

5/10/00 5/30/00 MS MW NSL

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION - Engineering Bureau -

ADMINISTRATIVE APPLICATION COVERSHEET

THIS COVERSHEET IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS

Application Acronyms:

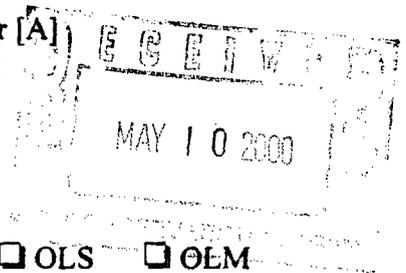
- [NSP-Non-Standard Proration Unit] [NSL-Non-Standard Location] [DD-Directional Drilling] [SD-Simultaneous Dedication] [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling] [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement] [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion] [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase] [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

- [A] Location - Spacing Unit - Directional Drilling [X] NSL [ ] NSP [ ] DD [ ] SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement [ ] DHC [ ] CTB [ ] PLC [ ] PC [ ] OLS [ ] OLM
[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery [ ] WFX [ ] PMX [ ] SWD [ ] IPI [ ] EOR [ ] PPR



[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or [ ] Does Not Apply

- [A] [ ] Working, Royalty or Overriding Royalty Interest Owners
[B] [X] Offset Operators, Leaseholders or Surface Owner
[C] [ ] Application is One Which Requires Published Legal Notice
[D] [ ] Notification and/or Concurrent Approval by BLM or SLO
[E] [ ] For all of the above, Proof of Notification or Publication is Attached, and/or,
[F] [X] Waivers are Attached (See lease line agreement)

[3] INFORMATION / DATA SUBMITTED IS COMPLETE - Statement of Understanding

I hereby certify that I, or personnel under my supervision, have read and complied with all applicable Rules and Regulations of the Oil Conservation Division. Further, I assert that the attached application for administrative approval is accurate and complete to the best of my knowledge and where applicable, verify that all interest (WI, RI, ORRI) is common. I further verify that all applicable API Numbers are included. I understand that any omission of data, information or notification is cause to have the application package returned with no action taken.

JAMES BRUCE P.O. BOX 1056 SANTA FE, NM 87504

Note: Statement must be completed by an individual with supervisory capacity.

James Bruce Signature Attorney for The Title Wiser Oil Co. 5/10/00 Date

Print or Type Name

**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA  
SANTA FE, NEW MEXICO 87501

(505) 982-2043  
(505) 982-2151 (FAX)

May 10, 2000

**Hand Delivered**

Michael E. Stogner  
Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Re: Request for unorthodox location approvals  
Township 17 South, Range 31 East, NMPM

Dear Mr. Stogner:

The Wiser Oil Company ("Wiser") and William A. & Edward R. Hudson Inc. ("Hudson") jointly request approval of the following well unorthodox locations:

<u>Operator</u>	<u>Well Name</u>	<u>Location</u>
Wiser	Lea D # 24	10' FNL & 10' FEL \$26
Wiser	Lea D # 26	2630' FNL & 10' FEL \$26
Wiser	Skelly Unit # 403	1330' FSL & 20' FEL \$23
Hudson	Puckett A WH # 1	2630' FSL & 10' FWL \$24
Hudson	Puckett A WH # 2	1330' FNL & 10' FWL \$24

Exhibit A is a land plat of the area. The Wiser acreage is colored, and the Hudson leases are noted. All of the affected land is federal acreage.

Exhibits B, C, and D are Form C-102's for the Wiser Skelly Unit # 403 and the Hudson wells. Form C-102's are being prepared for the remaining Wiser wells.

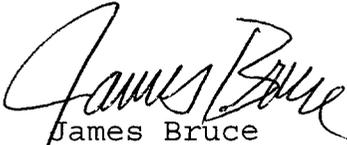
The wells are being drilled as infill wells on the parties' waterflood projects, and are the subject of the Cooperative Unit Line Injection Well and Unit Line Infill Drilling Agreement, submitted as Exhibit D.

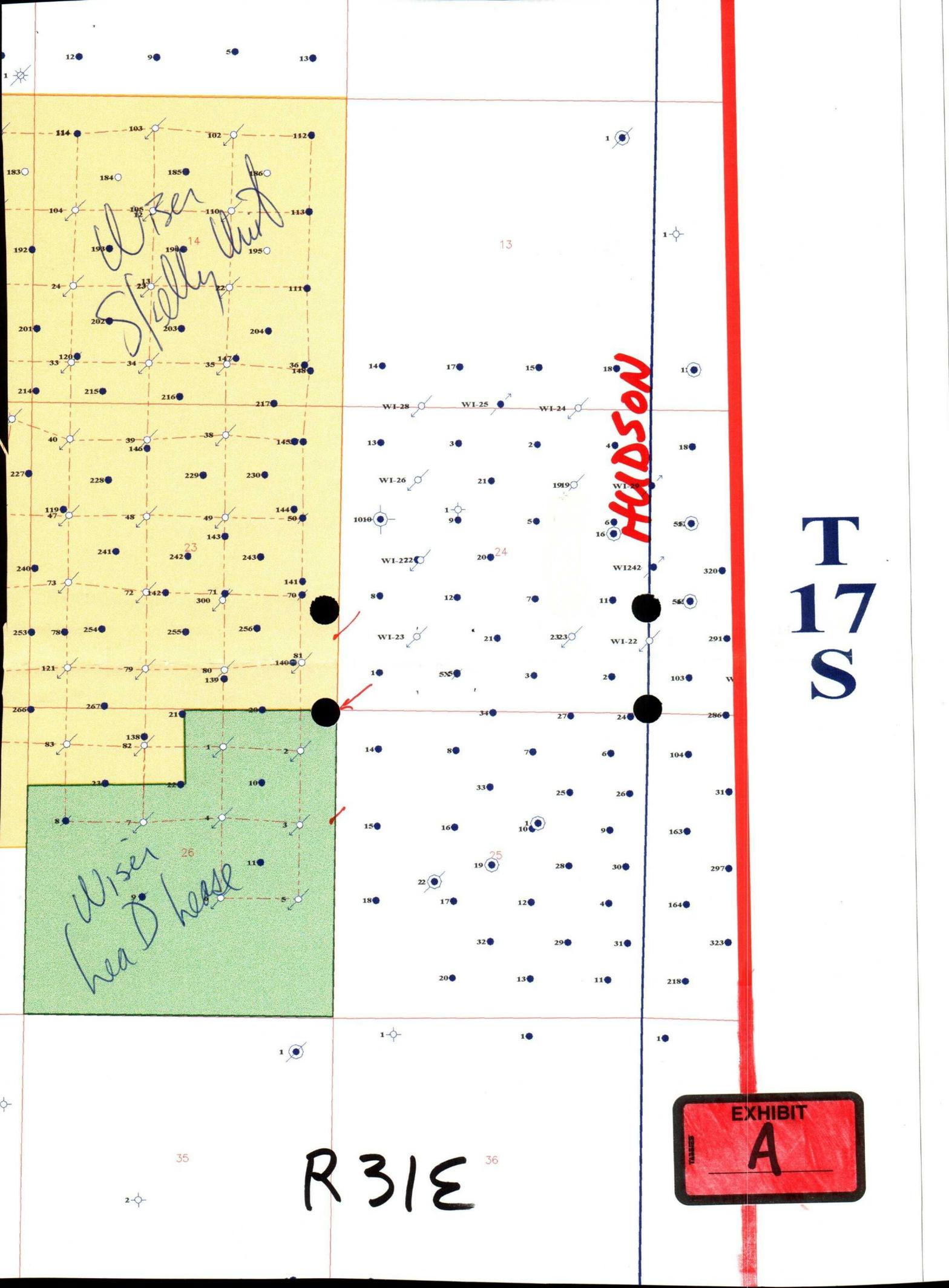
The parties intended to apply for two additional locations (one for each operator). However, surface obstructions have caused the

locations to be moved, so this application will be supplemented at such time as the two locations are verified.

Please call me if you need any further information for this application.

Very truly yours,

  
James Bruce



Wiser  
Stelly Unit

HUDSON

T  
17  
S

Wiser  
head lease

R 31 E

EXHIBIT  
A

DISTRICT I  
1625 N. French Dr., Hobbs, NM 88240

DISTRICT II  
811 South First, Artesia, NM 86210

DISTRICT III  
1000 Rio Brazos Ed., Artec, NM 87410

DISTRICT IV  
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-102  
Revised March 17, 1999

Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

**OIL CONSERVATION DIVISION**

2040 South Pacheco  
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

API Number 30-015-	Pool Code 28509	Pool Name Grayburg Jackson 7-Rivers QN GB SA
Property Code 017540	Property Name SKELLY UNIT	Well Number .403
OGRID No. 022922	Operator Name WISER OIL COMPANY	Elevation 3882'

**Surface Location**

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
1	23	17 S	31 E		1330	SOUTH	20	EAST	EDDY

**Bottom Hole Location If Different From Surface**

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.

**NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION**

DETAIL  
NOT TO SCALE

**OPERATOR CERTIFICATION**

*I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.*

G.M. Jones  
Signature

G.M. Jones  
Printed Name

Superintendent  
Title

March 23, 2000  
Date

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**SURVEYOR CERTIFICATION**

*I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.*

March 09 2000  
Date Surveyed

GARY L. JONES  
Signature & Seal of Professional Surveyor

7977  
Professional Surveyor No.

7977  
Certificate No.

**BASIN SURVEYS**

LAT - N32°48'59.6"  
LONG - W103°49'54.3"

SEE  
DETAIL  
20'

**EXHIBIT**  
**B**

DISTRICT II  
 P.O. Drawer 90, Artesia, NM 88211-0710

DISTRICT III  
 1000 Rio Brazos Rd., Artesia, NM 87410

DISTRICT IV  
 P.O. Box 3000, Santa Fe, N.M. 87504-2000

**OIL CONSERVATION DIVISION**

P.O. Box 2088  
 Santa Fe, New Mexico 87504-2088

AMENDED REPORT

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

API Number	Pool Code	Pool Name
	43329	MALJAMAR-GRAYBURG SAN ANDERS
Property Code	Property Name	Well Number
5313	PUCKETT A W.H.	1
OGRID No.	Operator Name	Elevation
25111	WILLIAM A. & EDWARD R. HUDSON, INC.	3886

**Surface Location**

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	24	17 S	31 E		2630	SOUTH	10	WEST	EDDY

**Bottom Hole Location If Different From Surface**

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acre	Joint or Infill	Consolidation Code	Order No.
40			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Joe T. Janica</i>                  Signature</p> <p>Joe T. Janica                  Printed Name</p> <p>Agent                  Title</p> <p>03/16/00                  Date</p>
	<p><b>SURVEYOR CERTIFICATION</b></p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.</p> <p>FEBRUARY 10, 2000</p> <p>Date Registered: _____ DC</p> <p>Signature &amp; Seal: <i>Ronald J. Edison</i>                  Professional Surveyor</p> <p>NEW MEXICO                  State Seal</p> <p>3/5/2000                  00-11-020</p> <p>Certificate No.: RONALD J. EDISON 3239                  GARY EDISON 12841                  WAGNER McDONALD 12185</p>



TRICT I  
Box 1090, Hobbs, NM 88241-1090

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-102  
Revised February 10, 1994  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Per Lease - 5 Copies

TRICT II  
Drawer 03, Artesia, NM 88211-0013

TRICT III  
1 Via Grande Rd., Artesia, NM 87410

**OIL CONSERVATION DIVISION**

P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

TRICT IV  
BOX 2028, SANTA FE, N.M. 87504-2028

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

API Number	Pool Code	Pool Name
	43329	MALJAMAR-GRAYBURG SAN ANDRES
Property Code	Property Name	Well Number
5313	PUCKETT A W.H.	2
GRID No.	Operator Name	Elevation
25111	WILLIAM A. & EDWARD R. HUDSON, INC.	3886

**Surface Location**

Lot or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
E	24	17 S	31 E		1330	NORTH	10	WEST	EDDY

**Bottom Hole Location If Different From Surface**

Lot or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Indicated Acres	Joint or Infill	Consolidation Code	Order No.
40			

**NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION**

	23	24	
		1330	
	3886.9'	3891.0'	SEE DETAIL
	3886.9'	3890.8'	DETAIL
	23	24	

**OPERATOR CERTIFICATION**

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

*Joe T. Janica*  
Signature

Joe T. Janica  
Printed Name

Agent

Title

03/16/00  
Date

---

**SURVEYOR CERTIFICATION**

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

FEBRUARY 11, 2000

Date Surveyed

DC

Signature & Seal of Professional Surveyor

*Raymond E. Edison*  
Raymond E. Edison  
00-11-0202

Certification No.: RONALD J. EDISON 3239  
RAY E. HUDSON 12841  
JAMES McDONALD 12106



COOPERATIVE UNIT LINE INJECTION WELL  
AND UNIT LINE INFILL DRILLING AGREEMENT

SKELLY UNIT AND LEA 'D' LEASE  
PUCKETT FEDERAL LEASES

THIS AGREEMENT is entered into by The Wiser Oil Company as Operator of the Skelly Unit, and the Lea 'D' Lease, hereafter referred to as "Wiser", and W. A. & E. R. Hudson Inc., and the working interest owners listed below, hereafter referred to as "Puckett Working Interest Owners", as Operator of the Puckett Federal Leases, hereafter referred to as "Hudson".

RECITALS:

1. Wiser is the Operator of the Skelly Unit and Lea 'D' Lease as provided under the terms of the applicable Unit Agreement and the Unit Operating Agreement (the "Unit") and the owner of 100% working interest therein.
2. Hudson, et al is the Operator of the Puckett Federal Leases and is the owner of 100% working interest therein.
3. The Unit Area of the Skelly Unit and Lea 'D' Lease includes, among other lands, all of Sections 14, 15, 21, 22, 23 and the N/2 NW/4 Section 26, N/2 of Section 27, N/2 & N/2 S/2 Section 28, T-17-S, R-31-E; and the Lea 'D' Lease includes all of Section 26, less and except the N/2 NW/4, T-17-S, R-31-E, Eddy County, New Mexico; and the Puckett Federal Leases covering all of Sections 12, 13, 24 and 25, T-17-S, R-31-E, Eddy County, New Mexico.
4. Wiser and Hudson desire to enter into an agreement to provide for the continued operation of existing wells, the reactivation of existing shut-in injection wells, and the conversion of additional wells to injection as provided in Article 1, along the common boundary of the above described lands for the injection of water into one or both of the Grayburg and San Andres formations underlying said lands in order to enhance the recovery of hydrocarbons from their respective unit/lease production. Wiser and Hudson also desire to enter into an agreement to drill up to seven (7) infill producing wells on 20 acre spacing units along the common boundary line of the Skelly Unit, Lea 'D' Lease and the Puckett Federal Leases, in accordance with Article 7 below.

NOW THEREFORE, in consideration of the mutual benefits to be derived from the covenants and obligations herein contained, Wiser and Hudson agree as follows:

ARTICLE 1

INJECTION WELLS

- 1.1 Wiser currently operates the following active injection wells:

Lea 'D' #2, located in the NE/4 NE/4 Section 26, T-17-S, R-31-E and Skelly #81, located in the SE/4 SE/4 Section 23, T-17-S, R-31E, Eddy County, New Mexico.

These wells shall be equipped, maintained and operated under this agreement, and the covenants of Wiser under this agreement shall be performed at the expense of Wiser as an item of unit and/or lease expense under the Unit Operating Agreement for the Skelly Unit and/or Lea 'D' Lease.

- 1.2 Hudson, who currently operates the following active wells, shall, within thirty (30) days after execution of this agreement, make application before the New Mexico Oil Conservation Division to convert to injection or reactivate existing shut-in injection wells as follows:



Puckett A 8, located in the NW/4 SW/4 Section 24-T17S-R31E  
Puckett B 14, located in the NW/4 NW/4 Sec. 25-T17S-R31E

These wells shall be equipped, maintained and operated under this agreement, and the covenants of Hudson under this agreement shall be performed at the expense of Hudson as an item of lease expense under any operating agreement for the Puckett Federal Leases.

Within one hundred twenty (120) days of receipt of approval by the New Mexico Oil Conservation Division, Hudson shall convert, reactivate, and equip the above wells as necessary, for the injection of water into one or both of the Grayburg and San Andres formations. These wells shall be equipped, maintained and operated under this agreement, and the covenants of Hudson under this agreement shall be performed at the sole expense and risk of Hudson.

- 1.3 Well Log: Upon execution of this agreement and upon request, each party shall provide the other party with a copy of a porosity log on each of the wells contemplated by this agreement, indication of perforation depth. Each party, upon request, shall also provide the other party with details of workover operations on each of the wells, including stimulation and squeezing operations.
- 1.4 Replacement and Substitute Wells: It is recognized by the parties that the incremental recovery of hydrocarbons reasonably expected from each Unit/Proration Area as a result of the injection operations contemplated by this agreement may not justify the drilling of a replacement well in the event a party is unable to continue operations of existing injection wells or is unable to convert its well to an injection well or to obtain governmental authorization to inject fluids into the well. If, as a result of a lack of wellbore integrity or other condition in the hole or formations penetrated, either party is unable after exercising reasonable diligence as would a prudent operator to continue operations of existing injection wells or to convert the wells described in Articles 1.1 and 1.2. herein to injection wells or to obtain governmental authorization to inject fluids into the Grayburg and San Andres formations, said party shall, within thirty (30) days, notify the other party hereto in writing of the condition of such well and shall have the option but not the obligation to propose either to substitute an existing well therefore, or to drill a replacement well at a location within three hundred (300) feet of the well to be replaced.

If the notifying party has elected to drill a replacement well, it shall, within a reasonable time after giving the above described notice, begin operations for the drilling of the replacement well. If it has chosen to propose a substitute well, the remaining party hereto may either accept or reject the proposed substitute well. If the notifying party proposes a substitute well that is acceptable to the remaining party hereto, the notifying party shall drill and equip said well within one hundred twenty (120) days after receiving the remaining party's written acceptance thereof. If the remaining party hereto rejects the proposed substitute well, such remaining party shall have the option to cease operating any adjacent injection well covered by this agreement.

## ARTICLE 2

### OPERATION

- 2.1 Water Supply: A. Each party either has constructed or shall construct and maintain facilities necessary for delivery of water to its injection wells described in Article 1 and shall furnish water suitable for injection therein. Each party, upon request, shall provide the other party with a water analysis of its injection water.
- B. Hudson will rely on Wiser supplying injection water hereunder under the provisions of that certain "Pressurized Water Sale Agreement" dated DECEMBER 17, 1999 between Wiser and Hudson for its water supply. During the

time that Hudson is so relying on injection water from Wiser, interruptions in Hudson's injection obligations caused by interruptions in the supply of water from Wiser shall not be deemed a breach of Hudson's injection obligation under this agreement.

- 2.2 Injection: Except as otherwise provided in Article 1.4 herein ("Replacement and Substitute Wells"), water injection into each of the proposed conversion injection wells and re-activated injection wells shall commence within one hundred twenty (120) days after receipt of approval by the New Mexico Oil Conservation Division. Injection of water into each injection well covered by this agreement, shall be at rates and pressures mutually agreed upon, preferably below the fracturing pressure of the formation as determined by periodic step-rate injectivity tests. Prior to running a step-rate test, the operating pressure on the well shall be set at a level lower than the lowest fracturing pressures measured by step-rate tests in nearby injection wells completed in the formation. If the rates and pressures cannot be mutually agreed upon, the rates shall be at least 200 barrels of water a day, provided the rate does not result in a bottomhole pressure which is greater than the formation fracturing pressure. Each party, upon request, shall provide the other party details of the results of each step-rate test and any fall-off tests conducted on its wells. Each month, each party shall provide the other party with a statement showing the average daily injection rate and the average daily injection pressure, for the previous month, along with the cumulative injection volumes, for all wells within 700 feet of the common unit boundary.
- 2.3 Injection Profile: Each party shall run radioactive water tracer surveys as required on its wells. Each party shall, upon request, provide a copy of its injection profile logs to the other party hereto.
- 2.4 Metering: Each party shall be responsible, at its sold cost and expense, for installing and maintaining in good repair, appropriate pressure gauges and water meters for each of the injection wells covered by this agreement.

### ARTICLE 3

#### INTERESTS AND OBLIGATIONS OF PARTIES

- 3.1 Interests of Parties: Nothing in this agreement shall be deemed to be an assignment or a cross-assignment of interests in the respective Unit/Project Area. This agreement is entered into for the sole purpose of providing for the operation of injection and infill producing wells on the common boundary of the Unit/Project Areas to enhance the recovery of hydrocarbons from each Unit/Project Area so that the party who operates the Unit/Project Area, along with the other owners of interests in production from the Unit/Project Area, may benefit by an increase in ultimate recovery of hydrocarbons from the Unit/Project Area.
- 3.2 Obligations of Parties: The obligations and liabilities of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations as set out in this agreement. It is not the intention of the parties to create, nor shall this agreement be construed to create, a mining or other partnership or association, or to render the parties liable as partners.

### ARTICLE 4

#### FORCE MAJEURE

If either party is rendered unable, wholly or in part, by force majeure to carry its obligations under this agreement, that party shall give to the other party prompt notice of the force majeure with reasonable full particulars concerning it; thereupon, the obligations of the party giving notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than the continuance of, the force majeure. The

affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

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

The term "force majeure", as here employed shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental action, governmental delay, restraint or inaction, unavailability of equipment, failure of water supply, 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 5

### NOTICES

All notices and other communications authorized or required between the parties under this agreement shall be deemed to have been given when such communications in writing shall have been received by fax or United States mail, by the party to whom the notice is given at the following address:

Wiser:

The Wiser Oil Company  
8115 Preston Road, Suite 400  
Dallas, Texas 75225  
Attn: Matt Eagleston

Hudson:

WA & ER Hudson Inc.  
616 Texas Street  
Fort Worth, Texas 76102-4612  
Attn: E. Randall Hudson, III

Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to the other party.

## ARTICLE 6

### EFFECTIVE DATE AND TERM OF AGREEMENT

- 6.1 Effective Date: The effective date of this agreement shall be DECEMBER 17, 1999.
- 6.2 Term of Agreement: This agreement shall be in effect for a period of ten (10) years after the effective date hereof and so long thereafter as the Skelly Unit, Lea 'D' Lease and the Puckett Federal Leases are in effect, unless terminated as hereinafter set forth.

This agreement may be terminated at any time after the expiration of such ten (10) year term by unanimous agreement of the parties hereto. If the parties are unable to agree, the term of this agreement shall not extend beyond ten (10) years from the cessation of operations attributable to the wells covered in Article 1 and Article 7 hereof.

## ARTICLE 7

### INFILL DEVELOPMENT

- 7.1 In order to further enhance the ultimate recovery of hydrocarbons from both the Skelly Unit, Lea 'D' Lease and the Puckett Federal Leases, Wiser and Hudson each agree to drill and operate one (1) infill producing wells along the common boundary of the Unit/Lease at the approximate locations described on Exhibit "B" attached hereto. Such wells shall be drilled and completed within one hundred eighty (180) days from the execution of this agreement. Wiser and Hudson recognize that in order to be able to drill these infill wells at the proposed locations, each company will be required to obtain unorthodox location approval

from the New Mexico Oil Conservation Division. Accordingly, Wiser and Hudson hereby covenant to execute any waivers necessary for the remaining party hereto to administratively obtain such unorthodox locations in accordance with applicable New Mexico Oil Conservation Division rules.

- 7.2 The wells to be drilled as set out in the preceding paragraph 7.1 are designated on the plat attached hereto as Exhibit "B" as Lea D 30 (operated by Wiser) and Puckett B WH 1 (operated by Hudson). Locations for an additional five line wells are similarly depicted on said Exhibit "B" as Lea D 31 and 32, Skelly 500, Puckett A WH 1 and Puckett A WH 2. After the drilling and completion of the first two wells, additional wells shall be drilled and completed upon the mutual agreement of Wiser and Hudson with Wiser operating the odd numbered wells and Hudson the even numbered wells. Before drilling any well hereunder the operator thereof shall furnish the working interest owners an AFE setting out the estimated costs thereof in accordance with the terms of the Operating Agreement between the parties hereto of even date herewith.
- 7.2 In order to share in the risks and rewards of drilling the proposed infill wells, Wiser and Hudson further agree that an operating agreement between the parties, designating Hudson as operator of those infill wells located on the Puckett Federal Leases, and further designating Wiser as operator of those infill wells located on the Skelly Unit and Lea 'D' Lease, which shall be executed simultaneously with this agreement, is attached hereto as Attachment 1 and made a part hereof. Said operating agreement shall govern the drilling, completion and all other operations associated with such infill wells. The working interest of the parties under said operating agreement shall be as stated in Exhibit "A" of this agreement.
- 7.3 The operating agreement and exhibits thereto shall become effective as of the effective date of this agreement and shall govern any operations not expressly covered by this agreement. In the event of a conflict between the terms of the Operating Agreement attached hereto as Attachment 1 and the terms of this agreement, the terms of this agreement shall prevail.
- 7.4 Production attributable to the Hudson operated infill wells, as set forth on Exhibit "A" shall be commingled into an existing "Puckett" tank battery. Production attributable to the Wiser operated infill wells as set forth on Exhibit "A" shall be commingled into an existing Skelly Unit or Lea 'D' Lease tank battery of Wiser's choice. Wiser and Hudson agree that production from such infill wells shall be allocated based upon monthly well tests. Well testing shall be accomplished utilizing a test heater treater or test separator. Produced fluid from a well to be tested will be segregated from the field production and diverted to a test vessel where the separation of oil, gas and water will occur. Only one well shall be tested at a time. No other wells shall be allowed to produce into the test vessel when another well is being tested. Oil and water volumes exiting the vessel will be metered or sent to a test tank for direct measurement.
- 7.5 If metering oil volumes, meter accuracy should be at least +/- 0.05%. Oil meters should be calibrated on a quarterly basis with each party having the right, upon thirty (30) days written notice, to witness such oil meter calibrations. Any time the accuracy of a meter is in question either party with reasonable written notification may inspect the other party's oil meter at their own expense.
- 7.6 Gas volumes may be allocated based on the applicable Lease or Unit GOR, or gas volumes may be measured using an orifice well tester connected to the gas outlet on the heater treater or test separator.

## ARTICLE 8

### COMPLIANCE WITH LAWS AND REGULATIONS

- 8.1 Laws, Regulations and Orders: This agreement shall be subject to and operations hereunder shall be conducted in compliance with the conservation laws of the

State of New Mexico, the valid rules, regulations and orders of the New Mexico Oil Conservation Division and all other applicable federal, state and local laws, ordinances, rules, regulations and orders.

8.2 Governing Law: This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, nonperformance, breach, remedies, procedures, rights, duties and interpretations or construction, shall be governed and determined by the law of the State of New Mexico.

ARTICLE 9

INDEMNITY

Each party hereto agrees to protect, defend, indemnify and hold harmless the other party from and against any claims, demands, causes of action, losses and/or liabilities of every kind and character arising out of, incident to, or in connection with such other party's water injection operations pursuant to the provisions of this agreement excepting, however, any claim, demand, cause of action, loss and/or liability which may result from the gross negligence or willful misconduct of such other party, its agents, officers, or employees. Such indemnity shall include, without limitation, reasonable attorney's fees, court costs and similar expenses. Each party hereby releases the other party from any liability for damages to the releasing party's interest in and to the releasing party's land described herein, arising out of, incident to, or in connection with the operations contemplated by this agreement, provided such operations are conducted in accordance with the terms and conditions of this agreement and such damage is not the result of gross negligence or willful misconduct of such other party.

ARTICLE 10

MISCELLANEOUS

- 10.1 Entire Agreement: This agreement embodies the entire agreement between the parties relating to the subject matter hereof and shall supersede all other agreement, assurances, conditions, covenants or terms relating hereto, whether written or verbal or antecedent or contemporaneous with the execution thereof. This agreement may be modified or amended only by an instrument in writing signed by both parties.
- 10.2 Captions: Captions have been inserted for reference purposes only and shall not define or limit the terms of this agreement.
- 10.2 Binding Effect: This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective successors, legal representatives and assigns. This agreement may be executed in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute one and the same instrument.

WITNESS EXECUTION this 17th day of DECEMBER, 1999.

THE WISER OIL COMPANY

W. A. & E. R. HUDSON INC

By:   
Title: W. B. Phillips  
Attorney-in-Fact

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Lindy's Living Trust

Delmar H. Lewis

By: \_\_\_\_\_

By: \_\_\_\_\_

State of New Mexico, the valid rules, regulations and orders of the New Mexico Oil Conservation Division and all other applicable federal, state and local laws, ordinances, rules, regulations and orders.

- 8.2 Governing Law: This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, nonperformance, breach, remedies, procedures, rights, duties and interpretations or construction, shall be governed and determined by the law of the State of New Mexico.

ARTICLE 9

INDEMNITY

Each party hereto agrees to protect, defend, indemnify and hold harmless the other party from and against any claims, demands, causes of action, losses and/or liabilities of every kind and character arising out of, incident to, or in connection with such other party's water injection operations pursuant to the provisions of this agreement excepting, however, any claim, demand, cause of action, loss and/or liability which may result from the gross negligence or willful misconduct of such other party, its agents, officers, or employees. Such indemnity shall include, without limitation, reasonable attorney's fees, court costs and similar expenses. Each party hereby releases the other party from any liability for damages to the releasing party's interest in and to the releasing party's land described herein, arising out of, incident to, or in connection with the operations contemplated by this agreement, provided such operations are conducted in accordance with the terms and conditions of this agreement and such damage is not the result of gross negligence or willful misconduct of such other party.

ARTICLE 10

MISCELLANEOUS

- 10.1 Entire Agreement: This agreement embodies the entire agreement between the parties relating to the subject matter hereof and shall supersede all other agreement, assurances, conditions, covenants or terms relating hereto, whether written or verbal or antecedent or contemporaneous with the execution thereof. This agreement may be modified or amended only by an instrument in writing signed by both parties.
- 10.2 Captions: Captions have been inserted for reference purposes only and shall not define or limit the terms of this agreement.
- 10.2 Binding Effect: This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective successors, legal representatives and assigns. This agreement may be executed in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute one and the same instrument.

WITNESS EXECUTION this 17th day of DECEMBER, 1999.

THE WISER OIL COMPANY

W. A. & E. R. HUDSON INC

By: [Signature]  
Title: W. B. Phillip  
Attorney-in-Fac  
Lindy's Living Trust

By: [Signature]  
Title: Chairman of the Board  
Delmar H. Lewis

By: \_\_\_\_\_

By: \_\_\_\_\_

State of New Mexico, the valid rules, regulations and orders of the New Mexico Oil Conservation Division and all other applicable federal, state and local laws, ordinances, rules, regulations and orders.

8.2 Governing Law: This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, nonperformance, breach, remedies, procedures, rights, duties and interpretations or construction, shall be governed and determined by the law of the State of New Mexico.

ARTICLE 9

INDEMNITY

Each party hereto agrees to protect, defend, indemnify and hold harmless the other party from and against any claims, demands, causes of action, losses and/or liabilities of every kind and character arising out of, incident to, or in connection with such other party's water injection operations pursuant to the provisions of this agreement excepting, however, any claim, demand, cause of action, loss and/or liability which may result from the gross negligence or willful misconduct of such other party, its agents, officers, or employees. Such indemnity shall include, without limitation, reasonable attorney's fees, court costs and similar expenses. Each party hereby releases the other party from any liability for damages to the releasing party's interest in and to the releasing party's land described herein, arising out of, incident to, or in connection with the operations contemplated by this agreement, provided such operations are conducted in accordance with the terms and conditions of this agreement and such damage is not the result of gross negligence or willful misconduct of such other party.

ARTICLE 10

MISCELLANEOUS

10.1 Entire Agreement: This agreement embodies the entire agreement between the parties relating to the subject matter hereof and shall supersede all other agreement, assurances, conditions, covenants or terms relating hereto, whether written or verbal or antecedent or contemporaneous with the execution thereof. This agreement may be modified or amended only by an instrument in writing signed by both parties.

10.2 Captions: Captions have been inserted for reference purposes only and shall not define or limit the terms of this agreement.

10.2 Binding Effect: This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective successors, legal representatives and assigns. This agreement may be executed in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute one and the same instrument.

WITNESS EXECUTION this 17th day of DECEMBER, 1999.

THE WISER OIL COMPANY

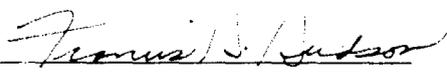
W. A. & E. R. HUDSON INC

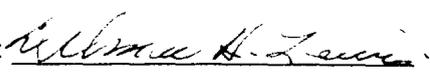
By:   
Title: Attorney-in-Fact

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Lindy's Living Trust

Delmar H. Lewis

By: 

By: 

Burnett Oil Company  
By: Burnett Oil Co., Inc.

By: *William D. Pollard*  
Title: William D. Pollard, President

Edward R. Hudson Trusts Nos. 1, 2 and 3

*E. R. Hudson, Jr.*  
By: Edward R. Hudson, Jr., Trustee

Javelina Partners

*W. A. Hudson, II*  
By: W. A. Hudson, II, Trustee

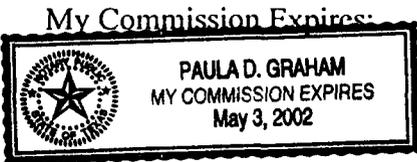
Zorro Partners

*E. R. Hudson, III*  
By: E. Randall Hudson, III

*W. A. Hudson, II*  
By: W. A. Hudson, II

STATE OF TEXAS            )  
                                          )  
COUNTY OF DALLAS        )

The foregoing instrument was acknowledged before me this 17 day of DECEMBER, 1999, by W. B. Phillips, Attorney-in-Fact of The Wiser Oil Company, a Delaware corporation, on behalf of the corporation.

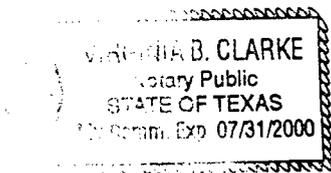


*Paula D. Graham*  
Notary Public

STATE OF TEXAS            )  
                                          )  
COUNTY OF Dallas        )

The foregoing instrument was acknowledged before me this 21 day of November, 1999, by E. R. Hudson, III, Trustee of W.A. & E.R. Hudson, Inc., a Trustee, on behalf of the Corporation.

My Commission Expires:

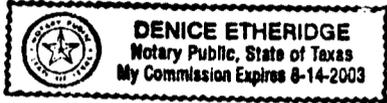


*Virginia B. Clarke*  
Notary Public

STATE OF TEXAS            )  
                                          )  
COUNTY OF TARRANT    )

The foregoing instrument was acknowledged before me this 30th day of December, 1999, by William D. Pollard, President of Burnett Oil Co., Inc., a Texas Corporation, ~~on behalf of the~~ as manager of Burnett Oil Company.

My Commission Expires:



Denice Etheridge  
Notary Public

STATE OF TEXAS            )  
                                          )  
COUNTY OF TARRANT    )

The foregoing instrument was acknowledged before me this 21 day of December, 1999, by Edward R. Hudson, Jr. and W. A. Hudson, II, Trustees of Edward R. Hudson Trusts Nos. 1, 2 and 3.

My Commission Expires:

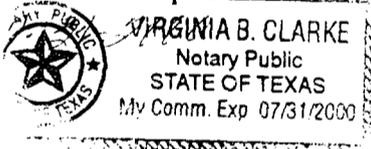


Virginia B. Clarke  
Notary Public

STATE OF TEXAS            )  
                                          )  
COUNTY OF TARRANT    )

The foregoing instrument was acknowledged before me this 21 day of December, 1999, by E. Randall Hudson, III, General Partner of Javelina Partners, a Partnership, on behalf of the Partnership.

My Commission Expires:

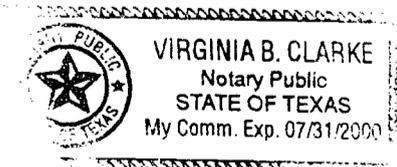


Virginia B. Clarke  
Notary Public

STATE OF TEXAS            )  
                                          )  
COUNTY OF TARRANT    )

The foregoing instrument was acknowledged before me this 21 day of December, 1999, by W. A. Hudson, II, Partner of Zorro Partners, a Partnership, on behalf of the Partnership.

My Commission Expires:



Virginia B. Clarke  
Notary Public

STATE OF TEXAS )(
COUNTY OF TARRANT )(

The foregoing instrument was acknowledged before me this 4th day of FEBRUARY, 2000, by Francis H. Hudson, Trustee of Lindy's Living Trust.

My Commission Expires: 06-01-2002



Stephanie Barton
Notary Public: STEPHANIE BARTON

STATE OF TEXAS )(
COUNTY OF TARRANT )(

The foregoing instrument was acknowledged before me this 4th day of FEBRUARY, 2000, by Delmar Hudson Lewis.

My Commission Expires: 06-01-2002



Stephanie Barton
Notary Public: STEPHANIE BARTON

**EXHIBIT "A"**

Attached to and made a part of that certain Cooperative Unit Line Injection Well and Unit Line Infill Drilling Agreement dated December 17, 1999 by and between The Wiser Oil Company and W.A. and E.R. Hudson Inc.

I.	CONTRACT AREA:	OPERATOR
	Skelly Unit	E/2 Section 23 & SE/4 Section 14, Wiser
	Lea 'D' Lease	E/2 Section 26, Wiser
	Puckett Federal Leases	W/2 Section 25 & W/2 Section 24 & S/2 SW/4 Section 13, all in T-17-S, R-31-E, Eddy County, New Mexico Hudson

II. ADDRESSES FOR NOTICE PURPOSES:

The Wiser Oil Company 8115 Preston Road, Suite 400 Dallas, Texas 75225	W.A. and E.R. Hudson Inc. 616 Texas Street Fort Worth, Texas 76102-4612
------------------------------------------------------------------------------	-------------------------------------------------------------------------------

III. PERCENTAGE WORKING INTEREST OF THE PARTIES:

<u>Wells:</u>	<u>Parties:</u>	<u>Percentage Working Interest in Contract Area</u>
Skelly #403	Wiser	50.00%
	Hudson, et al	<u>50.00%</u>
	Total	100.00%
Lea 'D' 24, 25 & 26	Wiser	50.00%
	Hudson, et al	<u>50.00%</u>
	Total	100.00%
<del>Puckett B WH1 &amp;</del> Puckett A WH1 & 2 & 3	Hudson, et al	50.00%
	Wiser	<u>50.00%</u>
	Total	100.00%

IV. DESCRIPTION OF COMMITTED LEASEHOLD:

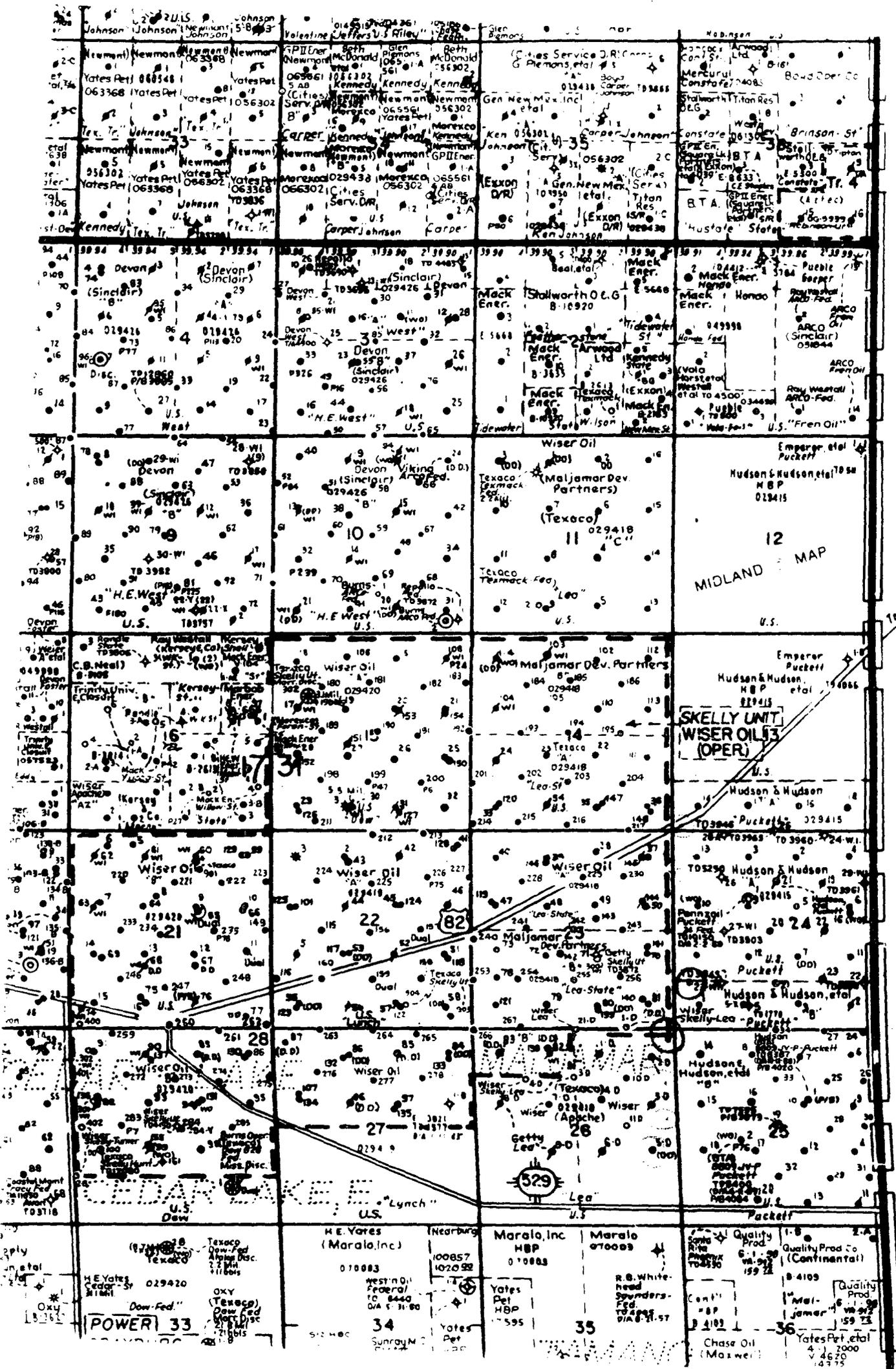
A. Leases committed by The Wiser Oil Company (100%)

LESSOR	LESSEE	LEASE DATE
NM LC-029414-B	Getty Oil Company	04-30-38
NM-98120	Skelly Oil Company	04-30-38
USA LC-029418-A	Skelly Oil Company	04-30-38

B. Leases committed by W.A. and E.R. Hudson Inc.

LESSOR	LESSEE	LEASE DATE
NM LC-029415(a)	Hudson & Hudson, Inc. & S. J. Iverson (Renewal Lease)	05-01-56
NM LC-029415(b)	Hudson & Hudson, Inc. & S. J. Iverson (Exchange Lease – save and except for the acreage contained in Section 12 and 13)	04-01-56

EXHIBIT "B"



A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

ATTACHMENT I

OPERATING AGREEMENT

DATED

December 17, 1999 ,

OPERATOR The Wiser Oil Company/W.A. & E.R. Hudson, Inc.

CONTRACT AREA See Exhibit A & B

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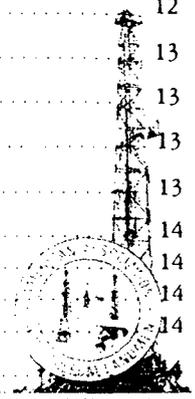
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COUNTY OR PARISH OF Eddy STATE OF New Mexico

COPYRIGHT 1982 — ALL RIGHTS RESERVED  
AMERICAN ASSOCIATION OF PETROLEUM  
LANDMEN, 2408 CONTINENTAL LIFE BUILDING,  
FORT WORTH, TEXAS, 76102, APPROVED FORM.  
A.A.P.L. NO. 610 - 1982 REVISED

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between The Wiser Oil Company and W.A. and E.R. Hudson 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", in accordance with Exhibit "A" attached hereto.

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.

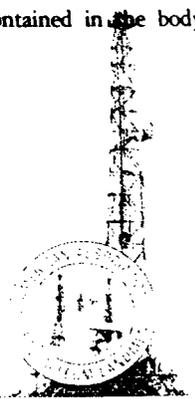
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

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.

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.



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 total burdens due 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.

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 (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.

**ARTICLE IV**  
**continued**

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. 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", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition 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 and gas leases and interests; and,

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

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

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

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

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

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

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

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

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

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

**3. Other Losses:** All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

See Exhibit "A" 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 \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, Operator shall commence the drilling of a well for oil and gas at the following location:

Seven (7) infill development wells to be drilled in accordance with the terms of the Cooperative Unit Line Injection Well and Unit Line Infill Drilling Agreement dated DECEMBER 17, 1999 between The Wiser Oil Company and W.A. and E.R. Hudson Inc. and shall thereafter continue the drilling of the well with due diligence to

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

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



**ARTICLE VI**  
**continued**

1           It, 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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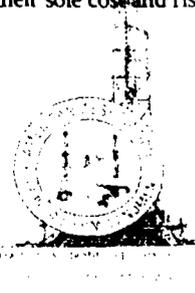
8           1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided  
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all  
10 the parties and 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,



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



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 called "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

ARTICLE VI  
continued

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

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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.

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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, \*and shall account to such party for the actual net proceeds received  
15 for such production, if sold, or the current market price if purchased by operator.

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.

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21 **D. Access to Contract Area and Information:**

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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. Notwithstanding anything to the contrary, a non-operator who is in  
30 default under Article VII B shall have no rights under thei Article VI D.

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.

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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-  
55 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.

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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.

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20 **ARTICLE VII.**  
21 **EXPENDITURES AND LIABILITY OF PARTIES**

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23 **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  
30 **B. Liens and Payment Defaults:**

31  
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.

47  
48 **C. Payments and Accounting:**

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

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 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63  
64 **D. Limitation of Expenditures:**

65  
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  
68  
69  
70



## 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.

3  
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 twenty-five thousand  
28 Dollars (\$ 25,000.00) 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.

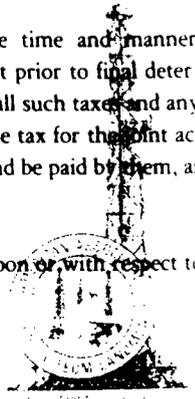
39  
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production  
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by  
42 circumstances, 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 to  
68 the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.  
69  
70



ARTICLE VII  
continued

1 G. Insurance:

2  
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 pro-  
46 portionate 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, without warranty of title, except as to acts by, through, or under  
56 the acquiring party.

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 proportion  
71

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 Interest:**

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 par-~~  
 43 ~~ties. 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.



ARTICLE X.  
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed ten thousand 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. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or suit against all parties hereto.

ARTICLE XI.  
FORCE MAJEURE

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

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

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

ARTICLE XII.  
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by 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.

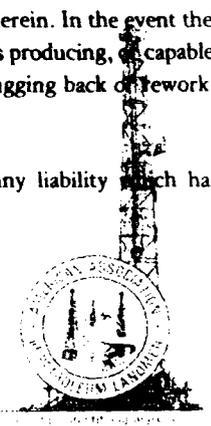
ARTICLE XIII.  
TERM OF AGREEMENT

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.



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 NEW MEXICO shall govern.

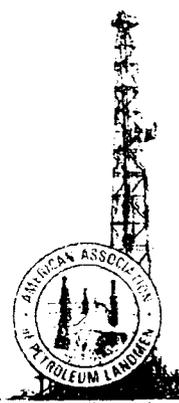
C. Regulatory Agencies:

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 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



Use of this identifying mark is to be...  
...authorized in writing...  
...of the American Association of Petroleum Landmen

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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 17th day of DECEMBER, 1979

OPERATOR

THE WISER OIL COMPANY

*W B Phillips*

By: W. B. PHILLIPS, ATTORNEY-IN-FACT  
TAX ID 55-0522128

NON-OPERATORS



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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 17th day of DECEMBER, 1999.

OPERATOR

W. A. & E. R. Hudson, Inc.

THE WISER OIL COMPANY

[Signature]  
By W. A. Hudson II, President

[Signature]  
By: W. B. PHILLIPS, ATTORNEY-IN-FACT  
TAX ID 55-0522128

NON-OPERATORS

Burnett Oil Company

By \_\_\_\_\_

[Signature]  
Francis H. Hudson, Trustee of  
Lindy's Living Trust

\_\_\_\_\_

[Signature]  
Delmar Hudson Lewis

Javelina Partners

Zorro Partners, Ltd.

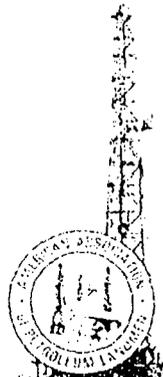
[Signature]  
By: E. Randall Hudson III  
Managing Partner

[Signature]  
By: William A. Hudson II, General  
Partner

Edward R. Hudson Trusts 1, 2, 3

[Signature]  
Edward R. Hudson Jr., Trustee

[Signature]  
William A. Hudson II, Trustee



Notary Public for the State of Texas  
My Commission Expires 12/31/2000

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ARTICLE XVI.  
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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 \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_.

OPERATOR

W. A. & E. R. Hudson, Inc.

THE WISER OIL COMPANY

By *W. A. Hudson*  
W. A. Hudson, II, President

By: W. B. PHILLIPS, ATTORNEY-IN-FACT  
TAX ID 55-0522128

NON-OPERATORS

Burnett Oil Company

By \_\_\_\_\_

*Francis H. Hudson*  
Francis H. Hudson, Trustee of  
Lindy's Living Trust

\_\_\_\_\_

*Delmar Hudson Lewis*  
Delmar Hudson Lewis

Javelina Partners

Zorro Partners, Ltd.

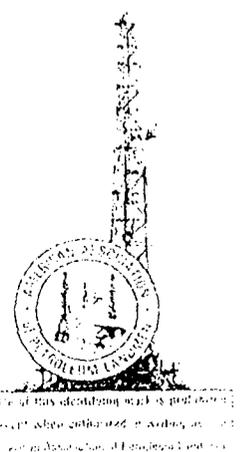
By: *E. Randall Hudson III*  
E. Randall Hudson III  
Managing Partner

By: *William A. Hudson II*  
William A. Hudson II, General  
Partner

Edward R. Hudson Trusts 1, 2, 3

By: Edward R. Hudson Jr., Trustee

*William A. Hudson II*  
William A. Hudson II, Trustee



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## EXHIBIT

Attached to and made a part of that certain Joint Operating Agreement dated DECEMBER 17, 1999 by and between The Wiser Oil Company, and L.A. and E.R. Hudson Inc.

## 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.

#### 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

A. 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 within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within <sup>Thirty (30)</sup> fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at NationsBank, Dallas on the first day of the month in which delinquency occurs plus 1% 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. 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 II. 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 audit 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.

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. 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.

2. Rentals and Royalties

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

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 of 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 Paragraph 3A of this Section II.

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.

5. 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.

6. 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 where like material is normally available or railway receiving point nearest the Joint Property 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 where like material is normally available, or railway receiving point nearest the Joint Property 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, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

**7. Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, 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.

**8. 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 gross investment less accumulated depreciation not to exceed eight percent (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 8A 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.

**9. 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.

**10. Legal Expense**

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements 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.

**11. 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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, 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 working interest.

**12. 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 Worker'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.

**13. Abandonment and Reclamation**

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

**14. Communications**

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

**15. 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 of direct benefit to the Joint Property and 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 3A, 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 be covered by the overhead rates, or  
 () shall not be covered by the overhead rates.

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

- () shall be covered by the overhead rates, or  
 ( ) 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 \$ 4,500.00  
 (Prorated for less than a full month)

Producing Well Rate \$ 450.00

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

##### (a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work 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 or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar 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 shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (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 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 10 of Section II and all salvage credits.~~

~~(b) Operating  
Percent \_\_\_\_\_ of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 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 owned to the Joint Property.~~

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

~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; 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. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of 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 and artificial lift equipment shall be excluded.

**3. Catastrophe Overhead**

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

- A. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

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

**4. 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 reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

**2. Transfers and Dispositions**

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 1/2 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 3/4 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material 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, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

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

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

(2) Material used on and moved from the Joint Property

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

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

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

C. Other Used Material

(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 A. 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

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

## (3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by 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 or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (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

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to 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, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

## 4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached hereto and made a part of that certain Joint Operating Agreement dated DECEMBER 17, 1999 by and between The Wiser Oil Company and W. A. & E. R. HUDSON, INC., ET AL.

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

- (a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of New Mexico, including employer's liability.
- (b) Comprehensive general liability insurance, excluding products: A limit of \$1,000,000.00 each occurrence for bodily injuries, \$2,000,000.00 aggregate. Property damage liability limit being \$1,000,000.00 each occurrence, \$2,000,000.00 aggregate.
- (c) Automobile public liability and property damage insurance. Limits of bodily injury \$1,000,000.00 each person; \$1,000,000.00 each occurrence; property damage \$1,000,000.00 each occurrence.

The Operator shall require its contracts and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the workmen's compensation laws of the State of New Mexico and to carry such other insurance in such amounts as the Operator shall deem necessary.

1 **NOTE:** Instructions For Use of Gas Balancing  
2 Agreement **MUST** be reviewed before finalizing this  
3 document.  
4  
5  
6

7 **EXHIBIT "E"**

8 **GAS BALANCING AGREEMENT ("AGREEMENT")**  
9 **ATTACHED TO AND MADE PART OF THAT CERTAIN**

10 **OPERATING AGREEMENT DATED** DECEMBER 17, 1999

11 **BY AND BETWEEN** The Wiser Oil Company

12 **AND** W.A. & E.R. Hudson Inc.

12 ("OPERATING AGREEMENT")

13 **RELATING TO THE** \_\_\_\_\_

13 **AREA,**

14 Eddy

14 **COUNTY/**~~PARISH~~ **STATE OF** New Mexico

15  
16 **1. DEFINITIONS**

17 The following definitions shall apply to this Agreement:

18 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales  
19 agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are  
20 representative of prices and delivery conditions existing under other similar agreements in the area between  
21 unaffiliated parties at the same time for natural gas of comparable quality and quantity.

22 1.02 "Balancing Area" shall mean (select one):

23  each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a  
24 single well is completed in two or more producing intervals, each producing interval from which the Gas  
25 production is not commingled in the wellbore shall be considered a separate well.

26  all of the acreage and depths subject to the Operating Agreement.

27  \_\_\_\_\_  
28 \_\_\_\_\_  
29 \_\_\_\_\_  
30 \_\_\_\_\_

31 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced  
32 from the Balancing Area during each month.

33 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified  
34 as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made  
35 available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by  
36 field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel,  
37 recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

38 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full  
39 Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

40 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic  
41 foot of space at a standard pressure base and at a standard temperature base.

42 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat  
43 required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a  
44 constant pressure of 14.73 pounds per square inch absolute.

45 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the  
46 event this Agreement is not employed in connection with an operating agreement, the individual or entity  
47 designated as the operator of the well(s) located in the Balancing Area.

48 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than  
49 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

50 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in  
51 the cumulative quantity of all Gas produced from the Balancing Area.

52 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors,  
53 transferees and assigns.

54 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the  
55 Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

56 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding  
57 royalties, production payments or similar interests.

58 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than  
59 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

60 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its  
61 Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

62 1.16  (Optional) "Winter Period" shall mean the month(s) of \_\_\_\_\_ in one  
63 calendar year and the month(s) of \_\_\_\_\_ in the succeeding calendar year.

64 **2. BALANCING AREA**

65 2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered  
66 by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area  
67 measured in (Alternative 1)  Mcfs or (Alternative 2)  MMBtus.

68 2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more  
69 maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area  
70 and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

71 **3. RIGHT OF PARTIES TO TAKE GAS**

72 3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes  
73 nominated, the name of the transporting pipeline and the pipeline contract number, (if available) and meter station relating  
74 to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

in accordance with each Party's interest in the well provided

requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement, however, the well is capable of delivering the nominated volume for the applicable Party.

3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.

3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties.

3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.

3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum Monthly Availability, unless agreed to by all Parties hereto, provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

#### 4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following at least thirty (30) days' prior written notice to the Operator, if required by Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying thirty-five percent (35 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than thirty-five percent (35 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

~~4.2  (Optional - Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the \_\_\_\_\_ (\_\_\_\_\_) months immediately preceding the Winter Period.~~

~~4.2  (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than \_\_\_\_\_ percent (\_\_\_\_\_% ) of its Full Share of Current Production for Makeup Gas during the Winter Period.~~

4.3  (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

#### 5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within sixty (60) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data.

#### 6. PAYMENTS ON PRODUCTION

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by such Party.

~~6.2  (Alternative 1 - Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty~~

owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.

~~6.2.1  (Optional - For use only with Section 6.2 - Alternative 1 - Entitlement) Upon written request of a Party taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of the Current Underproducer's Full Share of Current Production taken by the Current Overproducer; provided, however, that such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of Section 7.5.~~

6.2  (Alternative 2 - Sales) Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to whom it is accountable based on the volume of Gas actually taken for its account.

6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental authority, and the method provided for herein shall be thereby superseded.

## 7. CASH SETTLEMENTS

7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

~~7.3  (Alternative 1 - Direct Party to Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the Operator of the Gas imbalance settled by the Overproduced Party's payment.~~

7.3  (Alternative 2 - Settlement Through Operator) Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the Operator. The Operator will distribute the monies so received, along with any settlement owed by the Operator as an Overproduced Party, to each Underproduced Party to whom settlement is due within ninety (90) days after issuance of the Final Gas Settlement Statement. In the event that any Overproduced Party fails to pay any settlement due hereunder, the Operator may turn over responsibility for the collection of such settlement to the Party to whom it is owed, and the Operator will have no further responsibility with regard to such settlement.

7.3.1  (Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator) Any Party shall have the right at any time upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such Party for Overproduction be paid directly to such Party by the Overproduced Party, rather than being paid through the Operator. In the event that an Overproduced Party pays the Operator any sums due to an Underproduced Party at any time after thirty (30) days following the receipt of the notice provided for herein, the Overproduced Party will continue to be liable to such Underproduced Party for any sums so paid, until payment is actually received by the Underproduced Party.

7.4  (Alternative 1 - Historical Sales Basis) The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the order of accrual.

~~7.4  (Alternative 2 - Most Recent Sales Basis) The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction by the Overproduced Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the Section 7, an Overproduced Party will not be considered to have produced any of an Underproduced Party's share of Gas until the Overproduced Party has produced cumulatively all of its Percentage Interest share of the Gas ultimately produced from the Balancing Area.~~

7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

7.5.1  (Optional - For Valuation Under Percentage of Proceeds Contracts) For Overproduction sold under a gas purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser upon resale of residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the Overproduction.

~~7.5.2  (Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction will be valued for purposes of cash settlement at the prices received by the Overproduced Party for the sale of the residue gas attributable to the Overproduction without regard to proceeds attributable to liquid hydrocarbons which may have been extracted from the Overproduction.~~

7.5.2  (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the

Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing bulletin.

7.7 Interest compounded at the rate of \_\_\_\_\_ percent (\_\_\_\_ %) per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less will accrue for all amounts due under Section 7.1, beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest. ~~The Operator shall also be required to pay such interest if it has received payment from any Overproduced Party.~~

7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

7.9  (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental authority.

~~7.10  (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30) days after the settlement is made.~~

## 8. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after thirty (30) days' prior written notice to the Operator and shall last no longer than seven (7) hours, days including prior shut-in time.

## 9. OPERATING COSTS

Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

## 10. LIQUIDS

The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account in accordance with their Percentage Interests in the Balancing Area.

## 11. AUDIT RIGHTS

Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

## 12. MISCELLANEOUS

12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the Operating Agreement, the provisions of this Agreement shall govern.

12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other than Operator) to pay any amounts owed pursuant to the terms hereof.

12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives

1 and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of  
2 any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of  
3 any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

4 12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the  
5 singular, and the neuter gender includes the masculine and the feminine.

6 12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a  
7 typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be  
8 made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not  
9 so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result  
10 of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative  
11 is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected;  
12 and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the  
13 selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to  
14 include an associated Optional provision.

15 12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed  
16 or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any  
17 such person or entity.

18 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party  
19 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and  
20 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such  
21 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request  
22 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the  
23 Balancing Area.

24 12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all  
25 Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one)  as if such Party were  
26 taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same  
27 relate to entitlement method tax computations; or  based on the quantity of Gas taken for its account in accordance with  
28 such regulations, insofar as same relate to sales method tax computations

29 **13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT**

30 13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement  
31 or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its  
32 working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other  
33 act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the  
34 Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any  
35 monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall  
36 thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other  
37 transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall  
38 cause its assignee or other transferee to assume its obligations hereunder.

39 ~~13.2  (Optional Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not  
40 limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions  
41 of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its  
42 interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are  
43 Parties hereto in such Balancing Area of such fact at least \_\_\_\_\_ (\_\_\_\_) days prior to closing the  
44 transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within  
45 \_\_\_\_\_ (\_\_\_\_) days after receipt of the Overproduced Party's notice, a cash settlement of its  
46 Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement  
47 pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash  
48 settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60)  
49 days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced  
50 Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in  
51 Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days  
52 after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not  
53 paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the  
54 Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the  
55 Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance  
56 with the provisions of Section 13.1 hereof.~~

57 13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its  
58 interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to  
59 any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

60 **14. OTHER PROVISIONS**

61 See Attachment.  
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14. OTHER PROVISIONS

- 14.1 Any Underproduced Party can require cash settlement from the Overproduced Parties in January of each even numbered year by providing written notice to the Operator. Section 7 of this Gas Balancing Agreement shall govern cash settlement under this provision.
- 14.2 In the event any Party feels a Party has produced more than its share of recoverable reserves and wants to prohibit said Party from selling additional gas, the Party shall notify the Operator, including its estimate of remaining recoverable reserves. The Operator shall notify all other Parties. If Parties concur with the recoverable reserve estimate, said Overproduced Party shall be prohibited from selling gas until the Overproduced Party is back in balance. If the Parties cannot agree on the remaining recoverable reserves, the Operator shall retain an independent reservoir engineer, experienced and competent in the geographical areas of the well (s) in question, to compute the reserves. Its decision shall be final. Costs incurred by the independent engineer shall be borne by the Parties hereto.
- 14.3 The Parties to this Agreement agree to abide by Regulation 1.761-2(d)(2) as promulgated by the Internal Revenue Service. Regulation 1.761-2(d)(2) requires that all co-producers of natural gas operating under the same JOA must use the cumulative gas balancing method, as described under this regulation, to report gas balancing for tax purposes. In the event of a conflict between the provisions of this Section and any other provisions of this Agreement, the provisions of this Section shall control.

15. COUNTERPARTS

This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute a binding agreement between the Parties hereto; provided, however, that if a Party or Parties owning a Percentage Interest in the Balancing Area equal to or greater than a \_\_\_\_\_ percent (\_\_\_\_%) therein fail(s) to execute this Agreement on or before \_\_\_\_\_, this Agreement shall not be binding upon any Party and shall be of no further force and effect.

IN WITNESS WHEREOF, this Agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_,

19\_\_\_\_\_.

ATTEST OR WITNESS:

OPERATOR

\_\_\_\_\_  
BY: \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

NON-OPERATORS

\_\_\_\_\_  
BY: \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

\_\_\_\_\_  
BY: \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_



ACKNOWLEDGMENTS

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Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of \_\_\_\_\_ )

\_\_\_\_\_ ) ss.

County of \_\_\_\_\_ )

This instrument was acknowledged before me on \_\_\_\_\_  
\_\_\_\_\_ by \_\_\_\_\_

(Seal, if any) \_\_\_\_\_

Title (and Rank) \_\_\_\_\_

My commission expires: \_\_\_\_\_

Acknowledgment in representative capacity:

State of \_\_\_\_\_ )

\_\_\_\_\_ ) ss.

County of \_\_\_\_\_ )

This instrument was acknowledged before me on \_\_\_\_\_  
\_\_\_\_\_ by \_\_\_\_\_ as

\_\_\_\_\_ of \_\_\_\_\_

(Seal, if any) \_\_\_\_\_

Title (and Rank) \_\_\_\_\_

My commission expires: \_\_\_\_\_



## EXHIBIT "F"

Attached hereto and made a part of that certain Joint Operating Agreement dated *DECEMBER 17, 1999*, by and between The Wiser Oil Company and *W A E. R. HUDSON INC, ET AL*

### EQUAL EMPLOYMENT OPPORTUNITY AND NON-DISCRIMINATION SUPPLEMENT

The term "Contractor", as used herein shall mean the party designated or acting as contractor, Operator or Seller in the foregoing agreement, of which this supplement is a part.

During the performance of this contract, Contractor agrees as follows:

1. The 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 insure 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 training, including apprenticeship. The Contractor agrees to pose, in conspicuous places available to employees and applicants for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.
2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
3. The 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' representative of the Contractor'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 Contractor 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 Contractor 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.
6. In the event of Contractor's noncompliance with the non-discrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, 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 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.
7. The Contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provision, including sanctions of noncompliance; provided however, that in the event the 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 interests of the United States.

Contractor acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder. Contractor further acknowledges that it may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply the other party or parties to the foregoing agreement with a copy of such program if they so request.

Contractor certifies 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. Contractor agrees to obtain similar certification from its subcontractor prior to the award of subcontract which are not exempt from the provisions of the equal opportunity clause.