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AMEND NSL

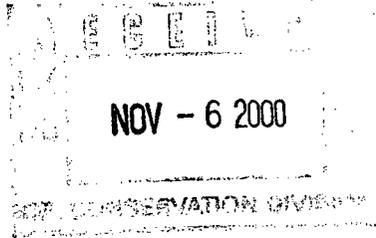
11/27/00

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November 4, 2000

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

Re: Request to Amend Administrative Order NSL-4284

Silver Streak State Com. Well No. 1 (30-015-30664)  
1400 feet FNL & 1650 feet FEL  
N½ §8, Township 17 South, Range 28 East, NMPM  
Eddy County, New Mexico

Dear Mr. Stogner:

Enclosed are the original drilling title opinion and the operating agreement for the above well. There have been several changes in working interest ownership since the opinion was rendered, as follows:

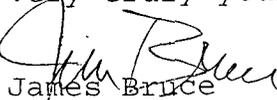
The Manix Energy, LLC interest is now owned by Pure Energy Group, Inc. and Bellwether Exploration Company;

The Enron Oil & Gas Company and Todd W. Johnson interests were acquired by Chi Energy, Inc.; and

The Chi Energy, Inc. interests are spread among Chi Energy, Inc., Southwestern Energy Production Company, Murchison Oil & Gas, Inc., Pocohontas Oil Company, Inc., Balk Oil Company, and Warren Resources, Inc.

The Yates group still owns the same interest. These changes result in the interests set forth in my letter of October 4th.

Very truly yours,

  
James Bruce

Attorney for Chi Energy, Inc.

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

**MODEL FORM OPERATING AGREEMENT**

OPERATING AGREEMENT

DATED

January 15 , 19 99 ,

**Chi Operating, Inc.**

OPERATOR \_\_\_\_\_

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

Parts of Sections 3,4,5,8,9,10,15,16

COUNTY OR PARISH OF Eddy

STATE OF

New Mexico

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

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OPERATING AGREEMENT

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THIS AGREEMENT, entered into by and between Chi Operating, Inc., P. O. Box 1799, Midland, Texas 79702, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

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

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

ARTICLE II.  
EXHIBITS

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

- A. Exhibit "A", shall include the following information:
  - (1) Identification of lands subject to 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

1  
2  
3

4 ~~A. Oil and Gas Interests:~~

5

6 ~~— If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement~~  
7 ~~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~~  
8 ~~shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.~~

9

10 B. Interests of Parties in Costs and Production:

11

12 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and  
13 paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set  
14 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  
15 payment of royalties to the extent of current burdens which shall be borne as hereinafter set forth.

16

17 Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and  
18 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  
19 cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the  
20 other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received  
21 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  
22 receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to  
23 such higher price.

24

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

26

27 C. Excess Royalties, Overriding Royalties and Other Payments:

28

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

33

34 D. Subsequently Created Interests:

35

36 If any party should hereafter create an overriding royalty, production payment or other burden payable out of production  
37 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  
38 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  
39 accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the  
40 timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred  
41 to as "burdened party"), and:

42

43 1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion  
44 of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or  
45 production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party,  
46 or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest;  
47 and,

48

49 2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be  
50 enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of  
51 the burdened party.

52

ARTICLE IV.  
TITLES

53

56 A. Title Examination:

57

58 Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if  
59 the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be includ-  
60 ed, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding  
61 royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and  
62 gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status  
63 reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or  
64 made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall  
65 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  
66 hereto. The cost incurred by Operator in this title program shall be borne as follows:

67

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

ARTICLE IV  
continued

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

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

12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above  
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to par-  
14 ticipate in the drilling of the well.  
15

16 **B. — Loss of Title:**

17  
18 ~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a~~  
19 ~~reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days~~  
20 ~~from final determination of title failure to acquire a new lease or other instrument during the entirety of the title failure, which acqui-~~  
21 ~~sition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil~~  
22 ~~and gas leases and interests; and,~~

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

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

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

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

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

39 ~~(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest~~  
40 ~~claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in~~  
41 ~~connection therewith.~~  
42

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

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

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

60 ~~(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest~~  
61 ~~lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~  
62

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

A. Designation and Responsibilities of Operator:

Chi Operating, Inc. P. O. Box 1799, Midland, Texas 79702 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 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 1st day of March, 19 99, Operator shall commence the drilling of a well for oil and gas at the following location:

**1980' FSL & 1980' FWL of Section 9, Township 17 South, Range 28 East  
Eddy County, New Mexico**

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

**a depth sufficient to test the Morrow Formation**

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

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

ARTICLE VI  
continued

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

3

4

5

6 **B. Subsequent Operations:**

7

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 / <sup>in writing</sup> 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 / <sup>in writing</sup> 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 / <sup>in writing</sup> of such decision.

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

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ARTICLE VI  
continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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12 (a) 100% 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 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of 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 unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

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ARTICLE VI  
continued

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

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

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

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

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

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

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

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

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

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67 Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,  
68 exclusive of production which may be used in development and producing operations and in preparing the 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.

2

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

6

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

15

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

20

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

22

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

30

31 **E. Abandonment of Wells:**

32

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

41

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

5  
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from  
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-  
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned  
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to  
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-  
12 visions hereof.

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

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

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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:**

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

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**ARTICLE VII**  
continued

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

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 Thirty Thousand and No/100 Dollars (\$ 30,000.00 )  
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 and No/100  
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:**

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

59

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

66

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

69

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**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.

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**ARTICLE VIII.**

**ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

14

15

16 **A. Surrender of Leases:**

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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.

56

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

62

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

64

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

66

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

**ARTICLE VIII**  
continued

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

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

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

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

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

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

21  
22 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may  
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for  
24 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such  
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter  
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract  
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

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

30  
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided  
33 interest therein.

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

36  
37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~  
39 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~  
40 ~~of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase~~  
41 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~  
42 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing 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 1986, 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 1986, under which an election similar to that provided by Section 761 of the Code is per-  
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
66 computation of partnership taxable income.

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ARTICLE X.  
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Thirty Thousand and No/100 Dollars (\$ 30,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.  
FORCE MAJEURE

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

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

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

ARTICLE XII.  
NOTICES

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

ARTICLE XIII.  
TERM OF AGREEMENT

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

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

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 180 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 180 days from the date of abandonment of said well.

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

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ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies 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

See page Titled Other Provisions

## OTHER PROVISIONS

Attached to and made a part of that certain Operating Agreement dated January 15, 1999, by and between Chi Operating, Inc., as Operator, and Southwestern Energy Production Company, et al, as Non-Operators.

The parties hereto other than Operator are the owners of the oil and gas leases described in Exhibit "A", Operator owning no interest therein. Accordingly, the provisions herein requiring the consent of all parties, or the mutual agreement, or consent of all parties, refers to all parties who own an interest in and to the Contract Area. Since Chi Operating, Inc. is Operator only and owns no interest in the Contract Area, it is agreed that in the event Chi Energy, Inc. disposes of all its working interest in the Contract Area, other than to William R. Bergman, his immediate families, or his heirs or devisees, then in such event, Chi Operating, Inc. agrees to resign as Operator under the appropriate provisions of this agreement.

1. PRIORITY OF OPERATIONS: Whenever there is more than one proposal in connection with any well subject to this Agreement, such proposals shall be considered and disposed of in the following order or priority: a) Drilling the well to the objective depth or the objective formation, whichever is the deepest depth; b) An election to do additional logging, coring or testing; c) An election to deepen the well (subject to the prior right of any Party wishing to complete to run casing to protect the hole prior to deepening); d) An election to complete the well with completion attempts in the deepest sands having priority; e) An election to sidetrack the well before logging.

2. MULTIPLE OPERATIONS: In no event shall more than one operation, either drilling or reworking, be proposed on the Contract Area without the consent of at least two parties hereto which represent 70%, or more, of the working interest.

3. RELIQUISHMENT OF INTERESTS BY NON-DRILLING PARTY IN REQUIRED WELLS: Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest.

4. AREA OF MUTUAL INTEREST: The parties hereto designate an "Area of Mutual Interest" ("AMI") comprising the lands described in Article VI. On Exhibit "A". Such AMI is hereby established and shall remain in force and effect for a period of time ending at 12:00 a.m. (2) years from date of Operating Agreement. If during the term of this agreement any party hereto purchases, contracts for or otherwise acquires any interest, or rights thereto, in any oil, gas or mineral lease (s), or any mineral or royalty interests, farmout agreement(s) or any other industry trade document(s), giving the acquiring party the right to earn or purchase an interest in any oil and gas lease or leases, mineral or royalty interest within the boundaries of the AMI, such party shall promptly furnish the other parties hereto notice thereof along with copies of all pertinent instruments together with a statement of the actual cost of such acquisition. The notified party shall have fifteen (15) days after receipt of such notice (48 hours if a well is then being drilled within one mile of such acquisition and notice is made thereof) within which to elect in writing to participate in each such acquisition and agreeing to pay/assume its proportionate share of the acquisition costs/obligations attributable thereto. In the event a part of the acquisition includes the drilling of a well prior to earning an assignment of such interest, an election to acquire an assignment of the interest within the AMI shall also include the commitment of such party to pay/assume its proportionate share of the drilling costs of the well so required which well shall be drilled (between the parties hereto) under the terms of this Operating Agreement. The failure of the notified party to timely and properly respond to said notice shall be deemed an election not to participate in such acquisition, and same shall be excluded from this agreement but shall be deemed subject to a separate operating agreement having identical provisions to this Operating Agreement, reflecting the working interest ownership as between the parties participating in such acquisition. Otherwise, the acquired rights and/or lease (s) shall become subject hereto. Costs of acquisitions shall be based on the interests of the parties as set forth in attached Exhibit "A". In no event shall the provisions of this Article X.V.I apply to any acquisitions resulting from merger, consolidation, reorganization or any acquisition from a parent, subsidiary or affiliated corporation. All interests offered with the AMI will be offered to the other parties hereto and accepted or rejected by such parties in their entirety. It is the intent of this provision that no party shall be allowed to "pick and choose" portions of an interest offered hereunder, but must accept or reject such interest in its entirety.

ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 15th day of January, 19 99.

\_\_\_\_\_, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the A.A.P.L. Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On A Disk, Inc. No changes, alterations, or modifications, other than those in Articles \_\_\_\_\_, have been made to the form.

OPERATOR  
Chi Operating, Inc.

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

Name: \_\_\_\_\_

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

NON-OPERATORS

Southwestern Energy  
Production Company

Fina Oil & Chemical Company

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

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

Name: \_\_\_\_\_

Name: \_\_\_\_\_

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

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

Murchison Oil & Gas, Inc.

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

Name: \_\_\_\_\_

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

**(Revised)**  
**EXHIBIT "A"**

Attached to and made a part of that certain Operating Agreement dated January 15, 1999 by and between Chi Operating, Inc., as Operator and Southwestern Energy Production Company, et al, as Non-Operators.

I. **IDENTIFICATION OF LANDS SUBJECT TO THIS AGREEMENT:**

Township 17 South, Range 28 East, N.M.P.M  
All of Sections: 3,4,5,8,9,10,15,16

II. **RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS, OR SUBSTANCES:**

\* See Exhibit "A-1"

III. **PERCENTAGES OR FRACTIONAL INTERESTS OF PARTIES TO THIS AGREEMENT:**

**Initial Well as referenced in Article VI of the JOA**

	Working Interest To Casing Point	Working Interest After Casing Point
Southwestern Energy Production Company	43.75000%	43.7500%
Manix Energy, L.L.C.	12.50000%	12.5000%
Murchison Oil & Gas, Inc.	22.05882%	18.7500%
Chi Energy, Inc.	12.27943%	17.0000%
Warren Resources, Inc.	5.88235%	5.0000%
Balk Oil Company	1.76470%	1.5000%
Pocahontas Oil Company	1.76470%	1.5000%

**Contract Area A**

(T-17S-R-28E-Section 9, Section 4: W/2, Section 8: E/2)

	* Working Interest
Southwestern Energy Production Company	43.7500%
Manix Energy, L.L.C.	12.5000%
Murchison Oil & Gas, Inc.	18.7500%
Chi Energy, Inc.	17.0000%
Warren Resources, Inc.	5.0000%
Balk Oil Company	1.5000%
Pocahontas Oil Company	1.5000%

**Contract Area B**

(T-17S-R-28E-Section 4: E/2, Section 8: W/2)

	* Working Interest
Southwestern Energy Production Company	43.750000%
Manix Energy, L.L.C.	12.500000%
Murchison Oil & Gas, Inc.	21.428570%
Chi Energy, Inc.	14.321430%
Warren Resources, Inc.	5.000000%
Balk Oil Company	1.500000%
Pocahontas Oil Company	1.500000%

**Contract Area C**

(All Contract Area except Contract Area A and Contract Area B)

	* Working Interest
Southwestern Energy Production Company	50.00000%
Murchison Oil & Gas, Inc.	21.42857%
Chi Energy, Inc.	20.57143%
Warren Resources, Inc.	5.00000%
Balk Oil Company	1.5000%
Pocahontas Oil Company	1.5000%

\* Proportionately reduced to the total interest owned by the Working Interest Parties to this agreement.

IV. **OIL AND GAS LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THIS AGREEMENT:**

(all in Eddy County, New Mexico):

\*See Exhibit "A-1"

V. **ADDRESSES OF PARTIES FOR NOTICE PURPOSES:**

Chi Operating, Inc.  
P. O. Box 1799  
Midland, Texas 79702

Southwestern Energy Production Company  
2350 North Sam Houston Parkway, Suite 300  
Houston, Texas 77032

Murchison Oil & Gas Co.  
1445 Ross Ave., Suite 5300  
LB 152  
Dallas, Texas 75202

Manix Energy, L.L.C.  
P. O. Box 2818  
Midland, Texas 79702

Warren Resources, Inc.  
HCR-8, Box 480-A  
Beeville, Texas 78102

Balk Oil Company  
P. O. Box 5782  
Midland, Texas 79704

Pocahontas Oil Company  
P. O. Box 60476  
Midland, Texas 79711

VI. **AREA OF MUTUAL INTEREST**

T-17S-R-28E  
Sections 3,4,5,8,9,10,15,16,17  
Eddy County, New Mexico

## EXHIBIT "A-1"

Attached to and made a part of  
that certain Operating Agreement dated January 15, 1999  
between Chi Operating, Inc., as Operator and  
Southwestern Energy Production Company, et al, as Non-operators

### Lease No. 1

LESSOR: United States of America (LC-028053-B)  
LESSEE: N. Gordon Phillips  
LEASE DATE: October 1, 1964  
ACREAGE : T-17-S, R-28-E, N.M.P.M.  
Section 3: Lots 14, 15, 16 (N/2SW/4; NW/4SE/4)  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico

### Lease No. 2

LESSOR: United States of America (NM-012897)  
LESSEE: Southern Union Gas Company  
LEASE DATE: September 1, 1933  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 3: Lots 5,6,7,8,9,10,11,12,13,20  
(N/2 and E/2SE/4)  
Section 5: Lot 4, SW/4NW/4; W/2SW/4 (W/2W/2)  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico.

### Lease No. 3

LESSOR: United States of America (LC-061465-b)  
LESSEE: F. Grant Keys, et al  
LEASE DATE: March 11, 1939  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 3: Lots 17, 18, 19 (S/2SW/4 and SW/4SE/4)  
Section 10: NW/4NW/4  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico

### Lease No. 4

LESSOR: State of New Mexico (B-2029)  
LESSEE: W. F. Daugherty  
LEASE DATE: December 17, 1924  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 4: NE/4SW/4; SE/4  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico.

### Lease No. 5

LESSOR: State of New Mexico (B-2178)  
LESSEE: Van Thompson  
LEASE DATE: October 10, 1933  
ACREAGE: T-17S-R-28E, N.M.P.M.  
Section 4: Lot 3, W/2SW/4  
All depths  
Eddy County, New Mexico

### Lease No. 6

LESSOR: United States of America (NM 048342)  
LESSEE: Dehli -Taylor Oil Corporation  
LEASE DATE: 12-1-58 (as renewed)  
ACREAGE: T-17S-R-28E, N.M.P.M.  
Section 4: Lot 4, S/2NW/4  
only as to those rights below 1552' from the surface.  
Eddy County, New Mexico

## Lease No. 7

LESSOR: United States of America (LC-028446-A)  
LESSEE: Mary K. Burkett  
LEASE DATE: July 25, 1929  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 5: Lots 1,2,3,SE/4NW/4; S/2NE/4  
E/2SW/4; SE/4  
Section 8: N/2N/2  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico

## Lease No. 8

LESSOR: State of New Mexico (B-2178)  
LESSEE: Van Thompson  
LEASE DATE: 10-10-33  
ACREAGE : T-17S-R-28E, N.M.P.M.  
Section 8: S/2NE/4, SE/4  
All depths  
Eddy County, New Mexico

## Lease No. 9

LESSOR: State of New Mexico (B-2179)  
LESSEE: F. G. Keyes  
LEASE DATE: October 10, 1933  
ACREAGE : T-17S-R-28-E, N.M.P.M.  
Section 9: NW/4; W/2NE/4; SE/4NE/4;  
N/2SW/4; SE/4SW/4;SE/4  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico

## Lease No. 10

LESSOR: State of New Mexico (VB-0527)  
LESSEE: Chi Energy, Inc.  
LEASE DATE: July 1, 1998  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 9: NE/4NE/4; SW/4SW/4  
Eddy County, New Mexico

## Lease No. 11

LESSOR: United States of America (LC-028053-A)  
LESSEE: N. Gordon Phillips  
LEASE DATE: October 1, 1954  
ACREAGE : T-17S-R-28-E, N.M.P.M.  
Section 10: SW/4NW/4; NW/4SW/4; SE/4SW/4  
only as to those rights below 2,500' from the surface.  
Eddy County, New Mexico

## Lease No. 12

LESSOR: United States of America (LC-061465-A)  
LESSEE: Southern Union Gas Company  
LEASE DATE: October 1, 1974  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 10: E/2NW/4; W/2NE/4  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico

## Lease No. 13

LESSOR: United States of America (NM-012898)  
LESSEE: John M. Kelly  
LEASE DATE: September 1, 1953  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 10: E/2NE/4  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico.

## Lease No. 14

LESSOR: United States of America (NM-59035)  
LESSEE:  
LEASE DATE:  
ACREAGE: T-17-SR-28-E, N.M.P.M.  
Section 10: NE/4SW/4; NW/4SE/4  
only as to those rights below 3,000' from the surface.  
Eddy County, New Mexico

## Lease No. 15

LESSOR: State of New Mexico (B-1969)  
LESSEE: Van P. Welch, Jr.  
LEASE DATE: June 10, 1933  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 15: S/2SW/4  
only as to those rights below 2,500' from the surface.  
Eddy County, New Mexico

## Lease No. 16

LESSOR: State of New Mexico (B-2178)  
LESSEE: Van Thompson  
LEASE DATE: October 10, 1933  
ACREAGE : T-17-S-R-28-E, N.M.P.M.  
Section 15: NE/4SW/4  
only as to those rights below 2,500' from the surface.  
Eddy County, New Mexico

**NO EXHIBIT "B"**

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated January 15, 1999 between Chi Operating, Inc. as Operator and Southwestern Energy Production Company, et al, as Non-operators.

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

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

### 6. Services

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

### 7. Equipment and Facilities Furnished by Operator

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

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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

**10. Taxes**

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

**11. Insurance**

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

**12. Other Expenditures**

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

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

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

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

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

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

**A. Overhead - Fixed Rate Basis**

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

Drilling Well Rate \$ 5,500.00  
 Producing Well Rate \$ 550.00

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

**(a) Drilling Well Rate**

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

**(b) Producing Well Rates**

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

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

**B. Overhead - Percentage Basis**

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

**(a) Development**

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

**(b) Operating**

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

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

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

**2. Overhead - Major Construction**

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

A. NA % of total costs if such costs are more than \$ \_\_\_\_\_ but less than \$ \_\_\_\_\_; plus

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

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

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

**A. New Material (Condition A)**

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

**(2) Line Pipe**

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

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

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

**B. Good Used Material (Condition B)**

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

**(1) Material moved to the Joint Property**

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

**(2) Material moved from the Joint Property**

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

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

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

**C. Other Used Material (Condition C and D)**

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

**4. Warranty of Material Furnished by Operator**

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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

## Exhibit "D"

Attached to and made a part of that certain Operating Agreement dated January 15, 1999 by and between Chi Operating, Inc., as Operator and Southwestern Energy Production Company, et al, as Non-Operators.

### INSURANCE

Operator shall carry for the benefit and the expenses of the joint account insurance with responsible insurance carriers as follows:

- (1) Workman's Compensation to cover full liability under Workman's Compensation Law of the State of where operations are being conducted.
- (2) General Public Liability and property damage insurance limits of not less than \$1,000,000.00 covering injury to or death of one or more persons, and not less than \$250,000.00 covering accidental loss of or damage to property of third persons.
- (3) Automobile public liability and property damage insurance with limits of not less than \$250,000.00 covering injury to or death of more than one person by reason of one accident, and not less than \$100,000.00 covering damage to property or third persons.

## EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated January 15, 1999 by and between Chi Operating, Inc., as Operator and Southwestern Energy Production Company, et al. as Non-Operators.

### Gas Balancing Agreement

The parties to the Operating Agreement to which this agreement is attached are the owners of certain gas rights underlying the Contract Area covered by such agreement, and the ownership of each party is set forth in Exhibit "A" to said Operating Agreement.

The terms of the Operating Agreement provide each such party with the right to take its share of gas produced from the Contract Area and market the same. In the event any such party is not at any time taking or marketing its share of such gas or has contracted to sell its share thereof to a purchaser which does not at any time while said agreement is in effect take the full share of gas attributable to the interest of such contracting party, then this agreement shall automatically become effective.

During the period or periods when any party is not taking or marketing its share of gas produced from any proration or spacing unit within the Contract Area, or its purchaser does not take its full share of gas produced from such proration or spacing unit mentioned above, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration or spacing unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser or purchasers all of such gas production. All the parties shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser or purchasers.

On a cumulative basis, each such party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator under said Operating Agreement will establish and maintain currently a gas account to show the gas balance which exists between all the parties and will furnish each of the parties a monthly statement showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the monthly and cumulative over and under account of each party.

At all times while gas is being produced, each Party who is taking gas will make or cause to be made settlement with the royalty owners of the Parties not taking gas, to the extent that such royalty burdens exist on the date of this agreement, if any. Such settlement will be made upon the amount actually realized by such taking Party. Each non-taking Party will hold such taking Party harmless from and against any and all further claims, if any, by its royalty owners for additional amounts claimed due. All balancing as provided herein shall properly take into account all royalty payments made by the overproduced Parties to the royalty owners of the underproduced Parties. Royalty, overriding royalty, or other burdens on production which are carved out or created after the date of this agreement shall be the responsibility of the party creating same.

After written notice to the Operator, each party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration or spacing unit under which it has gas in storage, less such party's share of gas used in lease operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the production of such party with gas in storage and the denominator of which is the total percentage interest in such proration or spacing unit of all parties with gas in storage currently taking or delivering to a purchaser.

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

Nothing herein contained shall be construed as denying any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

In the event production of gas from a proration or spacing unit is permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the price received by the overproduced party at the time of accrual for said overproduction.

Notwithstanding the provisions of the preceding paragraph, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party 90 days written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the date of such written demands) with 90 days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in the preceding paragraph. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year and upon any such request, all underproduced parties will be given the option to cash balance or to maintain their current imbalance. The next request for optional cash balancing by any underproduced party shall not occur until one year has elapsed from the date of the last optional cash settlement.

Nothing herein contained shall change or affect the obligations of each party to bear and pay its proportionate share of all cost, expenses, and liabilities as provided in the Operating Agreement.

This agreement shall constitute a separate agreement as to each proration or spacing unit within the Contract Area and shall become effective in accordance with its terms and shall remain in force and effect in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs successors, legal representative and assigns. The terms "proration unit" or "spacing unit" means the area or portion of the Contract Area fixed for the drilling of one well by applicable field rules, or in the absence thereof, with statewide rules and regulations of the State regulatory body having jurisdiction.

To the extent any Party hereto is overproduced at any time, such Party hereby grants a continuing lien and security interest to all underproduced Parties covering all of the interest of the overproduced Party, its contract rights, account, accounts receivable, proceeds of production and personal property and equipment used or obtained in connection therewith in order to secure payments due, or to become due, as provided elsewhere herein. Said lien shall be otherwise governed by all of the terms and provisions relating to liens under the Operating Agreement to which this Gas Balancing Agreement is attached as an exhibit.

## EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated January 15, 1999 by and between Chi Operating, Inc., as Operator and Southwestern Energy Production Company, et al, as Non-Operators.

### Equal Employment Opportunity Provision

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

1. The Operator will not discriminate against any employees or applicant for employment because of race, color, religion, sex, or national origin. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color religion, sex, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.
2. The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.
3. The Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applications for employment.
4. The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
5. The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
6. In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated, or suspended in whole or in part, and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule regulation, or order of the Secretary of Labor, or as otherwise provided by law.
7. The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator 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 with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, 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 Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator assures Non-Operators that is does not and will not maintain or provided for its employees and segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform

EXHIBIT "F"

Page 2

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.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. S 1001.

**NO EXHIBIT "G"**

LAW OFFICES  
**TURNER & DAVIS**  
A PROFESSIONAL CORPORATION

400 W. ILLINOIS, SUITE 1400  
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FRANK N. CREMER  
MEMBER TEXAS AND NEW MEXICO BARS

TELEPHONE (915) 687-0011  
FAX (915) 687-1735

May 5, 1999

ORIGINAL DRILLING TITLE OPINION

Chi Energy, Inc.  
P. O. Box 1799  
Midland, TX 79702

Attention: Mr. John Qualls

Re: Your Silver Streak State Com "8" No. 1 Well – State of New Mexico Oil and Gas Leases B-2178 and VB-512, and Federal Oil and Gas Lease LC 028446(a), insofar as said leases cover the respective portions designated below of the N/2 of Section 8, Township 17 South, Range 28 East, N.M.P.M., Eddy County, New Mexico:

B-2178: insofar as said lease covers the S/2 NE/4 of said Section 8, containing 80 acres, limited to depths below 2,035 feet beneath the surface;

VB-512: insofar as said lease covers the S/2 NW/4 of said Section 8, containing 80 acres, at all depths; and

LC 028446(a): insofar as said lease covers the N/2 N/2 of said Section 8, containing 160 acres, limited to depths below 3,000 feet beneath the surface.

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Gentlemen:

At your request, we have examined the following:

BASIS OF EXAMINATION

Abstracts

1. Abstract No. 49433, certified by Federal Abstract Company as covering the Records in the Offices of the Commissioner of Public Lands of the State of New Mexico, pertaining to State of New Mexico Oil and Gas Leases B-2178 and VB-512, insofar as said leases cover the S/2 N/2 of Section 8, from inception of the records to April 15, 1999 at 8:00 a.m., containing 78 pages.

2. Abstract No. 49439, certified by Federal Abstract Company as covering the Plat Book Records, Historical Index Records, Case Abstract and Case File for Federal Oil and Gas Lease LC 028446(a), in the United States Department of the Interior, Bureau of Land Management State Office at Santa Fe, New Mexico, pertaining to the N/2 N/2 of Section 8, from inception of the records to April 19, 1999 at 9:00 a.m., containing 298 pages.

Examination of the Records

We have examined all of the instruments pertaining to the mineral estate only in captioned land which have been filed for record in the Office of the County Clerk of Eddy County, New Mexico, from inception of the records to April 26, 1999 at 7:00 a.m., based upon the indices maintained by Guaranty Title Company, Carlsbad, New Mexico.

Instruments

1. Copy of Letter Agreement dated September 1, 1998, between Fina Oil and Chemical Company and Chi Energy, Inc.
2. Copy of Operating Agreement dated January 15, 1999, between Chi Operating, Inc., as Operator, and Southwestern Energy Production Company, et al, as Non-Operators.
3. Copy of letter dated April 27, 1999, from Fina Oil and Chemical Company to Chi Energy, Inc., reflecting the sale of Fina's interests in New Mexico to Manix Energy, LLC.

TITLE TO THE MINERAL ESTATE IN CAPTIONED LAND

Based upon examination of the foregoing and subject to the title requirements and other matters set forth below, we find title to the mineral estate only in captioned land vested as follows:

Minerals:

N/2 N/2 of Section 8:

United States of America ..... All

S/2 N/2 of Section 8:

State of New Mexico ..... All

Leasehold Estate:

N/2 NW/4 of Section 8:

Record Title:

Burlington Resources Oil & Gas Company ..... All

Operating Rights:

Chi Energy, Inc. .... 68.75% of 7/8 WI <sup>1,2</sup>

Heirs or devisees of Todd W. Johnson  
(June Johnson, Personal Representative) ..... 6.25% of 7/8 WI <sup>1</sup>

Enron Oil & Gas Company ..... 7.5% of 7/8 WI <sup>1</sup>

Yates Petroleum Corporation ..... 12.25% of 7/8 WI <sup>1</sup>

ABO Petroleum Corporation ..... 1.75% of 7/8 WI <sup>1</sup>

MYCO Industries, Inc. .... 1.75% of 7/8 WI <sup>1</sup>

Yates Drilling Company ..... 1.75% of 7/8 WI <sup>1</sup>

N/2 NE/4 of Section 8:

Record Title:

Burlington Resources Oil & Gas Company ..... All

Operating Rights:

Chi Energy, Inc. ....	43.75% of 7/8 WI	<sup>1,2</sup>
Heirs or Devises of Todd W. Johnson (June Johnson, Personal Representative) .....	6.25% of 7/8 WI	<sup>1</sup>
Enron Oil & Gas Company .....	15% of 7/8 WI	<sup>1</sup>
Yates Petroleum Corporation .....	24.5% of 7/8 WI	<sup>1</sup>
ABO Petroleum Corporation .....	3.5% of 7/8 WI	<sup>1</sup>
MYCO Industries, Inc. ....	3.5% of 7/8 WI	<sup>1</sup>
Yates Drilling Company .....	3.5% of 7/8 WI	<sup>1</sup>

S/2 NE/4 of Section 8:Record Title:

Conoco Inc. ....	1/2
Manix Energy, LLC .....	1/2

Operating Rights:

Chi Energy, Inc. ....	1/2 of 7/8 WI	<sup>3</sup>
Manix Energy, LLC .....	1/2 of 7/8 WI	

S/2 NW/4 of Section 8:Record Title:

Yates Petroleum Corporation .....	All
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Operating Rights:

Yates Petroleum Corporation .....	70% of 13/16 WI
ABO Petroleum Corporation .....	10% of 13/16 WI
MYCO Industries, Inc. ....	10% of 13/16 WI
Yates Drilling Company .....	10% of 13/16 WI

<sup>1</sup> These interests must bear their proportionate share of an overriding royalty interest equal to 7.5% of production from the N/2 N/2 of Section 8, owned by the parties listed below in the percentage interests set forth opposite their names:

First Interstate Bank of Albuquerque, Trustee of the L. Jay Root Royalty Revocable Trust .....	2.875%
J. W. Adamson .....	1.875%
Myrtle N. Adamson .....	1.875%
W. H. Davis .....	.425%

Howard P. Lowe ..... 250%  
 Roland McLean ..... 200%

<sup>2</sup> This interest must bear the following overriding royalty interests:

(a) equal to 43.75% of 1.5% of production from the N/2 N/2 of Section 8, owned by the parties listed below in the percentages set forth opposite their names:

Pennzenergy Exploration and  
 Production, L.L.C. .... 62.500%  
 Bright Hawk/Burkard Venture ..... 20.625%  
 Ayco Energy, L.L.C. .... 16.875%

(b) equal to 25% of 5% of production from the N/2 NW/4 of Section 8, owned by Hunt Oil Company.

<sup>3</sup> This interest must bear an overriding royalty interest equal to 50% of 12.5% of production from the S/2 NE/4 of Section 8, owned by Conoco Inc.

EXISTING OIL AND GAS LEASES

Lease No. 1:

Serial No.: B-2178.  
 Date: October 10, 1933.  
 Recorded: Unrecorded; however, it is unnecessary to record this lease in the county records.  
 Lessor: State of New Mexico, acting by and through its Commissioner of Public Lands.  
 Lessee: Van Thompson.  
 Land Covered: T-17-S, R-28-E, N.M.P.M.  
 Section 2: Lots 3, 4, S/2 NW/4, E/2 SW/4  
 Section 4: Lot 3, W/2 SW/4  
 Section 8: S/2 NE/4, SE/4  
 Section 15: NE/4 SW/4  
 Section 20: SW/4  
 Eddy County, New Mexico, containing 798.02 acres, more or less.  
 Primary Term: Five (5) years from date, with Lessee having the option to extend the lease for an additional five years by payment of double the annual rentals provided for therein.  
 Delay Rentals: Rentals in the sum of \$.50 per acre are payable to Lessor on or before October 10, annually, regardless of whether drilling operations are conducted on or production is obtained from the leased premises. Annual rentals have been paid to October 10, 1999.

Royalties: 1/8 on oil and gas.

Shut-in Gas Well Royalties: None.

Lease Form: Form 44.

Lease No. 2:

Serial No.: VB-512.

Date: January 1, 1997.

Recorded: Unrecorded; however, it is unnecessary to record this lease in the county records.

Lessor: State of New Mexico, acting by and through its Commissioner of Public Lands.

Lessee: Yates Petroleum Corporation.

Land Covered: T-17-S, R-28-E, N.M.P.M.  
Section 8: S/2 NW/4, SW/4

Eddy County, New Mexico, containing 240 acres, more or less.

Primary Term: Five (5) years from date.

Delay Rentals: Rentals in the sum of \$1.00 per acre are payable on or before January 1, annually, regardless of whether drilling operations are conducted on or production is obtained from the leased premises. Annual rentals have been paid to January 1, 2000.

Royalties: 3/16 on oil and gas.

Shut-in Gas Well Royalties: This lease shall not expire at the end of the primary term if there is a well capable of producing gas in paying quantities located on some portion of the leased premises, or lands pooled therewith, where such well is shut in due to the inability of Lessee to obtain a pipeline connection or to market the gas therefrom, and if Lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of 90 days from the date the well was shut in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities, and upon the commencement of marketing of gas from said well or wells, the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable under the lease to Lessor for such year. The provisions of this section shall also apply where gas is being marketed from the leased premises and through no fault of Lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as provided in the lease. The amount of any annual royalty payable under this section shall equal twice the annual rental due by Lessee under the terms of the lease, but not less than \$320.00 per well per year; provided, however, that any such annual royalty for any year beginning on or after ten years from the date of the lease shall equal four times the annual

rental due by Lessee under the terms of the lease, but not less than \$2,000.00 per well per year; provided further, that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by Lessor, and if such other lease includes lands communitized with the leased premises for the purpose of proratically sharing in the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after five years from the date thereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the Commissioner of Public Lands, in his discretion, grants such a continuance.

Lease Form: Development Form.

Lease No. 3:

Serial No.: LC 028446(a).

Date: July 1, 1999.

Recorded: Unrecorded; however, it is unnecessary to record this lease in the county records.

Lessor: United States of America.

Lessee: Burlington Resources Oil & Gas Company.

Land Covered: T-17-S, R-28-E, N.M.P.M.  
Section 5: Lots 1, 2, 3, S/2 NE/4, SE/4 NW/4, E/2 SW/4, SE/4  
Section 8: N/2 N/2

Eddy County, New Mexico, containing 639.36 acres, more or less.

Primary Term: Twenty (20) years from date.

Delay Rentals: Delay rentals in the sum of \$2.00 per acre are payable to the proper office of Lessor in advance of each lease year.

Royalties: 12.5% of production removed or sold from the leased premises, computed in accordance with federal regulations.

Minimum Royalty: Minimum royalty in lieu of rental of not less than the rental which otherwise would be required for that lease year shall be payable at the end of each lease year beginning on or after a discovery in paying quantities.

Lease Form: Form 3100-11b (October 1992) (Renewal).

Stipulation: All or a portion of the lease is located in a potential cave or karst occurrence area. Within this area, caves or karst features such as sink holes, passages and large rooms may be encountered from the surface to a depth of as much as 2,000 feet, within surface areas ranging from a few acres to hundreds of acres. Due to the sensitive nature of the cave or karst systems of this area, special protective measures may be developed during environmental analyses and be required as part of approvals for drilling or other operations on this lease.

These measures could include changes in drilling operations; special casing and cementing programs; modifications in surface activities; or other reasonable measures to mitigate impacts to cave or karst values. These measures may be imposed in accordance with 43 CFR 3101.1-2; 43 CFR 3162.5-1; Onshore Oil and Gas Order No. 1; and Section 6 of the lease terms.

### ASSIGNMENTS

#### Lease No. 1:

1. By Assignment of Oil and Gas Lease dated October 3, 1934, approved December 28, 1934, unrecorded in the county records, Van Thompson and wife, Betty Thompson, assigned all of their interest in Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to Pecos Valley Production Company.
2. By instrument dated March 31, 1938, recorded in Book 16, page 35, Miscellaneous Records, Pecos Valley Production Company was merged into New Mexico Eastern Gas Company.
3. By instrument dated August 19, 1943, recorded in Book 280, page 428, Eddy County Records, New Mexico Eastern Gas Company was merged into Texas Southwestern Gas Company and Texas Southwestern Gas Company changed its name to Southern Union Gas Company.
4. By Assignment of Oil and Gas Lease dated May 31, 1946, approved June 28, 1946, unrecorded in the county records, Southern Union Gas Company assigned all of its interest in Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to Delhi Oil Corporation.
5. By instrument dated December 6, 1954, recorded in the Offices of the Commissioner of Public Lands in Miscellaneous Book 1, Instrument 4138, Delhi Oil Corporation changed its name to Delhi-Taylor Oil Corporation.
6. By Assignment of Oil and Gas Lease dated September 1, 1964, approved September 22, 1964, Delhi-Taylor Oil Corporation assigned all of its interest in Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to Tenneco Oil Company and Continental Oil Company. This assignment has not been filed for record in Eddy County, New Mexico; however, by Conveyance of Oil and Gas Properties dated September 1, 1964, recorded in Book 146, page 294, Oil and Gas Records, Delhi-Taylor Oil Corporation assigned all of its interest in Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to Tenneco Oil Company and Continental Oil Company.
7. By instrument dated May 8, 1979, recorded in Book 153, page 1008, Eddy County Records, and in the Offices of the Commissioner of Public Lands in Miscellaneous Book 2, Instrument 2491, Continental Oil Company changed its name to Conoco Inc.
8. By Assignment of Oil and Gas Lease dated December 8, 1988, approved October 10, 1989, unrecorded in the county records, Tenneco Oil Company and Conoco Inc. assigned all of their interest in the record title to Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to TOC-Gulf Coast, Inc. and Conoco Inc.
9. By Conveyance dated November 3, 1988, recorded in Book 33, page 651, Eddy County Records, Tenneco Oil Company assigned all of its interest in the operating rights in Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to TOC-Gulf Coast, Inc.
10. By Assignment of Oil and Gas Lease dated October 25, 1989, approved November 21, 1989, unrecorded in the county records, TOC-Gulf Coast, Inc. and Conoco Inc. assigned all of their interest in the record title to Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to Fina Oil and Chemical Company and Conoco Inc.

11. By Assignment dated May 31, 1989, recorded in Book 52, page 104, Eddy County Records, TOC-Gulf Coast, Inc. assigned all of its interest in the operating rights in Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to Fina Oil and Chemical Company.

12. By Term Assignment dated October 12, 1998, recorded in Book 333, page 168, Eddy County Records, Conoco Inc. assigned all of its interest in the operating rights in Lease No. 1, insofar as it covers the S/2 NE/4 of Section 8, among other land, to Chi Energy, Inc., for a term of two years and as long thereafter as operations are conducted on the assigned premises with no cessation of more than 90 consecutive days, reserving an overriding royalty interest equal to the difference between total leasehold burdens of record and 25% of the oil, gas and other liquid and gaseous hydrocarbons produced and saved from the assigned premises, subject to proportionate reduction. Article IV of the assignment contains a broad indemnification in favor of Assignor and insurance requirements with which Assignee must comply. Exhibit "B" attached to the assignment contains a list of information which must be furnished to Assignor during operations conducted on the assigned premises. In addition, Assignor's employees and authorized representatives shall have full access to the assigned premises and all wells and Assignee's operations thereon, and may witness all tests and surveys and the results thereof, and all operations conducted under the assignment, at Assignor's risk and expense. Assignor also reserves a right of reassignment prior to abandonment and a call on production.

If, within the primary term, Assignee has drilled and completed a well or wells capable of producing oil or gas in paying quantities on the assigned premises or lands pooled therewith, or if Assignee is engaged in actual drilling operations at the expiration of the primary term, which result in completion as a producer or abandonment as a dry hole, Assignee shall have the option to conduct a continuous development program on the assigned premises. If Assignee elects to conduct such a program, Assignee shall then commence the drilling of a well at a location of its choice on the assigned premises or lands pooled therewith within 120 days of the expiration of the primary term or 120 days from the completion or abandonment of any well or wells drilled over the expiration of the primary term, whichever is later. Thereafter, not more than 120 days shall elapse between completion of one well and the commencement of actual drilling operations on the next succeeding well. Completion is defined as the date of drilling rig release. Upon the expiration of the primary term or the continuous development program, whichever is later, the assignment shall terminate except as to that portion of the assigned premises included within the proration or pooled unit for each well producing or capable of producing oil or gas in paying quantities as to those depths from the surface down to a depth of 100 feet below the deepest perforation of each well. This assignment covers only oil, gas and other liquid and gaseous hydrocarbons, sulphur and hydrogen sulphide. No assignment of the assigned premises shall be made by Assignee unless it is made expressly subject to this assignment and unless the subsequent assignee assumes all of the obligations of this assignment; and no assignment of the assigned premises shall be valid until Assignor is furnished with a certified copy of the recorded instrument or order of a competent court evidencing the transfer of ownership.

Lease No. 2:

1. By Assignment of Oil and Gas Lease dated January 6, 1997, recorded in Book 270, page 672, Eddy County Records, Yates Petroleum Corporation assigned an undivided 30% of the operating rights in Lease No. 2 to Yates Drilling Company, ABO Petroleum Corporation and MYCO Industries, Inc., in equal shares.

Lease No. 3:

1. By Quitclaim dated December 22, 1923, recorded in Book 54, page 106, Deed Records, Alfred M. Vandagriff assigned an undivided 1/2 interest in Permit R0 051645, insofar as it covers the N/2 N/2 of Section 8, among other land, to J. W. Adamson. This instrument was not filed with the Bureau of Land Management.

2. By Assignment of Prospecting Permit dated December 13, 1924, approved by the Bureau of Land Management, unrecorded in the county records, Alfred M. Vandagriff assigned all of his interest in Permit R0 051645, insofar as it covers the N/2 N/2 of Section 8, among other land, to C. T. Smith and Sam M. Dils, reserving an overriding royalty interest equal to 7.5% of production.

3. By Assignment dated March 14, 1925, recorded in Book 5, page 136, Oil and Gas Records, Alfred M. Vandagriff assigned an undivided 1/4 of the overriding royalty interest reserved in Assignment No. 2 (1.875% of production) to Charlie Keys. This instrument was not filed with the Bureau of Land Management.
4. By Agreement dated March 13, 1925, recorded in Book 10, page 139, Miscellaneous Records, Charlie keys assigned all of his overriding royalty interest in captioned land to Louis J. Root.
5. By Assignment of Prospecting Permit dated March 21, 1925, approved by the Bureau of Land Management, unrecorded in the county records, C. T. Smith and wife, Nina E. Smith, and Sam M. Dils, a single man, assigned all of their interest in Permit R0 051645, insofar as it covers the N/2 N/2 of Section 8, among other land, to New-Mex Oil Company.
6. By Assignment dated July 15, 1925, recorded in Book 5, page 137, Oil and Gas Records, Alfred M. Vandagriff assigned an overriding royalty interest equal to 1% of production from the N/2 N/2 of Section 8, among other land, to Louis J. Root.
7. By Assignment of Prospecting Permit dated September 25, 1926, approved by the Bureau of Land Management, unrecorded in the county records, New-Mex Oil Company assigned all of its interest in Permit R0 051645, insofar as it covers the N/2 N/2 of Section 8, among other land, to Mary H. Burkett. Lease No. 3 was initially issued to Mary H. Burkett on July 25, 1929, for a period of 20 years, with the right to renew the lease for successive 10-year periods.
8. By Contract dated August 4, 1927, recorded in Book 4, page 501, Oil and Gas Records, Alfred M. Vandagriff and wife, Nellie Vandagriff, assigned an overriding royalty interest equal to 85% of 1% of production from the N/2 N/2 of Section 8, among other land, to W. F. Lindsey. This assignment was not filed with the Bureau of Land Management.
9. By Assignment dated May 15, 1928, recorded in Book 4, page 502, Oil and Gas Records, W. F. Lindsey and wife, Nora Lindsey, assigned an overriding royalty interest equal to 85% of 1% of production from the N/2 N/2 of Section 8, among other land, to H. V. Craig. This assignment was not filed with the Bureau of Land Management.
10. By Assignment dated October 11, 1928, recorded in Book 4, page 560, Oil and Gas Records, J. W. Adamson assigned an undivided 1/4 of the overriding royalty interest reserved in Assignment No. 2 (1.875% of production) to Myrtle N. Adamson. This assignment was not filed with the Bureau of Land Management.
11. By Assignment dated August 30, 1928, recorded in Book 4, page 611, Oil and Gas Records, H. V. Craig and wife, Dora Craig, assigned an overriding royalty interest equal to 42.5% of 1% of production from the N/2 N/2 of Section 8, among other land, to W. H. Davis. This assignment was not filed with the Bureau of Land Management.
12. By Assignment of Royalty dated April 30, 1929, recorded in Book 5, page 82, Oil and Gas Records, Alfred M. Vandagriff and wife, Nellie Vandagriff, assigned an overriding royalty interest equal to 2.5% of 1% of production from the N/2 N/2 of Section 8, among other land, to H. V. Craig. This assignment was not filed with the Bureau of Land Management.
13. By Royalty Assignment dated November 13, 1930, recorded in Book 6, page 230, Oil and Gas Records, Louis J. Root, by William T. Pheiffer, his Attorney-in-Fact, assigned an overriding royalty interest equal to 2.875% of production from the N/2 N/2 of Section 8, among other land, to Bison Royalty Company.
14. By Assignment of Prospecting Permit dated April 23, 1931, approved November 11, 1933, recorded in Book 7, page 317, Oil and Gas Records, Mary H. Burkett and husband, Joe Burkett, assigned all of their interest in Lease No. 3 to Pecos Valley Gas Company.
15. By Assignment dated December 15, 1931, recorded in Book 7, page 227, Oil and Gas Records, H. V. Craig and wife, Dora Craig, assigned an overriding royalty interest equal to 1/5 of

1% of production from the N/2 N/2 of Section 8, among other land, to G. G. Towles. This assignment was not filed with the Bureau of Land Management.

16. By Assignment dated September 29, 1932, recorded in Book 13, page 554, Miscellaneous Records, H. V. Craig and wife, Dora Craig, assigned an overriding royalty interest equal to 1/4 of 1% of production from the N/2 N/2 of Section 8, among other land, to Howard P. Lowe. This assignment was not filed with Bureau of Land Management.

17. By Assignment dated September 19, 1934, recorded in Book 14, page 448, Miscellaneous Records, G. G. Towles assigned an overriding royalty interest equal to 1/5 of 1% of production from the N/2 N/2 of Section 8, among other land, to Roland McLean. This assignment was not filed with Bureau of Land Management.

18. By Royalty Assignment dated June 30, 1936, recorded in Book 9, page 6, Oil and Gas Records, Bison Royalty Company assigned an overriding royalty interest equal to 2.875% of production from the N/2 N/2 of Section 8, among other land, to Clara E. Root.

19. By Royalty Assignment dated September 14, 1936, unrecorded in the county records, Clara E. Root assigned an overriding royalty interest equal to 2.875% of production from the N/2 N/2 of Section 8, among other land, to Louis J. Root.

20. By instrument dated March 31, 1938, recorded in Book 16, page 35, Miscellaneous Records, Pecos Valley Production Company, successor to Pecos Valley Gas Company, was merged into New Mexico Eastern Gas Company.

21. By Assignment dated July 10, 1943, approved March 25, 1944, New Mexico Eastern Gas Company assigned all of its interest in Lease No. 3 to Southern Union Gas Company. This assignment evidences the merger of New Mexico Eastern Gas Company into Texas Southwestern Gas Company, with a change of name to Southern Union Gas Company. This merger/name change is evidenced by instrument dated August 19, 1943, recorded in Book 280, page 428, Eddy County Records.

22. By Operating Agreement on United States Oil and Gas Lease dated November 30, 1953, approved April 7, 1954, unrecorded in the county records, Southern Union Gas Company assigned an undivided 2/5 of the operating rights in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, at depths below 1,100 feet above sea level, to Aztec Oil & Gas Company.

23. By Assignment of Royalty dated October 3, 1955, unrecorded in the county records, Louis J. Root, a single man, assigned an overriding royalty interest equal to 1.375% of production from the N/2 N/2 of Section 8, among other land, to L. Jay Root, as his separate property.

24. Louis J. Root died September 25, 1957, and his Will was admitted to probate in Cause No. 2352 in the Probate Court of Eddy County, New Mexico. Under the terms of his Will, all of his overriding royalty interest in captioned land passed to his son, L. Jay Root.

25. By Assignment of Record Title dated November 24, 1959, approved January 1, 1960, unrecorded in the county records, Southern Union Gas Company assigned all of its interest in Lease No. 3 to Southern Union Production Company.

26. By Assignment of Operating Rights dated February 14, 1964, approved May 15, 1964, unrecorded in the county records, Southern Union Production Company and Aztec Oil & Gas Company assigned an undivided 50% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NW/4 of Section 8, among other land, at depths below 3,000 feet beneath the surface, to Pacific Natural Gas Exploration Company. This assignment contains a right of reassignment prior to abandonment in favor of Assignors, and is made subject to the terms of a Farmout Agreement dated January 24, 1963, supplemented by instrument dated October 30, 1963, between the parties.

27. By Assignment of Operating Rights dated July 2, 1969, recorded in Book 70, page 815, Miscellaneous Records, Southern Union Production Company and Aztec Oil & Gas Company

assigned an undivided 1/2 of the operating rights in Lease No. 3, insofar as it covers the N/2 NE/4 of Section 8, at depths below 3,000 feet beneath the surface, to the parties listed below in the proportions set forth opposite their names:

Stetco '68, Ltd. ....	7/8
Todd W. Johnson .....	1/8

This assignment was not filed with the Bureau of Land Management.

28. By Assignment of Operating Rights dated July 2, 1969, recorded in Book 70, page 825, Miscellaneous Records, Southern Union Production Company, Pacific Natural Gas Exploration Company and Aztec Oil & Gas Company assigned an undivided 1/2 of the operating rights in Lease No. 3, insofar as it covers the N/2 NW/4 of Section 8, at depths below 3,000 feet beneath the surface, to the parties listed below in the proportions set forth opposite their names:

Stetco '68, Ltd. ....	7/8
Todd W. Johnson .....	1/8

This assignment was not filed with the Bureau of Land Management.

29. By Assignment of Oil and Gas Leases dated June 30, 1970, recorded in Book 75, page 114, Miscellaneous Records, Stetco '68, Ltd. assigned all of its interest in Lease No. 3 to the parties listed below in the percentages set forth opposite their names:

Atapaz Petroleum, Inc. ....	37.5%
Pennzoil United, Inc. ....	62.5%

This assignment was filed with the Bureau of Land Management but was never approved.

30. Todd W. Johnson died in 1972 and his Will was admitted to probate in Cause No. 3510 in the Probate Court of Lea County, New Mexico. Notice of the probate proceedings for his estate, filed in Book 43, page 237, Sundry Probate Records, indicate that June Johnson is the Personal Representative of the Estate of Todd W. Johnson. Copies of the probate proceedings for the Estate of Todd W. Johnson were not filed with the Bureau of Land Management.

31. By General Indenture of Conveyance, Transfer and Assignment dated December 31, 1971, recorded in Book 210, page 722, Deed Records, rerecorded in Book 89, page 676, Eddy County Records, Atapaz Petroleum, Inc. assigned all of its assets to Wainoco Oil, Ltd. A counterpart of this assignment was filed with the Bureau of Land Management but was never approved.

32. By General Indenture of Conveyance, Transfer and Assignment dated December 31, 1971, recorded in Book 210, page 729, Deed Records, rerecorded in Book 89, page 670, Eddy County Records, Wainoco Oil, Ltd. assigned all of its assets to Wainoco, Inc. A counterpart of this assignment was filed with the Bureau of Land Management but was never approved.

33. By instrument dated June 26, 1972, unrecorded in the county records, Pennzoil United, Inc. changed its name to Pennzoil Company.

34. By instrument dated April 17, 1973, unrecorded in the county records, Pacific Natural Gas Exploration Company changed its name to Pacific Lighting Exploration Company.

35. By instrument dated December 8, 1976, recorded in Book 170, page 246, Miscellaneous Records, rerecorded in Book 249, page 1043, Miscellaneous Records, and Book 89, page 684, Eddy County Records, Wainoco, Inc. changed its name to Wainoco Oil & Gas Company. Evidence of this name change was not filed with the Bureau of Land Management.

36. By instrument dated May 24, 1978, unrecorded in the county records, Aztec Oil & Gas Company was merged into Southland Royalty Company. This merger is evidenced in the county records by General Conveyance dated December 31, 1977, recorded in Book 233, page 533, Deed Records.

37. By instrument dated December 27, 1978, unrecorded in the county records, Southern Union Production Company changed its name to Supron Energy Corporation.

38. L. Jay Root died November 27, 1981, and probate proceedings for his estate were conducted in Cause No. 81-52 in the District Court of Bernalillo County, New Mexico. By Assignment of Overriding Royalty Interest dated July 19, 1985, Helen A. Root, sole heir and successor to L. Jay Root, assigned an overriding royalty interest equal to 2.875% of production from the N/2 N/2 of Section 8, among other land, to First Interstate Bank of Albuquerque, Trustee of the L. Jay Root Royalty Revocable Trust. A counterpart to this conveyance, executed by Helen A. Root, Personal Representative of the Estate of L. Jay Root, is dated April 28, 1983, recorded in Book 225, page 308, Miscellaneous Records.

39. By instrument dated April 28, 1982, recorded in Book 211, page 790, Miscellaneous Records, Supron Energy Corporation was merged into Union Texas Exploration Corporation.

40. By Instrument of Conveyance dated April 29, 1982, recorded in Book 211, page 893, Miscellaneous Records, Union Texas Exploration Corporation assigned an undivided 1/2 of its interest in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, to Florida Exploration Company. This assignment was not filed with the Bureau of Land Management.

41. By Assignment of Record Title dated April 29, 1982, approved July 1, 1982, unrecorded in the county records, Union Texas Exploration Corporation assigned all of its interest in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, to Unicon Producing Company.

42. By Transfer of Operating Rights dated October 20, 1988, approved November 1, 1988, Pennzoil Company assigned an undivided 27.34375% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NE/4 of Section 8, among other land, to Pennzoil Exploration and Production Company. This assignment has not been filed for record in Eddy County, New Mexico; however, by Deed, Assignment and Conveyance dated March 31, 1988, recorded in Book 21, page 680, Eddy County Records, Pennzoil Company assigned all of its interest in oil and gas leases covering lands situated in the State of New Mexico to Pennzoil Exploration and Production Company.

43. By Assignment of Record Title dated June 14, 1990, approved September 1, 1990, and by Transfer of Operating Rights dated July 22, 1993, approved April 1, 1994, Unicon Producing Company assigned all of its interest in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, to Meridian Oil Production Inc. This assignment has not been filed for record in Eddy County, New Mexico; however, by Assignment, Bill of Sale and Conveyance dated June 19, 1990, recorded in Book 71, page 499, Eddy County Records, Unicon Producing Company assigned all of its interest in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, to Meridian Oil Production Inc. This assignment is made subject to the terms of an Agreement for Purchase and Sale dated May 24, 1990, between the parties.

44. By instrument dated July 31, 1990, recorded in Book 165, page 398, Eddy County Records, Florida Exploration Company was merged into KMI Continental Exploration Company; KMI Continental Exploration Company changed its name to Florida Exploration Company; Florida Exploration Company changed its name to Enron Producing Company and Enron Producing Company was merged into Enron Oil & Gas Company.

45. By Transfer of Operating Rights dated September 18, 1991, approved October 1, 1991, recorded in Book 106, page 955, Eddy County Records, Pacific Enterprises Oil Company (Netherlands) assigned an undivided 25% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NW/4 of Section 8, among other land, to Pacific Enterprises Oil Company (USA).

46. By Transfer of Operating Rights dated January 4, 1993, approved March 1, 1993, Pacific Enterprises Oil Company (USA) assigned an undivided 25% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NW/4 of Section 8, among other land, to Hunt Oil Company. This assignment has not been filed for record in Eddy County, New Mexico; however, by Assignment, Conveyance and Bill of Sale dated April 1, 1992, recorded in Book 147, page 572,

Eddy County Records, corrected by instrument dated June 29, 1995, recorded in Book 228, page 930, Eddy County Records, Pacific Enterprises Oil Company (USA) assigned all of its interest in Lease No. 3 to Hunt Oil Company.

47. By Assignment and Bill of Sale dated June 15, 1995, recorded in Book 222, page 173, Eddy County Records, Wainoco Oil & Gas Company assigned all of its interest in Lease No. 3 to Bright Hawk/Burkard Venture, subject to the terms of an Asset Purchase Agreement dated April 11, 1995, between the parties. This assignment was not filed with the Bureau of Land Management.

48. By Assignment and Bill of Sale dated June 15, 1995, recorded in Book 222, page 186, Eddy County Records, Bright Hawk/Burkard Venture assigned an undivided 45% of its interest in Lease No. 3 to Ayco Energy, L.L.C. This assignment is made subject to the Asset Purchase Agreement described in Assignment No. 47, above, and an Agreement dated April 24, 1995, between the parties. This assignment was not filed with the Bureau of Land Management.

49. By instrument dated December 29, 1995, recorded in Book 239, page 1059, Eddy County Records, Southland Royalty Company and Meridian Oil Production Inc. were merged into Meridian Oil Inc.

50. By instrument dated July 10, 1996, recorded in Book 256, page 551, Eddy County Records, Meridian Oil Inc. changed its name to Burlington Resources Oil & Gas Company.

51. By Transfer of Operating Rights dated June 1, 1998, approved July 1, 1998, Burlington Resources Oil & Gas Company assigned an undivided 25% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NW/4 of Section 8, and an undivided 50% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NE/4 of Section 8, to the parties listed below in the percentages set forth opposite their names:

Yates Petroleum Corporation .....	70%
ABO Petroleum Corporation .....	10%
MYCO Industries, Inc. ....	10%
Yates Drilling Company .....	10%

This assignment has not been filed for record in Eddy County, New Mexico; however, by Assignment and Conveyance of Oil and Gas Leases dated May 29, 1998, recorded in Book 322, page 874, Eddy County Records, Burlington Resources Oil & Gas Company assigned all of its interest in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, to the parties listed above in the percentages set forth opposite their names, subject to the terms of an Exchange Agreement dated May 7, 1998, between the parties.

52. By Term Assignment of Oil and Gas Leases dated July 10, 1998, effective July 1, 1998, recorded in Book 326, page 131, Eddy County Records, amended by instrument dated January 7, 1999, recorded in Book 341, page 302, Eddy County Records, Hunt Oil Company assigned all of its interest in Lease No. 3, insofar as it covers the N/2 NW/4 of Section 8, among other land, to Chi Energy, Inc., for a term of 18 months from the effective date or until the date the leases expire, whichever occurs first, and as long thereafter as oil or gas is produced from the assigned premises, reserving an overriding royalty interest equal to the difference between 25% and existing burdens, subject to proportionate reduction and subject to pooling by Assignee. At the later of 90 days after the expiration of the primary term or the conclusion of the continuous development program, defined below, the assignment shall terminate as to all depths and lands not included within a well tract. A well tract shall consist of an area surrounding each well drilled by Assignee which is capable of producing oil or gas, not to exceed 40 acres for each oil well or 160 acres for each gas well, and depths from the applicable top depth assigned herein down to and including 100 feet below the total depth of the applicable well. A continuous development program shall consist of a period during which Assignee conducts operations for the drilling of a well on the assigned premises or lands pooled therewith with no lapse of more than 120 days between the completion or plugging and abandoning of one well and the commencement of operations on the next succeeding well, and with operations for drilling on each well being conducted with no cessation of more than 120 consecutive days. Completion shall be deemed to be the date on which an oil well completion report or gas well completion report is timely filed by Assignee in conformance with the rules of the appropriate state

regulatory authority. Commencement of operations shall be deemed to have occurred when a well is staked. Upon the expiration of the primary term or the conclusion of the continuous development program, whichever is later, each well tract shall be treated as though it is under a separate lease and shall be maintained in force individually in the same manner as the applicable underlying leases are maintained.

This assignment also contains a broad indemnification in favor of Assignor. No assignment or farmout shall be made by Assignee of any interest under the assignment without the prior written consent of Assignor. Assignor shall have access to the well and well records at all reasonable times and shall be furnished with a copy of the drilling permit, any completion or plugging report, reports of daily drilling progress and the results of all tests and logs, as well as the information listed in Exhibit "C" attached to the Assignment. This assignment was not filed with the Bureau of Land Management.

53. By Amended Term Assignment dated October 22, 1998, effective September 1, 1998, recorded in Book 336, page 1093, Eddy County Records, Bright Hawk/Burkard Venture assigned all of its interest in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, to Chi Energy, Inc., for a term of 18 months and so long thereafter as oil or gas are produced in paying quantities, reserving an overriding royalty interest equal to 21.5% of production, less existing burdens, subject to proportionate reduction and subject to pooling by Assignee. If within the primary term, Assignee has drilled and completed a well or wells capable of producing oil or gas in paying quantities on the assigned premises or lands pooled therewith, or Assignee is engaged in actual drilling operations at the expiration of the primary term which result in completion as a producer or abandonment as a dry hole, Assignee shall have the option to conduct a continuous development program on the assigned premises. If Assignee elects to conduct such a program, Assignee shall then commence the drilling of a well at a location of Assignee's choice within 120 days of the expiration of the primary term or 120 days from completion or abandonment of any well or wells drilled subsequent to the expiration of the primary term. Thereafter, not more than 120 days shall elapse between the completion of one well and the commencement of actual drilling operations on the next succeeding well. Unused time between wells shall be cumulative and credited to Assignee. Upon expiration of the primary term or the continuous development program, whichever is later, the assignment shall terminate except as to that portion of the assigned premises included within the proration or pooled unit for each well drilled under the assignment and producing or capable of producing oil or gas in paying quantities, and as to those depths under said proration or pooled unit from the surface down to a depth of 100 feet below the deepest producing perforation in each well. This assignment contains a broad indemnification in favor of Assignor. Also, Assignor shall at all times have full and unrestricted access to each well drilled under the assignment, and all drilling, testing, coring, logging and completion records, reports and interpretations. Assignor shall also receive daily drilling reports on all wells drilled under the terms of the assignment. This assignment is made in lieu of a Term Assignment dated September 1, 1998, between the parties, which apparently was never recorded. This assignment is also made subject to the terms of a Letter Agreement dated July 30, 1998, between the parties. This assignment has not been filed with the Bureau of Land Management.

54. By Amended Term Assignment dated October 23, 1998, effective September 1, 1998, recorded in Book 336, page 1099, Eddy County Records, Ayco Energy, L.L.C. assigned all of its interest in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, to Chi Energy, Inc. This assignment is on the same form and contains the same terms and provisions as Assignment No. 53. This assignment has not been filed with Bureau of Land Management.

55. By Term Assignment dated April 5, 1999, effective April 1, 1999, recorded in Book 348, page 845, Eddy County Records, Pennzenergy Exploration and Production, L.L.C. assigned all of its interest in Lease No. 3, insofar as it covers the N/2 N/2 of Section 8, among other land, to Chi Energy, Inc. This assignment is on the same form and contains the same terms and provisions as Assignment No. 53. This assignment has not been filed with the Bureau of Land Management.

LETTER AGREEMENT

The interests owned by Chi Energy, Inc. and Manix Energy, LLC in captioned land are subject to the terms of a Letter Agreement dated September 1, 1998, between Fina Oil and Chemical Company and Chi Energy, Inc., in which the parties agree to create a three (3) section working interest unit consisting of Sections 4, 8 and 9, T-17-S, R-28-E, N.M.P.M., Eddy County, New Mexico, at depths below 3,000 feet beneath the surface. Fina will contribute its leasehold acreage in the contract area and will be entitled to a 12.5% working interest in the contract area, proportionately reduced to the interest owned by or acquired by Chi, on a proration unit basis. The parties agree to enter into a mutually acceptable operating agreement.

OPERATING AGREEMENT

The interests owned by Chi Energy, Inc. and Manix Energy, LLC in the oil and gas leasehold estate in captioned land are subject to the terms of an Operating Agreement dated January 15, 1999, between Chi Operating, Inc., as Operator, and Chi Energy, Inc., Southwestern Energy Production Company, Fina Oil and Chemical Company and Murchison Oil & Gas, Inc., as Non-Operators, covering captioned land, among other land. The agreement is prepared on AAPL Form 610-1982. The preferential right to purchase provision has been stricken from the agreement, and the agreement provides for a 100%/300% nonconsent penalty for parties which elect not to consent to subsequent operations. The agreement also contains other additions and deletions, with which we presume you are familiar. It is our understanding that the Operating Agreement has not yet been executed by Manix Energy, LLC or its predecessor, Fina Oil and Chemical Company.

PATENT INFORMATION

Captioned land apparently has not been patented by the State of New Mexico or the United States of America.

EASEMENTS

This opinion does not cover surface easements; however, we note for your information the existence of the following instruments covering the surface of captioned land:

- (a) Grazing Lease GR-124, in favor of Bogle Ltd. Co., expiring October 1, 2001, covering the S/2 N/2 of Section 8;
- (b) Right-of-Way R/W19631, in favor of El Paso Natural Gas Company, dated April 19, 1978, covering the SW/4 NE/4 and S/2 NW/4 of Section 8; and
- (c) Right-of-Way R/W24645-2, in favor of GPM Gas Corporation, expiring August 28, 2027, covering the S/2 NE/4 of Section 8.

ENCUMBRANCES

None.

TAXES

Ad valorem taxes are not assessed against lands owned by the State of New Mexico and the United States of America.

TITLE REQUIREMENTS

1.

We direct your attention to the fact that the primary term of Lease No. 1 has expired. We note also the necessity of paying annual rentals to maintain Lease Nos. 1 and 2 in effect, regardless of whether drilling operations are conducted on or production is obtained from the leased premises.

REQUIREMENTS: (a) You must satisfy yourself that Lease No. 1 has been maintained beyond the expiration of its primary term by drilling or development operations or continuous production in commercial quantities from the lands covered thereby or lands pooled therewith.

(b) Advisory with regard to the necessity of paying annual rentals to maintain Lease Nos. 1 and 2 in effect.

2.

Assignment Nos. 19, 22, 23, 25, 26, 33, 34, 37 and 41 of Lease No. 3 have not been filed for record in Eddy County, New Mexico.

REQUIREMENT: Assignment Nos. 19, 22, 23, 25, 26, 33, 34, 37 and 41 of Lease No. 3 should be filed for record in Eddy County, New Mexico.

3.

Assignment Nos. 3, 8, 9, 10, 11, 12, 15, 16 and 17 of Lease No. 3, all assignments of overriding royalty interests, have not been filed with the Bureau of Land Management as required by federal regulations.

REQUIREMENT: Assignment Nos. 3, 8, 9, 10, 11, 12, 15, 16 and 17 of Lease No. 3 should be filed with the Bureau of Land Management as required by federal regulations.

4.

Assignment Nos. 27, 28, 29, 30, 31, 32, 35, 40, 47, 48, 52, 53, 54 and 55 of Lease No. 3 have not been filed with the Bureau of Land Management for approval as required by federal regulations. We note that Assignment Nos. 29, 31 and 32 were previously filed with the Bureau of Land Management, but were never approved because the prior instruments in the chain of title to these interests had not been filed with the Bureau of Land Management.

REQUIREMENT: Counterparts to Assignment Nos. 27, 28, 29, 30, 31, 32, 35, 40, 47, 48, 52, 53, 54 and 55 of Lease No. 3 should be prepared on the appropriate federal form and filed with the Bureau of Land Management for approval as required by federal regulations.

5.

We have credited an undivided 6.25% interest in Lease No. 3 to the Heirs or Devisees of Todd W. Johnson. We have examined a notice of probate for his estate which indicates that he died in 1972 and that his Will was admitted to probate in Cause No. 3510 in the Probate Court of Lea County, New Mexico. However, we have not examined a copy of his Will or the Order admitting it to probate, and we are unable to determine for certain the manner in which his interest in captioned land passed upon his death.

REQUIREMENT: Submit for examination a copy of the Will of Todd W. Johnson and the Order admitting it to probate in Cause No. 3510 in the Probate Court of Lea County, New Mexico.

6.

Assignment No. 55 of Lease No. 3 is executed by Pennzenergy Exploration and Production, L.L.C. The records reflect that the interest covered by this assignment is owned by Pennzoil Exploration and Production Company. We have not been furnished the instrument or instruments whereby Pennzenergy Exploration and Production, L.L.C. acquired this interest from Pennzoil Exploration and Production Company.

REQUIREMENT: Submit for examination the instrument or instruments whereby Pennzenergy Exploration and Production, L.L.C. acquired the interest in captioned land owned of record by Pennzoil Exploration and Production Company.

7.

The counterpart of Assignment No. 42 of Lease No. 3 filed with the Bureau of Land Management purports to cover the N/2 NE/4 of Section 8. The counterpart of Assignment No. 42 of Lease No. 3 filed for record in Eddy County, New Mexico reflects that it was the intent of Pennzoil Company to assign all of its interests in the State of New Mexico to Pennzoil Exploration and Production Company. At the time Assignment No. 42 of Lease No. 3 was executed, Pennzoil Company owned an interest in the entire N/2 N/2 of Section 8.

REQUIREMENT: The counterpart of Assignment No. 42 of Lease No. 3 filed with the Bureau of Land Management should be corrected to cover the entire N/2 N/2 of Section 8 rather than only the N/2 NE/4 of Section 8.

8.

Assignment No. 45 of Lease No. 3 is executed by Pacific Enterprises Oil Company (Netherlands). At the time this assignment was executed, the interest covered by the assignment was owned of record by Pacific Lighting Exploration Company. We have not been furnished the instrument or instruments whereby Pacific Enterprises Oil Company (Netherlands) acquired this interest from Pacific Lighting Exploration Company.

REQUIREMENT: Submit for examination the instrument or instruments whereby Pacific Enterprises Oil Company (Netherlands) acquired the interest in captioned land previously owned by Pacific Lighting Exploration Company.

9.

We have examined a Letter in Lieu of Transfer Order dated April 27, 1999, from Fina Oil and Chemical Company to Chi Energy, Inc., reflecting that all of Fina's interests in the State of New Mexico have been conveyed to Manix Energy, LLC. We have credited the interest owned of record by Fina Oil and Chemical Company in captioned land to Manix Energy, LLC; however, we have not examined any assignments evidencing this conveyance.

REQUIREMENT: Submit for examination the instrument or instruments whereby Manix Energy, LLC acquired all of the interest owned by Fina Oil and Chemical Company in captioned land.

10.

Certain of the Assignments analyzed above are made subject to the terms and provisions of the agreements described below, copies of which have not been furnished for our examination:

- (a) Farmout Agreement dated January 24, 1963, supplemented by instrument dated October 30, 1963, between Southern Union Production Company, Aztec Oil & Gas Company and Pacific Natural Gas Exploration Company;
- (b) Agreement for Purchase and Sale dated May 24, 1990, between Unicon Producing Company and Meridian Oil Production Inc.;

- (c) Asset Purchase Agreement dated April 11, 1995, between Wainoco Oil and Gas Company and Bright Hawk/Burkard Venture;
- (d) Agreement dated April 24, 1995, between Bright Hawk/Burkard Venture and Ayco Energy, L.L.C.;
- (e) Exchange Agreement dated May 7, 1998, between Burlington Resources Oil & Gas Company, Yates Petroleum Corporation, ABO Petroleum Corporation, MYCO Industries, Inc. and Yates Drilling Company; and
- (f) Letter Agreement dated July 30, 1998, between Bright Hawk/Burkard Venture, Ayco Energy, L.L.C., Pennzenergy Exploration and Production, L.L.C. and Chi Energy, Inc.

REQUIREMENT: Submit for examination copies of the above-described agreements or otherwise satisfy yourself as to their terms and provisions.

11.

Exhibit "A" attached to the Operating Agreement analyzed above creates a contract area consisting of the E/2 of Section 8, among other land. Inasmuch as the proration unit for the proposed well apparently will consist of the N/2 of Section 8, it will be necessary to amend Exhibit "A" attached to the Operating Agreement to reflect a contract area consisting of the N/2 of Section 8. It will also be necessary for the Operating Agreement to be executed by the remaining owners of working interests in captioned land.

REQUIREMENTS: (a) Submit for examination an amendment to Exhibit "A" attached to the Operating Agreement analyzed above, which creates a contract area consisting of the N/2 of Section 8.

(b) The Operating Agreement analyzed above should be executed by all owners of a working interest in captioned land.

12.

By Assignment No. 51 of Lease No. 3, Burlington Resources Oil & Gas Company purported to assign an undivided 25% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NW/4 of Section 8, and an undivided 50% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NE/4 of Section 8, to Yates Petroleum Corporation, et al. At the time Assignment No. 51 of Lease No. 3 was executed, Burlington Resources Oil & Gas Company owned an undivided 17.5% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NW/4 of Section 8, and an undivided 35% interest in Lease No. 3, insofar as it covers the N/2 NE/4 of Section 8. We have credited Yates Petroleum Corporation, et al, with the interests we believe were owned by Burlington Resources Oil & Gas Company at the time Assignment No. 51 of Lease No. 3 was executed.

Also, as you are aware, Enron Oil & Gas Company has been unable to confirm its ownership of an interest in the operating rights in Lease No. 3. We believe the confusion with respect to the interests owned by Burlington Resources Oil & Gas Company and Enron Oil & Gas Company in the oil and gas leasehold estate in captioned land is based upon the fact that many of the assignments of Lease No. 3 either were not filed with the Bureau of Land Management or were not filed for record in Eddy County, New Mexico. Our determination of the ownership of the leasehold estate under Lease No. 3 is based upon the records of both the Bureau of Land Management and the County Clerk of Eddy County, New Mexico. If any of the owners of the leasehold estate in Lease No. 3 are of the opinion that the interest credited to them in this opinion is incorrect, we should be so advised and they should be called upon to submit for examination the instrument or instruments under which they claim ownership of an interest in Lease No. 3.

REQUIREMENTS: (a) Assignment No. 51 of Lease No. 3 should be corrected so as to assign an undivided 17.5% interest in the operating rights in Lease

No. 3, insofar as it covers the N/2 NW/4 of Section 8, and an undivided 35% interest in the operating rights in Lease No. 3, insofar as it covers the N/2 NE/4 of Section 8.

(b) Advisory with regard to the apparent confusion regarding the ownership of the oil and gas leasehold estate in Lease No. 3.

13.

We direct your attention to the stipulation contained in Lease No. 3 analyzed above, and the numerous unusual provisions contained in the assignments analyzed above.

REQUIREMENT: You should thoroughly familiarize yourself with all of the terms and provisions of the oil and gas leases and assignments analyzed above and be certain to conduct your operations on captioned land accordingly.

14.

In the event the proration unit for the proposed well consists of the N/2 of Section 8, it will be necessary for a communitization agreement to be executed creating a communized area consisting of the entire N/2 of Section 8.

REQUIREMENT: Submit for examination an executed copy of the communitization agreement which is executed in connection with the proposed well.

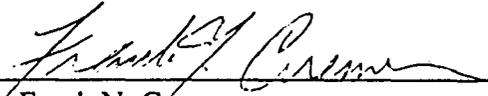
#### COMMENTS

This opinion cannot cover such matters as area, boundaries, location on the ground or other matters which can be determined only by an actual ground survey. You should have the proposed well staked by a competent surveyor to ensure that it is properly located on captioned land.

The abstracts furnished for examination are returned herewith.

Respectfully submitted,

**TURNER & DAVIS**

By:   
Frank N. Cremer

FNC:ldf

**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA  
HYDE PARK ESTATES  
SANTA FE, NEW MEXICO 87501

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

RECEIVED  
OCT 31 2000  
OFFICE OF THE ATTORNEY GENERAL  
SANTA FE, NEW MEXICO

October 27, 2000

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Bureau of Land Management  
2909 West Second Street  
Roswell, New Mexico 88202

Ladies and Gentlemen:

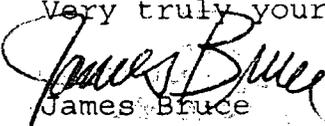
Enclosed is a copy of an application, filed by Chi Energy, Inc. with the Oil Conservation Division, requesting administrative approval of an unorthodox well location for a Cisco well in the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 8, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico.

The SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 8 is state land, while the N $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 8 is federal land (covered by Oil and Gas Lease LC 028446(a)). Thus, you are an offset interest owner, and the Oil Conservation Division has requested that notice of the application be given to you. If you object to the well's location, you must notify the Division in writing no later than Thursday, November 16, 2000 (2040 South Pacheco Street, Santa Fe, New Mexico 87505; attention: Michael E. Stogner). Failure to object will preclude you from contesting this matter at a later date.

If you have no objection to the location, a waiver of objection directed to the Division would be appreciated.

Please call me if you have any questions.

Very truly yours,

  
James Bruce

Attorney for Chi Energy, Inc.

cc: Michael E. Stogner

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION  
- Engineering Bureau -

29340302  
Cancelled KW

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]

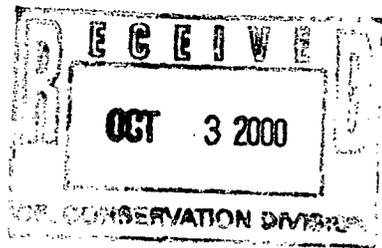
[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

- [A] Location - Spacing Unit - Directional Drilling  
 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]  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  
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E]  For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F]  Waivers are Attached

[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 1058  
SANTA FE, NM 87504

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

*James Bruce*  
Signature

*Attorney for Applicant*  
Title

10/3/00  
Date

Print or Type Name

**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA  
HYDE PARK ESTATES  
SANTA FE, NEW MEXICO 87501

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

October 3, 2000

Hand Delivered

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

Re: Request to Amend Administrative Order NSL-4284

Dear Mr. Stogner:

The above order approved an unorthodox gas well location in the Morrow formation for the following well:

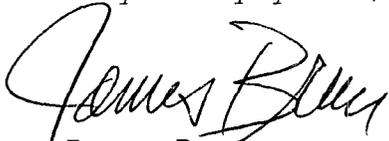
Silver Streak State Com. Well No. 1 (30-015-30664)  
1400 feet FNL & 1650 feet FEL  
N $\frac{1}{2}$  §8, Township 17 South, Range 28 East, NMPM  
Eddy County, New Mexico

Chi Energy, Inc. ("Chi") plans to re-complete the well uphole in the Cisco formation (wildcat Cisco), which is anticipated to be an oil zone. As a result, Chi requests an unorthodox oil well location in that formation. The well unit will be the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 8 (Unit G).

Chi is the lessee of the N $\frac{1}{2}$ NE $\frac{1}{4}$  of Section 8, and thus notice has not been give to anyone. As a result, Chi requests that the 20 day notice period be waived.

Please call me if you need anything further on this matter.

Very truly yours,

  
James Bruce  
Attorney for Chi Energy, Inc.

**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

3304 CAMINO LISA  
HYDE PARK ESTATES  
SANTA FE, NEW MEXICO 87501

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



October 4, 2000

**Hand Delivered**

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

Re: Request to Amend Administrative Order NSL-4284

Silver Streak State Com. Well No. 1  
1400 feet FNL & 1650 feet FEL  
N $\frac{1}{2}$  §8, Township 17 South, Range 28 East, NMPM  
Eddy County, New Mexico

Dear Mr. Stogner:

Enclosed is the land plat and working interest ownership you requested yesterday. The lessee of the N $\frac{1}{2}$ NE $\frac{1}{4}$  §8 is Chi Energy, Inc. However, due to an operating agreement, all working interest owners in the NE $\frac{1}{4}$  §8 will share in production from the SW $\frac{1}{4}$ NE $\frac{1}{4}$  well unit.

I had thought that the N $\frac{1}{2}$  §8 was all state acreage. However, the N $\frac{1}{2}$ N $\frac{1}{2}$  is federal land. If you want me to give notice to the BLM, please let me know.

Please call me if you need anything further on this matter.

Very truly yours,

  
James Bruce  
Attorney for Chi Energy, Inc.

**Silver Streak State Comm No. 1****Township 17 South, Range 28 East, N.M.P.M.****Section 8: NE/4****Eddy County, New Mexico**

LEASE NO: LC-028446 (a)  
 LESSOR: United States of America  
 LESSEE: Burlington Resources Oil & Gas Company  
 DATE: July 1, 1999  
 ACREAGE: Township 17 South, Range 28 East, N.M.P.M.  
 Section 8: N/2NE/4  
 Eddy County, New Mexico

LEASE NO: B-2178  
 LESSOR: State of New Mexico  
 LESSEE: Van Thompson  
 DATE: October 10, 1933  
 ACREAGE: Township 17 South, Range 28 East, N.M.P.M.  
 Section 8: S/2NE/4  
 Eddy County, New Mexico

**Working Interest Owners in the Silver Streak State Comm No. 1****Located in the NE/4 of Sec. 8, T-17S-R-28E**

Chi Energy, Inc.  
 P. O. Box 1799  
 Midland, Texas 79701

Southwestern Energy Production Company  
 2350 N. Sam Houston Parkway East, Suite 300  
 Houston, TX 77032

Murchison Oil & Gas Inc.  
 1445 Ross Avenue, Suite 5300, LB 152  
 Dallas, Texas 75202

Pocahontas Oil Company, Inc.  
 P. O. Box 60476  
 Midland, Texas 79711

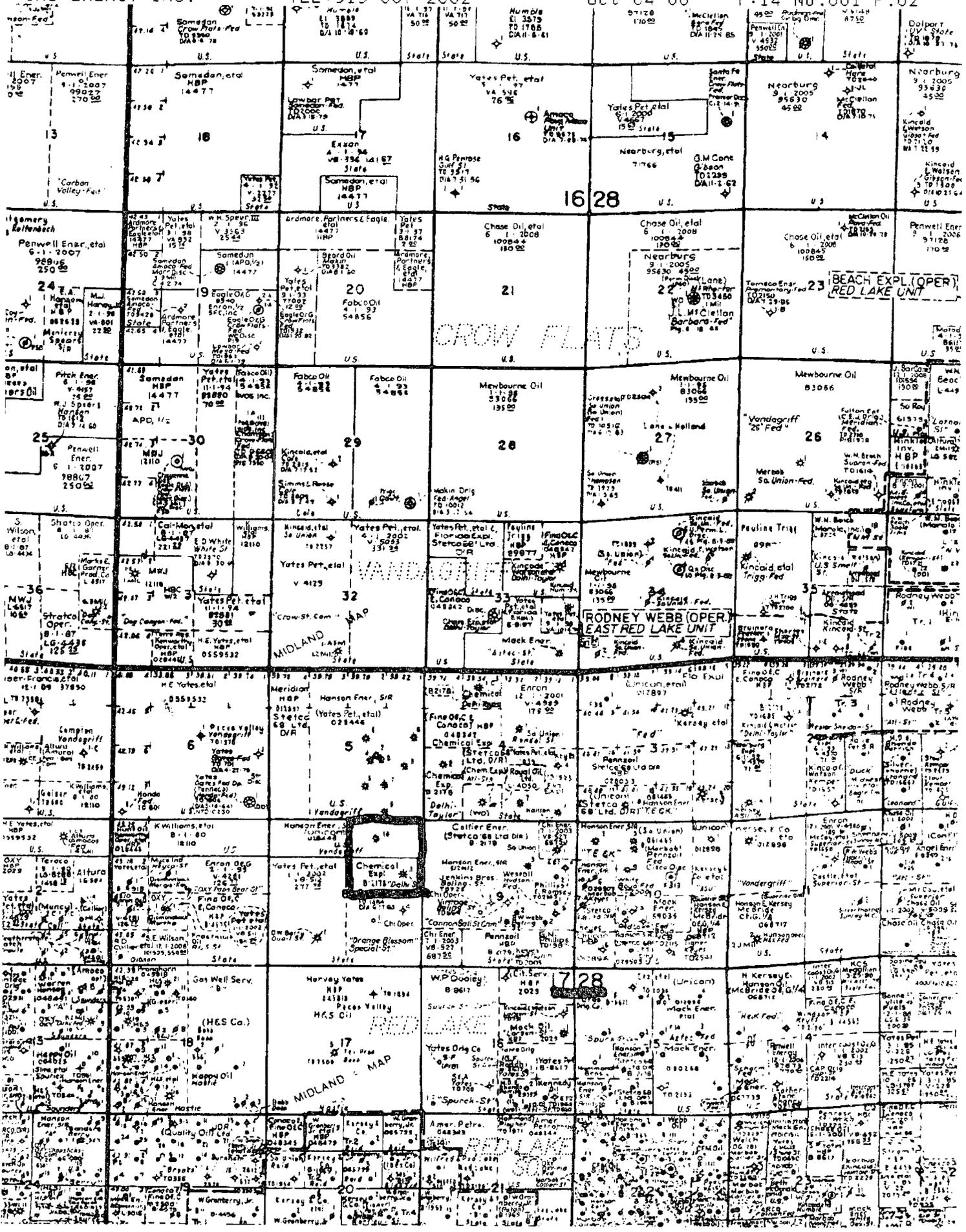
Balk Oil Company  
 P. O. Box 5782  
 Midland, Texas 79704

Yates Petroleum Corporation  
 Yates Drilling Company  
 MYCO Industries, Inc.  
 ABO Petroleum Corporation  
 105 South 4<sup>th</sup> Street  
 Artesia, New Mexico 88210

Warren Resources, Inc.  
 4113 Eubank Blvd., N.E.  
 Suite 400  
 Albuquerque, New Mexico 87111

Pure Energy Group, Inc.  
 700 North St. Mary's Street, Suite 1925  
 San Antonio, Texas 78205

Bellwether Exploration Company  
 1221 Lamar Suite 1600  
 Houston, Texas 77010





CMD :  
OG5SECT

ONGARD  
INQUIRE LAND BY SECTION

10/23/00 16:28:03  
OGOMES -TQH3  
PAGE NO: 2

Sec : 08 Twp : 17S Rng : 28E Section Type : NORMAL

<p>L 40.00 CS VB0512 0000 YATES PETROLEUM C 01/01/02</p>	<p>K 40.00 CS VB0512 0000 YATES PETROLEUM C 01/01/02</p>	<p>J 40.00 CS B02178 0016 CONOCO INC &amp; FINA 10/10/43 C</p>	<p>I 40.00 CS B02178 0016 CONOCO INC &amp; FINA 10/10/43</p>
<p>M 40.00 CS VB0512 0000 YATES PETROLEUM C 01/01/02</p>	<p>N 40.00 CS VB0512 0000 YATES PETROLEUM C 01/01/02 A</p>	<p>O 40.00 CS B02178 0016 CONOCO INC &amp; FINA 10/10/43</p>	<p>P 40.00 CS B02178 0016 CONOCO INC &amp; FINA 10/10/43</p>

PF01 HELP    PF02    PF03 EXIT    PF04 GoTo    PF05    PF06  
PF07 BKWD    PF08 FWD    PF09 PRINT    PF10 SDIV    PF11    PF12

CMD : ONGARD 10/23/00 16:28:31  
OG6IWCM INQUIRE WELL COMPLETIONS OGOMES -TQH3

API Well No : 30 15 30664 Eff Date : 08-26-1999 WC Status : A  
Pool Idn : 96840 CROW FLATS; MORROW SE (G)  
OGRID Idn : 4378 CHI OPERATING INC  
Prop Idn : 24696 SILVER STREAK STATE COM

Well No : 001  
GL Elevation: 3517

	U/L	Sec	Township	Range	North/South	East/West	Prop/Act (P/A)
B.H. Locn	: G	8	17S	28E	FTG 1400 F N	FTG 1650 F E	P

Lot Identifier:  
Dedicated Acre: 320.00  
Lease Type : S  
Type of consolidation (Comm, Unit, Forced Pooling - C/U/F/O) :

M0025: Enter PF keys to scroll

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06
PF07	PF08	PF09	PF10 NEXT-WC	PF11 HISTORY	PF12 NXTREC

CMD :  
OG5SECT

ONGARD  
INQUIRE LAND BY SECTION

10/23/00 16:27:55  
OGOMES -TQH3  
PAGE NO: 1

Sec : 08 Twp : 17S Rng : 28E Section Type : NORMAL

<p>D 40.00  Federal owned</p>	<p>C 40.00  Federal owned</p>	<p>B 40.00  Federal owned  A</p>	<p>A 40.00  Federal owned</p>
<p>E 40.00 CS VB0512 0000 YATES PETROLEUM C 01/01/02</p>	<p>F 40.00 CS VB0512 0000 YATES PETROLEUM C 01/01/02</p>	<p>G 40.00 CS B02178 0016 CONOCO INC &amp; FINA 10/10/43  A</p>	<p>H 40.00 CS B02178 0016 CONOCO INC &amp; FINA 10/10/43</p>

PF01 HELP    PF02            PF03 EXIT    PF04 GoTo    PF05            PF06  
PF07 BKWD   PF08 FWD      PF09 PRINT   PF10 SDIV     PF11            PF12



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

May 17, 1999

Chi Energy, Inc.  
c/o James Bruce  
P. O. Box 1056  
Santa Fe, New Mexico 87504

Telefax No. (505) 982-2151

*Administrative Order NSL-4284*

Dear Mr. Bruce:

Reference is made to your application dated May 4, 1999 on behalf of the operator, Chi Energy, Inc., for its proposed Silver Streak State Com. Well No. 1 to be drilled at an unorthodox Morrow gas well location 1400 feet from the North line and 1650 feet from the East line (Unit G) of Section 8, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico.

The N/2 of Section 8, being a standard 320-acre lay-down gas spacing and proration unit for the Undesignated Crow Flats-Morrow Gas Pool, is to be dedicated to this well.

The geologic interpretation submitted with this application indicates that a well drilled at the proposed unorthodox gas well location will be at a more favorable geologic position within the Morrow formation than a well drilled at a location considered to be standard within the NE/4 of Section 8.

The application has been duly filed under the provisions of New Mexico Oil Conservation Division ("Division") Rule 104.F.

By the authority granted me under the provisions of Division Rule 104.F(2), the above-described unorthodox gas well location is hereby approved.

Sincerely,

  
Lori Wrotenbery  
Director

LW/MES/kv

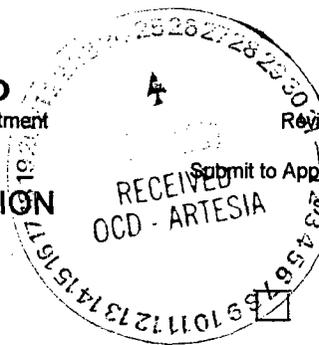
cc: New Mexico Oil Conservation Division - Artesia  
New Mexico State Land Office - Santa Fe  
U. S. Bureau of Land Management - Carlsbad

District I  
 PO Box 1980, Hobbs, NM 88241-1980  
 District II  
 811 South First, Artesia, NM 88210  
 District III  
 1000 Rio Brazos Rd., Aztec, NM 87410  
 District IV  
 2040 South Pacheco, Santa Fe, NM 87505

**State of New Mexico**  
 Energy, Minerals & Natural Resources Department

Form C-101  
 Revised October 18, 1994  
 Instructions of back  
 Submit to Appropriate District Office  
 State Lease - 6 Copies  
 Fee Lease - 5 Copies

**OIL CONSERVATION DIVISION**  
 2040 South Pacheco  
 Santa Fe, NM 87505



AMENDED REPORT

**APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE**

1 Operator Name and Address CHI OPERATING, INC. P.O. BOX 1799 MIDLAND, TEXAS 79702		2 OGRID Number 4378
		3 API Number 30-015-30664
4 Property Code 24696	5 Property Name SILVER STREAK STATE COM.	6 Well No. #1

7 Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West Line	County
G	8	17S	28E		1400	NORTH	1650	EAST	EDDY

8 Proposed 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

9 Proposed Pool 1

10 Proposed Pool 2

Red hole; Upper Penn. East Oil

11 Work Type Code PB	12 Well Type Code O	13 Cable/Rotary	14 Lease Type Code S	15 Ground Level Elevation 3517
16 Multiple	17 Proposed Depth 8,300	18 Formation Upper Penn	19 Contractor	20 Spud Date 9/11/00

21 Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17 1/2"	13 3/8"	48	440'	450	Circ. 128 sks
11"	8 5/8"	32	1929'	500	Circ. 93 sks
7 7/8"	5 1/2"	17"	9920'	700	5900'/CBL

22 Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Presently producing out of Morrow perf @ 9571-88', 9664-72'. Current Production is 30 MCFPD & loads w/wtr. Currently uneconomical. LOE. Thus we are planning on re-completing to the Upper Penn as follows:

RU unit, Kill well if necessary. ND tree NUBOP. Unset Pkr & TOH. RIH w/wireline CIBP & set @ 9500'. Dump 35' cmt on plug.

tst CIBP & Perf 8158-66'. Stimulate as required.

23 I hereby certify that the information given above is true and complete to the best of my knowledge and belief.	OIL CONSERVATION DIVISION	
Signature: <i>John W. Wolf</i>	Approved By: <i>Jim Lee</i>	<i>BJ</i>
Printed Name: JOHN W. WOLF	Title: District Supervisor	
Title: ENGINEER	Approval Date: 8/23/00	Expiration Date: SEP 01 2001



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
DISTRICT II ARTESIA  
811 S. FIRST ST. ARTESIA, NM 88210  
(505) 748-1283  
FAX (505) 748-9720

Jennifer A. Salisbury  
CABINET SECRETARY

December 7, 1999

Chi Operating, Inc.  
P.O Box 1799  
Midland, TX 79702

Re: **Well Placed In Pool**

Gentlemen/Madams:

As the result of Division Order 11277, the following described gas well has been placed in the pool shown below. This change in nomenclature has been made in our files. Please change your records to reflect the proper pool name. All subsequent reports must show this nomenclature until further notice.

**Crow Flats; Morrow, Southeast Gas Pool**  
**Silver Streak State Com. #1**  
**Unit G, Section 8, Township 17 South, Range 28 East, NMPM**  
**Poolcode: 96840**

Transporters are advised by copy of this letter, to change their records to reflect the pool name as established by this order, effective August 1, 1999.

Sincerely,

Bryan Arrant  
District Geologist

Cc: Navajo Refining  
Gas Company of New Mexico  
Santa Fe  
Mae  
Well File

District I  
 PO Box 1980, Hobbs, NM 88241-1980  
 District II  
 811 South First, Artesia, NM 88210  
 District III  
 1000 Rio Brazos Rd., Aztec, NM 87410  
 District IV  
 2040 South Pacheco, Santa Fe, NM 87505

**State of New Mexico**  
 Energy, Minerals & Natural Resources Department  
**OIL CONSERVATION DIVISION**  
 2040 South Pacheco  
 Santa Fe, NM 87505

58

Form C-104  
 Revised October 18, 1994  
 Instructions of back  
 Submit to Appropriate District Office  
 5 Copies  
 AMENDED REPORT

**I. REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT**

1 Operator name and Address <b>Chi Operating, Inc. P.O. Box 1799 Midland, Texas</b>		2 OGRID Number <b>04378</b>	
		3 Reason for Filing Code <b>MW</b>	
4 API Number <b>30-015-30664</b>	5 Pool Name Undes. <input checked="" type="radio"/> Crow Flat; Morrow SE Gas		6 Pool Code <b>96840</b>
7 Property Code <b>24696</b>	8 Property Name <b>Silver Streak State Com.</b>		9 Well Number <b>#1</b>

**II. 10 Surface Location**

Ul or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South Line	Feet from the	East/West line	County
<b>G</b>	<b>8</b>	<b>17S</b>	<b>28E</b>		<b>1400</b>	<b>North</b>	<b>1650</b>	<b>East</b>	<b>Eddy</b>

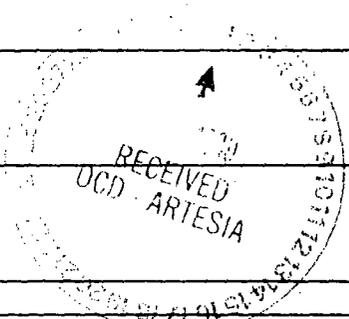
**11 Bottom Hole Location**

Ul or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South Line	Feet from the	East/West line	County
	<b>Same</b>	<b>Same</b>	<b>Same</b>	<b>Same</b>	<b>Same</b>	<b>Same</b>	<b>Same</b>	<b>Same</b>	<b>Same</b>

12 Lse Code <b>S</b>	13 Producing Method Code <b>F</b>	14 Gas Connection Date <b>8/26/99</b>	15 C-129 Permit Number	16 C-129 Effective Date	17 C-129 Expiration Date
-------------------------	--------------------------------------	--	------------------------	-------------------------	--------------------------

**III. Oil and Gas Transporters**

18 Transporter OGRID	19 Transporter Name and Address	20 POD	21 O/G	22 POD ULSTR Location and Description
<b>15694</b>	Navajo Refining Artesia, N.M.	<i>28-23997</i>	<b>O</b>	
<i>8503</i>	Gas Company of New Mexico Carlsbad, N.M.	<i>28-23998</i>	<b>G</b>	Meter #105349



**IV. Produced Water**

23 POD <i>28-23997</i>	24 POD ULSTR Location and Description <b>G, Sec. 8, 17S, 28E</b>
---------------------------	---

**V. Well Completion Data**

25 Spud Date	26 Ready Date	27 TD	28 PBD	29 Perforations	30 DHC, DC, MC
<b>7/6/99</b>	<b>8/26/99</b>	<b>9,920</b>	<b>9,825</b>	<b>9571-88,9664-72</b>	
31 Hole Size		32 Casing & Tubing Size		33 Depth Set	
<b>17 1/2</b>		<b>13 3/8</b>		<b>440</b>	
<b>11</b>		<b>8 5/8</b>		<b>1929'</b>	
<b>7 7/8</b>		<b>5 1/2</b>		<b>9920'</b>	
		<b>2 3/8</b>		<b>9390'</b>	
34 Sacks Cement					
<b>450 SKS - CIRC. 128 SKS.</b>					
<b>500 SKS - CIRC. 93 SKS</b>					
<b>700 SKS - TOC 5900' - CBL</b>					

**VI. Well Test Data**

35 Date New Oil	36 Gas Delivery Date	37 Test Date	38 Test Length	39 Tbg. Pressure	40 Csg. Pressure
<b>8/26/99</b>	<b>8/26/99</b>	<b>8/19/99</b>	<b>24</b>	<b>1800</b>	<b>0</b>
41 Choke Size	42 Oil	43 Water	44 Gas	45 AOF	46 Test Method
<b>10/64</b>	<b>6</b>		<b>813 MCFPD Calculated</b>		

47 I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief.		<b>OIL CONSERVATION DIVISION</b>	
Signature: <i>[Signature]</i>		Approved By: <i>[Signature]</i>	
Printed name: <b>John W. Wolf</b>		Title: <b>District Supervisor</b>	
Title: <b>Engineer</b>		Approval Date: <b>9-8-99</b>	
Date: <b>8/26/99</b>	Phone: <b>915-685-5001</b>		

48 If this is a change of operator fill in the OGRID number and name of the previous operator

Previous Operator Signature	Printed Name	Title	Date

District Office

State Lease - 6 copies

Fee Lease - 5 copies

DISTRICT I

P. O. Drawer 1980, Hobbs, NM 88240

DISTRICT II

811 South First, Artesia, NM 88210

DISTRICT III

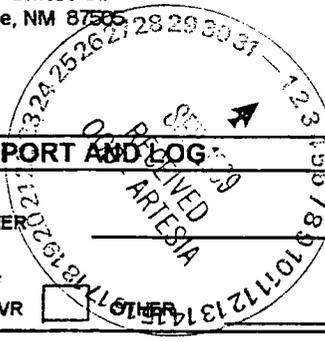
1000 Rio Brazos Rd, Aztec, NM 87410

Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION

2040 Pacheco St. Santa Fe, NM 87505

WELL API NO. 30-015-30664
5. Indicate Type of Lease STATE <input checked="" type="checkbox"/> FEE <input type="checkbox"/>
6. State Oil & Gas Lease No. 24696



WELL COMPLETION OR RECOMPLETION REPORT AND LOG

1a. Type of Well: OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> DRY <input type="checkbox"/> OTHER <input type="checkbox"/>						7. Lease Name or Unit Agreement Name  Silver Streak State Com.	
b. Type of Completion: NEW WELL <input checked="" type="checkbox"/> WORK OVER <input type="checkbox"/> DEEPEN <input type="checkbox"/> PLUG BACK <input type="checkbox"/> DIFF RESVR <input type="checkbox"/>						8. Well No. # 1	
2. Name of Operator Chl Operating, Inc.						9. Pool name or Wildcat Crows Crow Flat; Morrow SE Gas 96840	
3. Address of Operator P.O. Box 1799 Midland, Texas 79702							
4. well Location Unit Letter <u>G</u> : <u>1400</u> Feet From The <u>North</u> Line and <u>1650</u> Feet From The <u>East</u> Line Section <u>8</u> Township <u>17S</u> Range <u>28E</u> NMPM Eddy County							
10. Date Spudded 7/6/99	11. Date T.D. Reached 7/12/99	12. Date Compl. (Ready to Prod.) 8/26/99	13. Elevations (DF & RKB, RT, GR, etc) KB-3530	14. Elev. Casinghead 3517			
15. Total Depth 9,920	16. Plug Back T.D. 9,825	17. If Multiple Compl. How Many Zones?	18. Intervals Drilled By	Rotary Tools	Rotary Tools	Cable Tools	
19. Producing Interval(s), of this completion - Top, Bcton, Name 9571-88, 9664-72- 4 SPF						20. Was Directional Survey Made yes	
21. Type Electric and Other Logs Run GR-CNL-LDT, DLL						22. Was Well Cored yes, SW	

CASING RECORD (Report all strings set in well)

CASING SIZE	WEIGHT LB/FT.	DEPTH SET	HOLE SIZE	CEMENTING RECORD	AMOUNT PULLED
13 3/8	48	440'	17.5"	450SKS - CIRC. 128 SKS.	
8 5/8	32	1929'	11"	500SKS - CIRC. 93 SKS	
5 1/2	17 & 20	9920'	7 7/8"	700 SKS - TOC5900 - CBL	

24. LINER RECORD				25. TUBING RECORD			
SIZE	TOP	BOTTOM	SACKS CEMENT	SCREEN	SIZE	DEPTH SET	PACKER SET
					2 3/8"	9390'	9400'

26. Perforation record (interval, size, and number) 9571-88, 9664-72- 4 SPF	27. ACID, SHOT, FRACTURE, CEMENT, SQUEEZE, ETC.	
	DEPTH INTERVAL 9571-88, 9664-72- 4 SPF	AMOUNT AND KIND MATERIAL USED 1000 gals 7.5 NEFE HCL 39000 gals Foam, 45,500# 20-40 Interprop

PRODUCTION

Date First Production		Production Method (Flowing, gas lift, pumping - Size and type pump) Flowing				Well Status (Prod. or Shut-in) Shut-in waiting connection	
Date Of Test 8/19/99	Hours Tested 24	Choke Size 10/64	Prod'n For Test Period	Oil - Bbl. 6	Gas - MCF 813	Water - Bbl.	Gas - Oil Ratio 135M:1
Flow Tbg Press 1800	Casing Pressure 0	Calculated 24-Hour Rate	Oil - Bbl. 6	Gas - MCF 813	Water - Bbl.	Oil Gravity - API - (Corr.)	

29. Disposition of Gas (Sold, used for fuel, vented, etc.) SI & waiting connection	Test Witnessed By S. Mann
---	------------------------------

30. List Attachments  
GR, CAL, CNL, LDT-GR, CAL, DLL, MICRO-CBL

31. I hereby certify that the information shown on both sides of this form is true and complete to the best of my knowledge and belief

Signature Printed Name John W. Wolf Title Engineer Date 8/20/99



WELL NAME AND NUMBER Silver Streak State Com #1  
 LOCATION Section 8, T-17-S, R-28-E, Eddy County, New Mexico  
 OPERATOR Chi Energy Inc., 212 N. Main, Suite 200, Midland, Texas 79702  
 DRILLING CONTRACTOR TMBR/Sharp Drilling, Inc., P. O. Drawer 10970, Midland, TX 79702



The undersigned hereby certifies that he is an authorized representative of the drilling contractor who drilled the above described well and that he has conducted deviation tests and obtained the following results:

<u>Degrees @ Depth</u>	<u>Degrees @ Depth</u>	<u>Degrees @ Depth</u>	<u>Degrees @ Depth</u>
<u>.75 @ 255'</u>	<u>.75 @ 3,720'</u>	<u>                    </u>	<u>                    </u>
<u>1.00 @ 530'</u>	<u>1.00 @ 4,084'</u>	<u>                    </u>	<u>                    </u>
<u>.75 @ 568'</u>	<u>1.00 @ 4,460'</u>	<u>                    </u>	<u>                    </u>
<u>.25 @ 814'</u>	<u>.50 @ 4,741'</u>	<u>                    </u>	<u>                    </u>
<u>.25 @ 1,116'</u>	<u>1.00 @ 5,176'</u>	<u>                    </u>	<u>                    </u>
<u>.50 @ 1,425'</u>	<u>1.00 @ 5,648'</u>	<u>                    </u>	<u>                    </u>
<u>.50 @ 1,706'</u>	<u>.50 @ 6,030'</u>	<u>                    </u>	<u>                    </u>
<u>.75 @ 1,929'</u>	<u>.75 @ 6,521'</u>	<u>                    </u>	<u>                    </u>
<u>1.00 @ 1,990'</u>	<u>.50 @ 7,000'</u>	<u>                    </u>	<u>                    </u>
<u>1.50 @ 2,242'</u>	<u>.25 @ 7,395'</u>	<u>                    </u>	<u>                    </u>
<u>1.00 @ 2,430'</u>	<u>.75 @ 7,868'</u>	<u>                    </u>	<u>                    </u>
<u>1.25 @ 2,678'</u>	<u>1.00 @ 8,330'</u>	<u>                    </u>	<u>                    </u>
<u>1.00 @ 2,930'</u>	<u>1.00 @ 8,800'</u>	<u>                    </u>	<u>                    </u>
<u>.75 @ 3,240'</u>	<u>1.50 @ 9,365'</u>	<u>                    </u>	<u>                    </u>
<u>.75 @ 3,490'</u>	<u>3.50 @ 9,860'</u>	<u>                    </u>	<u>                    </u>

Drilling Contractor TMBR/Sharp Drilling, Inc.

By Jeffrey D. Phillips  
 Jeffrey D. Phillips, Vice President

Subscribed and sworn to before me this 4th day of August, 19 99



Kathleen Roper  
 Notary Public Kathleen Roper

Commission expires: 9/25/99 Midland County, Texas

Submit 3 Copies  
to Appropriate  
District Office

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-103  
Revised 1-1-89

SF

OIL CONSERVATION DIVISION

District I  
P. O. Box 1980, Hobbs, NM 88240

2040 Pacheco St.  
Santa Fe, NM 87505

District II  
811 South First St., Artesia, NM 88210

District III  
1000 Rio Brazos Rd., Aztec, NM 87410

WELL API NO.	30-015-30664
Indicate Type of Lease	STATE <input checked="" type="checkbox"/> FEE <input type="checkbox"/>
State Oil & Gas Lease No.	24696
Lease Name or Unit Agreement Name	Silver Streak State Com.
Well No.	#1
Pool name or Wildcat	96840
Undes. Crow Flats; Morrow, Southwest	

SUNDRY NOTICES AND REPORTS ON WELLS  
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USA "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)

1 Type of Well:  
 OIL WELL  GAS WELL  OTHER

2 Name of Operator  
Chi Operating, Inc.

3 Address of Operator  
P.O. Box 1799 Midland, Texas 79702

4 Well Location  
 Unit Letter G : 1400 Feet From The North Line and 1650 Feet From The East Line  
 Section 8 Township 17S Range 28E NMPM County Eddy

5 Elevation (Show whether DF, RKB, RT, GR, etc.)  
3517 GR

11 Check Appropriate Box to Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:		SUBSEQUENT REPORT OF:	
PERFORM REMEDIAL WORK <input type="checkbox"/>	PLUG AND ABANDON <input type="checkbox"/>	REMEDIAL WORK <input type="checkbox"/>	ALTERING CASING <input type="checkbox"/>
TEMPORARILY ABANDON <input type="checkbox"/>	CHANGE PLANS <input type="checkbox"/>	COMMENCE DRILLING OPNS. <input type="checkbox"/>	PLUG AND ANBANDONMENT <input type="checkbox"/>
PULL OR ALTER CASING <input type="checkbox"/>		CASING TEST AND CEMENT JOB <input checked="" type="checkbox"/>	
OTHER <input type="checkbox"/>		OTHER Completion attempt. <input type="checkbox"/>	

12 Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work) SEE RULE 1103.

MIRU Contr. Drilled 17.5" hole, set 13 3/8" 48# @ 440'. Cmtd. with 300 sks. of lead & 150 sks. tail. Circ. 128 sks.

WOC 18 hrs of cmt. Drilled 11" hole, logged. Set 8 5/8" 32# @ 1929'. Cmtd. with 350 sks. of lead & 150 sks. of tail.

Circ. 93 sks. WOC 18 hrs. Drilled 7 7/8" hole to 9920'. Logged. Set 5 1/2" N-80, S-95, P-110 20#&17# @ 9920'. Cmtd. with 700 sks. on 7/28/99.

MIRU Completion unit on 8/9/99. TIH w/ scraper & cleaned out to 9825'. TOH, TIH & ran CBL/GR/CCL.. TOC @ 5900'.

Perfed 9571-88' & 9664-72' with 4 SPF. With casing gun. Acidized & Fractured treated. Recovering treatment as of this day.

Will file Completion etc. or Sundry pending results.

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

SIGNATURE *John W. Wolf* TITLE Engineer DATE 8/16/99

TYPE OR PRINT NAME John W. Wolf TELEPHONE NO 915-685-5001

(This space for State Use)

APPROVED BY *Jim W. Gunn* TITLE District Supervisor DATE 8-20-99

CONDITIONS OF APPROVAL, IF ANY:

54

District I  
 PO Box 1980, Hobbs, NM 88241-1980  
 District II  
 811 South First, Artesia, NM 88210  
 District III  
 1000 Rio Brazos Rd., Aztec, NM 87410  
 District IV  
 2040 South Pacheco, Santa Fe, NM 87505

**State of New Mexico**  
 Energy, Minerals & Natural Resources Department  
**OIL CONSERVATION DIVISION**  
 2040 South Pacheco  
 Santa Fe, NM 87505

Form C-101  
 Revised October 18, 1994  
 Instructions of back  
 Submit to Appropriate District Office

State Lease - 6 Copies  
 Fee Lease - 5 Copies

AMENDED REPORT

**APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE**

1 Operator Name and Address CHI OPERATING, INC. P.O. BOX 1799 MIDLAND, TEXAS 79702		2 OGRID Number 4378
4 Property Code 24696		3 API Number 30-015-30664
5 Property Name SILVER STREAK STATE COM.		6 Well No. #1

**7 Surface Location**

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West Line	County
G	8	17S	28E		1400	NORTH	1650	EAST	EDDY

**8 Proposed 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
---------------	---------	----------	-------	---------	---------------	------------------	---------------	----------------	--------

9 Proposed Pool 1 UNDES CROW FLATS; MORROW, Southeast 96840	10 Proposed Pool 2
--	--------------------

11 Work Type Code N	12 Well Type Code G	13 Cable/Rotary R	14 Lease Type Code S	15 Ground Level Elevation 8517
16 Multiple	17 Proposed Depth 10,400	18 Formation MORROW	19 Contractor	20 Spud Date 6/15/99

**21 Proposed Casing and Cement Program**

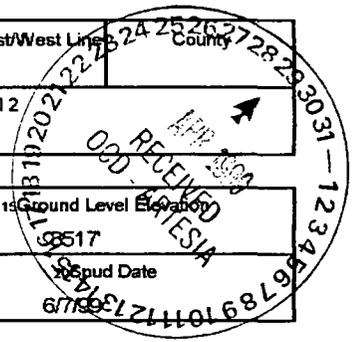
Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17 1/2"	13 3/8"	48	425' ±	200 & 200	SURFACE
11"	8 5/8"	32	2000' ±	350 & 200	SURFACE
7 7/8"	5 1/2"	17"	10,400'	475	8000' ±

22 Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

- 1) MIRU CONTR. DRILL SURFACE, RIH W/ CSG./F. EQUIP. & CIRC. CMT. WOC 18 HRS. NU CSG. HEAD & TST. 1000#.
- 2) DRILL INTERMEDIATE HOLE, RIH W/ CASING/FLOAT EQUIP. & CEMENT. WOC 18 HRS. NU CASING HEAD & BOP & TEST TO 5000 PSI.
- 3) DRILL PRODUCTION HOLE, LOG & EVALUATE, RIH W/ CASING/FLOAT EQUIP. & CEMENT.

NSL-4284 5117195

23 I hereby certify that the information given above is true and complete to the best of my knowledge and belief.		OIL CONSERVATION DIVISION	
Signature: <i>John W. Wolf</i>	Approved By: <i>John W. Gunn</i>	BOD	
Printed Name: JOHN W. WOLF	Title: District Supervisor		
Title: ENGINEER	Approval Date: 6-15-99	Expiration Date: 6-15-00	



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  
 Fee Lease - 3 Copies

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
Property Code	Property Name SILVER STREAK ST. Com.	Well Number 1
OGRID No.	Operator Name CHI OPERATING, INC.	Elevation 3517

Surface Location

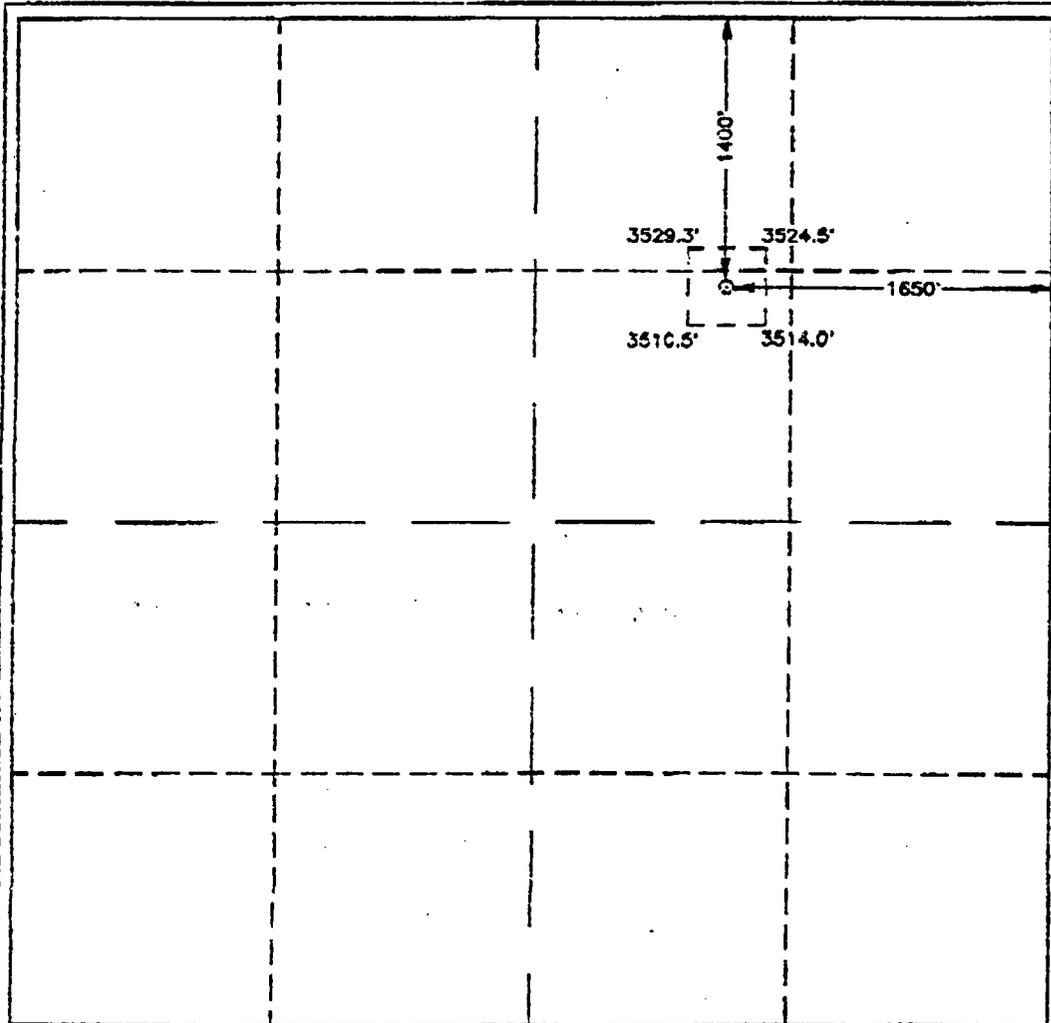
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
G	8	17 S	28 E		1400	NORTH	1650	EAST	EDDY

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



**OPERATOR CERTIFICATION**

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

*John W. Qualls*  
 Signature  
 John W. Qualls  
 Printed Name  
 Geologist  
 Title  
 4-27-99  
 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.

APRIL 12, 1999  
 Date

Signature of Surveyor  
 Professional Seal  
 JLP

Professional Seal: DONALD B. EIDSON, NEW MEXICO, 1999, No. 14-99, P.O. Box 99, 87502-0287

Professional Seal: DONALD B. EIDSON, 12841, DONALD B. EIDSON, 12183