XVI.
MISCELLANEOUS**

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 15th day of September, 1981.

OPERATOR

ATTEST:

HARVEY E. YATES COMPANY

Secretary

By: _____
President

NON-OPERATORS

ATTEST:

PENNZOIL COMPANY

Secretary

By: _____
President

ATTEST:

INEXCO OIL COMPANY

Secretary

By: _____
President

ATTEST:

SPIRAL, INC.

Secretary

By: _____
President

ATTEST:

EXPLORERS PETROLEUM CORPORATION

Secretary

By: _____
President

ATTEST:

CIBOLA ENERGY CORPORATION

Secretary

By: _____
President

ATTEST:

FRED G. YATES, INC.

Secretary

By: _____
President



HEYCO NO.: 9080
HEYCO AID STATE #1

ATTEST:

Secretary

TENNECO OIL COMPANY

By: _____
President

ATTEST:

Secretary

CONOCO, INC.

By: _____
President

ATTEST:

Secretary

EXXON CORPORATION

By: _____
President

ATTEST:

Secretary

MARALO, INC.

By: _____
President

ATTEST:

Secretary

YATES ENERGY CORPORATION

By: _____
President

HEYCO NO.: 9080
HEYCO AID STATE #1

STATE OF NEW MEXICO)
) SS
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day
of _____, 1981, by GEORGE M. YATES, President of HARVEY
E. YATES COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF TEXAS)
) SS
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day
of _____, 1981, by _____
President of PENNZOIL COMPANY, a _____
Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF TEXAS)
) SS
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day
of _____, 1981, by _____
President of INEXCO OIL COMPANY, a _____
Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)
) SS
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day
of _____, 1981, by HARVEY E. YATES, President of SPIRAL, INC.,
a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)
) SS
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day
of _____, 1981, by GEORGE M. YATES, President of EXPLORERS PETRO-
LEUM CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)
) SS
COUNTY OF BERNALILLO)

The foregoing instrument was acknowledged before me this _____ day of _____, 1981, by HARVEY E. YATES, JR., President of CIBOLA ENERGY CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)
) SS
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1981, by FRED G. YATES, President of FRED G. YATES, INC., a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF TEXAS)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1981, by _____, President of TENNECO OIL COMPANY, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF TEXAS)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1981, by _____, President of CONOCO, INC., a _____ Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF TEXAS)
) SS
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this _____ day of _____, 1981, by _____, President of EXXON CORPORATION, a _____ Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

HEYCO NO.: 9080
HEYCO AID STATE #1

STATE OF TEXAS)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1981, by _____, President of MARALO, INC., a _____ Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)
) SS
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1981, by FRED G. YATES, President of YATES ENERGY CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)
) SS
COUNTY OF BERNALILLO)

The foregoing instrument was acknowledged before me this _____ day of _____, 1982, by HARVEY E. YATES, JR., President of CIBOLA ENERGY CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THE OPERATING AGREEMENT
DATED SEPTEMBER 15, 1981, BETWEEN HARVEY E. YATES COMPANY, AS OPERATOR
AND OTHER SIGNATORY PARTIES THERETO AS NON-OPERATORS

1. LANDS SUBJECT TO CONTRACT:

Township 17 South, Range 28 East, N.M.P.M.

Section 13: E/2

Containing 320.0 acres, more or less
Eddy County, New Mexico

2. RESTRICTIONS AS TO FORMATIONS AND DEPTH:

From 2,300 feet to 10,896 feet

3. PERCENTAGE OF INTERESTS OF THE PARTIES TO THIS AGREEMENT:

<u>OWNER</u>	<u>PERCENTAGE OF INTEREST BEFORE PAYOUT</u>	<u>PERCENTAGE OF INTEREST AFTER PAYOUT</u>
Inexco Oil Company	21.093800%	21.093800%
Pennzoil Company	F/0	12.500000%
Maralo, Inc.	.781250%	.781250%
M. Ralph Lowe, Inc.	.390630%	.390630%
Erma Lowe	.390620%	.390620%
Tenneco Oil Company	.390600%	.390600%
Conoco, Inc.	.390600%	.390600%
Exxon Corporation	1.562500%	1.562500%
Spiral, Inc.	3.750000%	3.125000%
Fred G. Yates, Inc.	3.750000%	3.125000%
Explorers Petroleum Corporation	3.750000%	3.125000%
Cibola Energy Corporation	6.362718%	6.362718%
Yates Energy Corporation	18.038108%	14.957116%
Harvey E. Yates Company	39.349174%	31.805166%
	<u>100.000000%</u>	<u>100.000000%</u>

4. OIL AND GAS LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THIS AGREEMENT:

A. Oil and Gas Lease dated October 1, 1976 bearing State Lease Number LG-3782 by and between the State of New Mexico as Lessor and Harvey E. Yates Company as Lessee; insofar as said lease covers the following described lands situated in Eddy County, New Mexico:

Township 17 South, Range 28 East, N.M.P.M.

Section 13: SE/4

Containing 160.0 acres, more or less

B. Oil and Gas Lease dated October 15, 1963 bearing State Lease Number K-3630 by and between the State of New Mexico as Lessor and Inexco Oil Company as Lessee; insofar as said lease covers the following described lands situated in Eddy County, New Mexico:

Township 17 South, Range 28 East, N.M.P.M.

Section 13: NE/4

Containing 160.0 acres, more or less

5. ADDRESSES OF PARTIES TO THIS AGREEMENT:

Pennzoil Company
P. O. Drawer 1838
Midland, Texas 79702
ATTN: Kenneth Medlock

Inexco Oil Company
1100 Milam Building - Suite 1900
Houston, Texas 77002
ATTN: Les Tacconi

Conoco, Inc.
P. O. Box 460
Hobbs, New Mexico 88240
ATTN: Karla Hemberger

Cibola Energy Corporation
P. O. Box 1668
Albuquerque, New Mexico 87103

Tenneco Oil Company
6800 Park Ten Boulevard
Suite 200 N
San Antonio, Texas 78213
ATTN: Rex Bourland

Yates Energy Corporation
Fred G. Yates, Inc.
Suite 919
Security National Bank Building
Roswell, New Mexico 88201

Maralo, Inc.
M. Ralph Lowe, Inc.
Erma Lowe
4600 Post Oak Place - Suite 307
Houston, Texas 77027
ATTN: John Burke

Exxon Company, U.S.A.
P. O. Box 1700
Midland, Texas 79702
ATTN: Joint Interest Manager

Harvey E. Yates Company
Spiral, Inc.
Explorers Petroleum Corporation
P. O. Box 1933
Roswell, New Mexico 88201

Kess/Bill 601. BOX 600
TULSA OK 74101

COPAS — 1974

Recommended by the
Council of Petroleum
Accountants Societies of
North America

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated _____
September 15, 1981, between Harvey E. Yates Company _____
as Operator, and other signatory parties thereto _____
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 thirty (30) 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.

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II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

3. Employee Benefits

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

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

- A. 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.

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10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 3800.00
Producing Well Rate \$ 380.00

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

2. Overhead - Major Construction

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

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

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

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

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

*To Be Negotiated

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 September 15, 1981
between Harvey E. Yates Company as Operator,
and the other parties signatory thereto as
Non-Operators.

At all times during the conduct of operations hereunder,
Operator shall maintain in force the following insurance:

- A. Workmen's Compensation Insurance and Employers'
Liability Insurance as required by the laws of the
State in which operations are being conducted.
- B. Comprehensive General Public Liability in the
following:
 - Bodily Injury: \$200,000 each person
\$300,000 each accident
 - Property Damage: \$100,000 each accident
\$100,000 aggregate
- C. Automobile Public Liability and Property Damage
Insurance with limits of not less than \$100,000
for any one person injured in any accident and
not less than \$300,000 for any number of persons
injured in one accident, and with not less than
\$50,000 property damage coverage for one accident.

All premiums paid on such insurance shall be charged to the
joint account. Except by mutual consent of the parties, no
other insurance shall be maintained for the joint account,
and all losses not covered by such insurance shall be charged
to the joint account.

EXHIBIT "E"
ATTACHED TO AND MADE PART OF
OPERATING AGREEMENT DATED September 15, 1981
BETWEEN HARVEY E. YATES COMPANY AS OPERATOR,
AND OTHER SIGNATORY PARTIES THEREIN AS
NON-OPERATORS

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Unit Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

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

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in storage less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the proration unit of such party with gas in storage and the denominator of which is the total percentage interest in such proration unit of all parties in storage currently taking or delivering to a purchaser. The first gas make-up shall be assumed to be the first gas underproduced.

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

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received less applicable taxes theretofore paid. Such settlement shall be based upon the price actually received by the parties for overproduction when it occurred of a volume of gas equal to that for which settlement is made.

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

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

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF
 OPERATING AGREEMENT DATED September 15, 1981
 BETWEEN HARVEY E. YATES COMPANY AS OPERATOR,
 AND OTHER SIGNATORY PARTIES THEREIN AS
NON-OPERATORS.

NONDISCRIMINATION CLAUSE

HARVEY E. YATES COMPANY, hereinafter referred to as "Operator," agrees, unless exempt therefrom, to comply with all provisions of Executive Order 11246, which are incorporated herein by reference, and if Operator has more than 50 employees, Operator must file Standard Form 100 (EEO-1) and develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Operator further hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.8, Code of Federal Regulations, revised as of 1/1/69, unless exempt therefrom.

Unless exempt by rules, regulations or orders of the United States Secretary of Labor, issued pursuant to Section 204 of the Executive Order 11246 dated September 24, 1965, during the performance of this contract, the Operator agrees as follows:

- "(1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure the Applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting office setting forth the provisions of this nondiscrimination clause.
- "(2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- "(3) The Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- "(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
- "(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

Page 2
Exhibit "F"

- "(6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.
- "(7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States."

II. CERTIFICATION OF NON-SEGREGATED FACILITIES

- (1) Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.
- (2) Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.
- (3) Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. § 1001.

III. OCCUPATIONAL SAFETY AND HEALTH ACT

Operator will observe and comply with all safety and health standards promulgated by the Secretary of Labor under Section 107 of the Contract Work Hours and Standards Act, published in 29 CFR Part 1518 and adopted by the Secretary of Labor as occupational safety and health standards under the Williams-Steiger Occupational Safety and Health Act of 1970. Such safety and health standards shall apply to all subcontractors and their employees as well as to the prime contractor and its employees.

IV. VETERAN'S PREFERENCE

Operator agrees to comply with the following insofar as contracts it lets for an amount of \$10,000 or more which will generate 400 or more man-days of employment (each man-day consisting of any day in which an employee performs more than one hour of work) and further agrees to include the following provision in contracts with Contractors and Subcontractors:

"CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT

- (1) As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not the contractor other than the one wherein the contract is being performed but

Spacing & Waste

Longfellow Exh. C-21 (Rebuttal)

No. 21651

June 17, 2021

Spur Development Plan

Formation Bench

San Andres

Top 3,850'

Glorieta

Bench 1
"Paddock"
(proven)

Paddock

Bench 2
"Upper
Blinebry"
(proven)

Blinebry

Bench 3
"Middle
Blinebry"
(prospective)

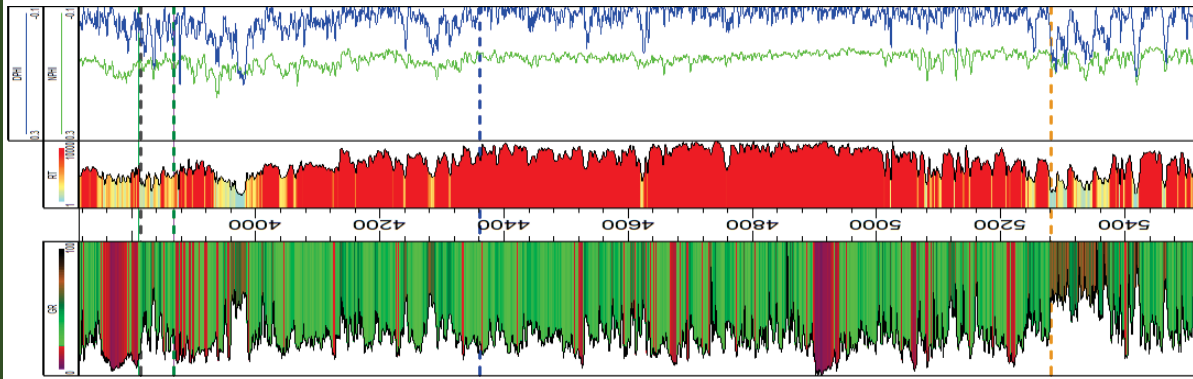
Blinebry

Bench 4
"Lower
Blinebry"
(prospective)

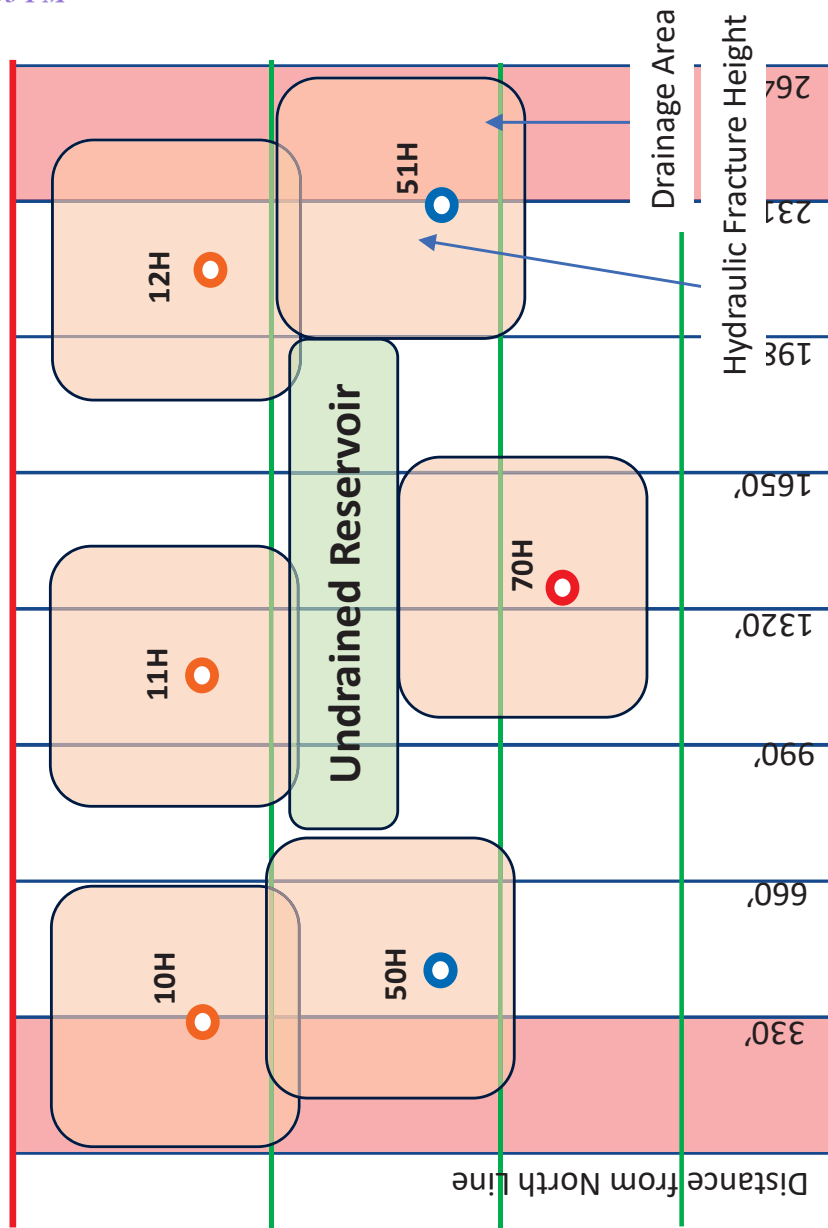
Tubb

Base 5,250'

Abo



If, as Spur argues, the wells are spaced vertically exactly correctly, the deeper Middle Blinebry (Bench 3) well will leave an undrained space between the 11H & 70H wells.



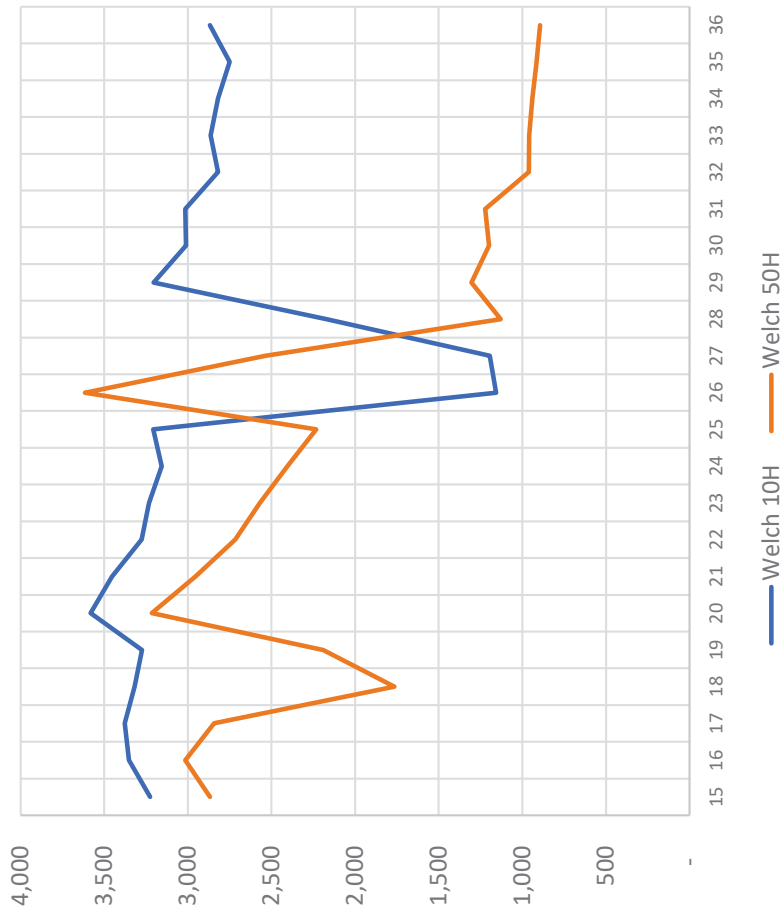
Interference

Welch 28A Stacked Laterals Show Production Interference

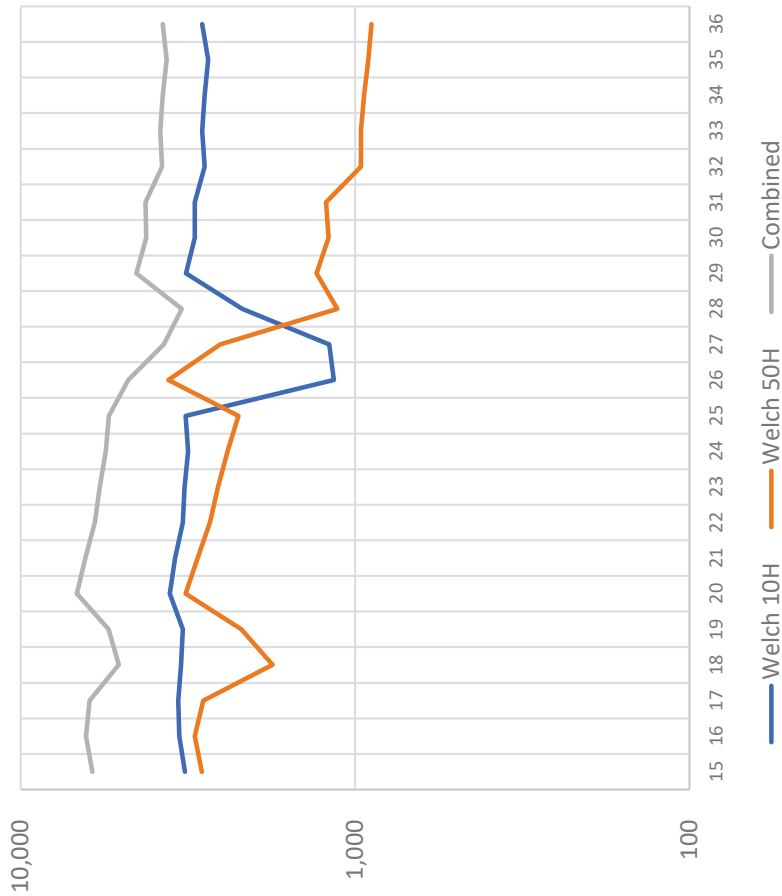
Production from the Welch 28A 50H increased by 1,381 Bbl per day the same day that the Welch 28A 10H dropped by 2,051 Bbl per day.

This indicates that the wells could be in direct hydraulic communication.

Welch 28A Production



Welch 28A Production



Middle Blinebry (Bench 3)

Bench 3 Economics Not Proven

Only 1 Bench 3 well drilled in the plan meets current economic breakeven (at current costs and prices) or exceeds an internal rate of return of 30%.

Yeso Bench 3 (Middle Blinebry) Horizontal Wells in NW Shelf Trend

API	Operator	Well Name	Bench	EUR Oil	Distance to Hendrix ABX
30015433990000	SPUR ENERGY PARTNERS LLC	027H PINTO 36 STATE	Bench 3	326	20
30015392880000	SPUR ENERGY PARTNERS LLC	11H CARMEN 3 FEDERAL COM	Bench 3	154	10
30015404700000	APACHE CORP	827H CEDAR LAKE FEDERAL CA	Bench 3	152	14
30015405790000	APACHE CORP	15H CROW FEDERAL	Bench 3	141	16
30015404140000	COG	Hogan State Com #3H	Bench 3	136	6
30015404150000	COG	Hogan State Com #4H	Bench 3	120	6
30015404420000	COG	Hogan State Com #2H	Bench 3	100	6
30015405450000	COG	Submarine 10 Fed Com #4H	Bench 3	92	5
30015427570100	COG	NOT GIVEN 26H	Bench 3	85	19
30015403600000	COG	Submarine 11 Fed Com #4H	Bench 3	59	5
30015409660000	COG	Twelve Pack Fed #4H	Bench 3	57	8
Economic Hurdles					
	Breakeven (PVO)	176	Mbbl		
	Investment (30% IRR)	209	Mbbl		



ECONOMIC PROJECTION

Case : Middle BB = 30% ROR Case
 Type : LEASE CASE
 Field : NWS
 Operator :
 Reservoir :
 Co., State : Eddy, NM
 API No. :

NM Study
 Custom Selection
 Discount Rate : 10.00
 As of : 01/01/2022

Date: 06/18/2021 9:43:25AM
 Partner : All Cases
 Retrieval Code : Proved Undeveloped
 Reserve Cat. : default
 Location :
 Archive Set :

Est. Cum Oil (Mbbbl) : 0.00
 Est. Cum Gas (MMcf) : 0.00
 Est. Cum Water (Mbbbl) : 0.00

Year	Oil Gross (Mbbbl)	Gas Gross (MMcf)	Oil Net (Mbbbl)	Gas Net (MMcf)	Oil Price (\$/bbl)	Gas Price (\$/Mcf)	Oil & Gas Rev. Net (M\$)	Misc. Rev. Net (M\$)	Costs Net (M\$)	Taxes Net (M\$)	Invest. Net (M\$)	NonDisc. CF Annual (M\$)	Cum Disc. CF (M\$)	Cum (M\$)
2022	79.26	60.05	59.45	45.03	61.16	1.82	3,718.00	0.00	553.80	450.21	3,857.67	-1,143.67	-1,263.46	
2023	45.26	27.29	33.95	20.47	57.32	1.75	1,981.71	0.00	438.16	239.89	0.00	1,303.66	-122.97	
2024	22.49	11.86	16.87	8.89	54.19	1.71	929.16	0.00	334.86	112.46	0.00	481.83	259.43	
2025	14.10	7.27	10.58	5.45	52.32	1.70	562.80	0.00	142.28	68.12	0.00	352.40	512.93	
2026	9.96	5.14	7.47	3.86	51.41	1.67	390.57	0.00	119.48	47.27	0.00	223.82	659.20	
2027	7.54	3.92	5.65	2.94	51.11	1.67	293.87	0.00	105.20	35.57	0.00	153.10	750.13	
2028	5.99	3.15	4.49	2.36	51.13	1.68	233.54	0.00	95.56	28.27	0.00	109.71	809.34	
2029	4.89	2.60	3.66	1.95	51.36	1.72	191.59	0.00	88.29	23.19	0.00	80.11	848.64	
2030	4.10	2.21	3.08	1.66	51.75	1.77	162.07	0.00	82.90	19.62	0.00	59.56	875.20	
2031	3.51	1.91	2.63	1.43	52.20	1.82	139.93	0.00	78.65	16.94	0.00	44.34	893.17	
2032	3.06	1.68	2.29	1.26	52.69	1.88	123.11	0.00	75.25	14.90	0.00	32.96	905.33	
2033	2.68	1.49	2.01	1.12	52.71	1.94	108.13	0.00	72.13	13.09	0.00	22.91	913.00	
2034	2.38	1.34	1.79	1.01	52.71	2.14	96.36	0.00	69.47	11.67	0.00	15.23	917.64	
2035	2.14	1.22	1.60	0.91	52.71	2.14	86.47	0.00	67.11	10.47	0.00	8.89	920.11	
2036	1.94	1.11	1.45	0.83	52.71	2.14	78.40	0.00	65.05	9.49	0.00	3.85	921.09	
Rem.	0.66	0.38	0.50	0.29	52.71	2.14	26.88	0.00	23.20	3.26	50.00	-49.58	-11.46	
Total	209.96	132.63	157.47	99.48	56.80	1.79	9,122.59	0.00	2,411.37	1,104.43	3,907.67	1,699.12	909.63	
Ult.	209.96	132.63												

Major Phase :	Oil	Return on Investment (disc) :	1.823	Present Worth Profile (M\$)	PW	5.00% :	1,261.40	PW	20.00% :	380.13
Initial Rate :	15,390.83	Return on Investment (undisc) :	2.101	PW	8.00% :	1,041.65	PW	30.00% :	-1.01	
Abandonment :	268.40	Years to Payout :	1.86	PW	10.00% :	909.63	PW	40.00% :	-290.57	
Initial Decline :	8.382	Internal Rate of Return (%) :	30.00	PW	12.00% :	787.66	PW	50.00% :	-519.50	
Initial Ratio :	0.776			PW	15.00% :	621.16	PW	60.00% :	-705.97	
Abandon Ratio :	0.578									
Abandon Day :	05/14/2037									

Eco. Indicators

Working Interest : 1.00000000 0.00000000 0.00000000
 Revenue Interest : 0.75000000 0.00000000 0.00000000
 Rev. Date :

ECONOMIC PROJECTION

Case : Middle BB - Breakeven Case
 Type : LEASE CASE
 Field : NWS
 Operator :
 Reservoir :
 Co., State : Eddy, NM
 API No. :

NM Study
 Custom Selection
 Discount Rate : 10.00
 As of : 01/01/2022

Date: 06/18/2021 9:43:25AM
 Partner : All Cases
 Retrieval Code : Proved Undeveloped
 Reserve Cat. : default
 Location :
 Archive Set :

Est. Cum Oil (Mbbbl) : 0.00
 Est. Cum Gas (MMcf) : 0.00
 Est. Cum Water (Mbbbl) : 0.00

Year	Oil Gross (Mbbbl)	Gas Gross (MMcf)	Oil Net (Mbbbl)	Gas Net (MMcf)	Oil Price (\$/bbl)	Gas Price (\$/Mcf)	Oil & Gas Rev. Net (M\$)	Misc. Rev. Net (M\$)	Costs Net (M\$)	Taxes Net (M\$)	Invest. Net (M\$)	NonDisc. CF Annual (M\$)	Cum Disc. CF (M\$)
2022	66.06	50.04	49.54	37.53	61.16	1.82	3,098.52	0.00	488.10	375.19	3,857.67	-1,622.44	-1,717.44
2023	37.72	22.74	28.29	17.06	57.32	1.75	1,651.52	0.00	397.14	199.92	0.00	1,054.46	-794.73
2024	18.74	9.88	14.06	7.41	54.19	1.71	774.34	0.00	311.06	93.73	0.00	369.56	-501.26
2025	11.75	6.06	8.82	4.55	52.32	1.70	469.03	0.00	125.57	56.77	0.00	286.69	-295.01
2026	8.30	4.28	6.23	3.21	51.41	1.67	325.49	0.00	106.57	39.40	0.00	179.53	-177.67
2027	6.28	3.27	4.71	2.45	51.11	1.67	244.90	0.00	94.67	29.64	0.00	120.59	-106.04
2028	4.99	2.62	3.74	1.97	51.13	1.68	194.62	0.00	86.63	23.56	0.00	84.43	-60.46
2029	4.07	2.17	3.05	1.63	51.36	1.72	159.67	0.00	80.58	19.33	0.00	59.76	-31.14
2030	3.42	1.84	2.56	1.38	51.75	1.77	135.07	0.00	76.08	16.35	0.00	42.64	-12.12
2031	2.92	1.59	2.19	1.20	52.20	1.82	116.62	0.00	72.55	14.12	0.00	29.95	0.03
2032	2.55	1.40	1.91	1.05	52.69	1.88	102.60	0.00	69.71	12.42	0.00	20.47	7.58
2033	2.23	1.24	1.68	0.93	52.71	1.94	90.11	0.00	67.11	10.91	0.00	12.09	11.64
2034	1.99	1.12	1.49	0.84	52.71	2.14	80.31	0.00	64.89	9.72	0.00	5.69	13.38
2035	1.08	0.61	0.81	0.46	52.71	2.14	43.55	0.00	37.18	5.27	50.00	-48.90	0.00

Rem.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	13.6	172.10	129.08	81.66	56.87	1.78	7,486.35	0.00	2,077.83	906.34	3,907.67	594.52	0.00
Ult.	172.10	108.89	108.89										

Eco. Indicators

Major Phase :	Oil	Return on Investment (disc) :	1.474		
Initial Rate :	15,390.83 bbl/month	Return on Investment (undisc) :	1.687		
Abandonment :	319.23 bbl/month	Years to Payout :	3.84		
Initial Decline :	8.382 %/year	Internal Rate of Return (%) :	< 0		
Initial Ratio :	0.776 Mcf/bbl				
Abandon Ratio :	0.569 Mcf/bbl	Initial	1st Rev.	2nd Rev.	
Abandon Day :	08/04/2035	Working Interest :	1.00000000	0.00000000	0.00000000
		Revenue Interest :	0.75000000	0.00000000	0.00000000
		Rev. Date :			

Present Worth Profile (M\$)		
PW	5.00% :	267.38 PW
PW	8.00% :	100.80 PW
PW	10.00% :	0.00 PW
PW	12.00% :	-93.58 PW
PW	15.00% :	-222.01 PW
		20.00% :
		30.00% :
		40.00% :
		50.00% :
		60.00% :