KERN COUNTY LAND COMPANY
407 V & J TOWER BLDG.
MIDLAND, TEXAS

TELEPHONE MUTUAL 3-4641

June 19, 1962

Re: Application for Exception to Rule
306-B, Lease Commingling

Secretary - Director
Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Dear Sir:

Application is hereby made for administrative approval to commingle the production from the leases deliniated on Exhibit 'A', attached hereto, into a common tank battery. In support of said application and in compliance with the provisions of Rule 306-B, we submit the following:

1. Exhibit 'A' - Plat of the leases showing the wells on the leases and the formation in which they are completed and the location of the common tank battery.

2. Exhibit 'B' - Schematic diagram of the commingling facility.

3. Agreement dated October 25, 1961, between the parties owning an interest in the leases from which production is to be commingled evidencing that such parties have consented to the pooling of said leases, together with a letter from Indiana Oil Purchasing Company, purchaser of the commingled production, consenting to the commingling of production.

At the present time, as shown on Exhibit 'A' hereto, two wells are located on the leases from which production is to be commingled - #1 State 17 and #2 State 17. With just these wells, all production will be commingled through one bulk separator. Individual well production will be allocated by tests to be obtained by periodically shutting down one well and testing a single well through the separator to the stock tanks. When additional wells are drilled to be commingled, a test separator will be installed with a test gas meter and an oil meter and sampler. (This equipment is indicated in red in Exhibit "B".) Testing through the additional separator will be accomplished by proper routing at the manifold, with valves 'A' and 'D' closed and valves 'B', 'C', and 'E' open, then directing into the desired tank through valve 'F' or 'G'. Valves 'X', 'Y' and 'Z' are gas back pressure regulators.

Very truly yours,

KERN COUNTY LAND COMPANY

C. W. Braddy
District Landman

CWB:ss

KERN COUNTY LAND COMPANY
407 V & J TOWER BLDG.
MIDLAND, TEXAS

TELEPHONE MUTUAL 3-4641

June 19, 1962

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Secretary - Director
Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

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Very truly yours,

KERN COUNTY LAND COMPANY

C. W. Braddy
District Landman

CWB:gg

FORM 42 IOP 10-56

INDIANA OIL PURCHASING COMPANY

P. O. Box 1725
Midland, Texas
June 19, 1962

RE: Kern County Land Company
State Etcheverry Unit
East Saunders (Permo-Penn) Field
Lea County, New Mexico

Kern County Land Company
V. & J. Tower Building
Midland, Texas

ATTENTION: MR. C. W. BRADDY

Dear Mr. Braddy:

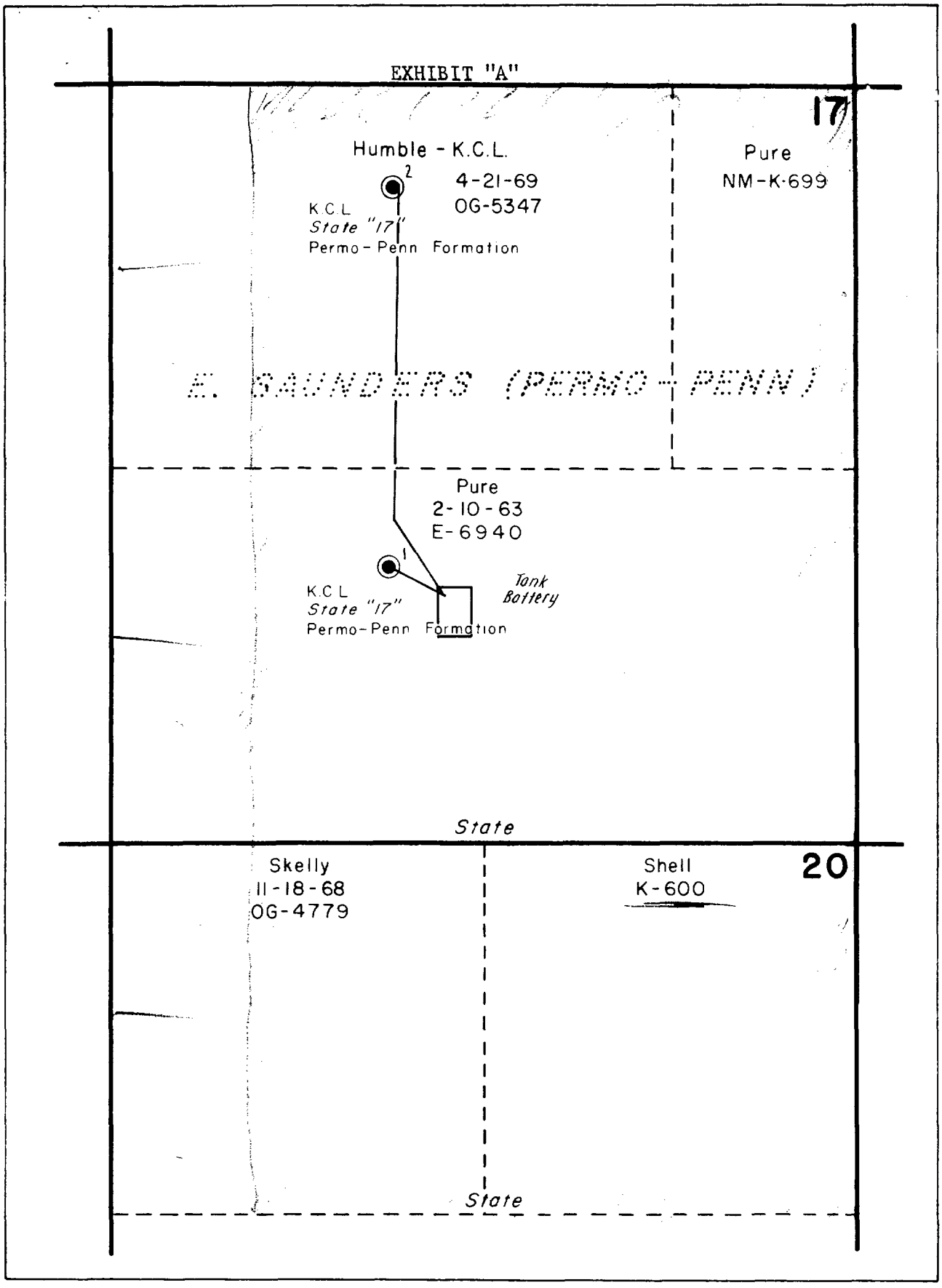
This is to advise that we are agreeable as purchaser of the production from the above unit for you to commingle the production. It is our understanding that both the royalty and working interest ownership is common.

Very truly yours,

G. L. Shoemaker

G. L. Shoemaker

GLS/jn



KERN COUNTY LAND CO.

ETCHEVERRY W.I.

LEA COUNTY, NEW MEXICO

SCALE: 1"=1000'

DATE: 6-12-62 BY: C.W.B

LARGE FORMAT EXHIBIT HAS BEEN REMOVED AND IS LOCATED IN THE NEXT FILE

STATE OF NEW MEXICO |
|
COUNTY OF LEA |

THIS AGREEMENT entered into this the 25th day of October, 1961, by and between KERN COUNTY LAND COMPANY, a corporation, hereinafter referred to as "Kern", HUMBLE OIL & REFINING COMPANY, a corporation hereinafter referred to as "Humble", SHELL OIL COMPANY, a corporation, hereinafter referred to as "Shell", THE PURE OIL COMPANY, a corporation, hereinafter referred to as "Pure", and SKELLY OIL COMPANY, a corporation, hereinafter referred to as "Skelly",

W I T N E S S E T H:-

The parties hereto are the owners in severalty of the oil and gas leasehold estates in and under the following described land situated in Lea County, New Mexico, to-wit:

> All of Section 17 and the N/2 of Section 20, T-14-S, R-34-E, N. M. P. M., Lea County, New Mexico, containing 960 acres, more or less;

a list of such leasehold estates being attached hereto as Exhibit "A" and made a part hereof for all purposes.

The parties are desirous of forming a working interest unit comprising said acreage for the purpose of drilling a test well thereon and for such purposes have entered into this agreement upon the following terms and conditions, to-wit:

1. OPERATING AGREEMENT: Attached hereto as Exhibit "B" and made a part hereof is an operating agreement covering the properties above described. Said operating agreement provides that Kern shall initially be operator of the unit area. All operations on the unit area shall

be conducted under the terms and provisions of said operating agreement, except as may otherwise be provided for herein as to the first test well.

2. TEST WELL: On or before 60 days from the date of the last acknowledgment of the parties signatory hereto, Kern as operator shall commence operations for the drilling of a test well at a location in the approximate center of the NE/4 of the SW/4 of Section 17 above described. Said test well shall be drilled with due diligence to a depth of 12,500 feet, or that shallower depth at which the Pennsylvanian formation has been adequately tested. All costs, risks, and expense incurred in the drilling of said test well shall be born by the parties hereto as hereinafter provided for in Paragraph 3.

In the event the test well above referred to should encounter an impenetrable formation in such form and substance as to make further drilling impracticable without having reached one of the depths provided for above, Kern, Shell and Humble shall have the option, but not the obligation, to commence drilling operations on a substitute test well within 60 days from the abandonment of operations on the first test well above described. The substitute test well, if drilled, shall be drilled under the same terms and conditions as the initial test well; and if drilled to one of the depths provided in the paragraph above, shall for all purposes hereof be deemed the first test well. In the event Kern, Shell and Humble should elect not to drill a substitute test well as herein provided, this agreement shall terminate without further liability on the parties hereto and the only penalty to be suffered by Kern, Shell and Humble shall be the loss of the acreage to be earned from Pure and Skelly as hereinafter provided.

3. COST OF TEST WELL: All costs and liabilities incurred in the drilling of the test well to the depth provided for above in Paragraph 2 (which depth shall be referred to herein as "casing point") shall be born solely by Kern, Shell and Humble as follows:

KERN----------	57.5%
SHELL----------	30.0%
HUMBLE----------	12.5%

Casing point is herein defined as being that point at which the test well above referred to shall have reached one of the depths above referred to and Kern as operator shall have notified the parties of such fact in order that an election may be made by the parties to either complete said well as a producer, plug and abandon said well as a dry hole, or continue the drilling of said well to a deeper depth. In the event all parties elect to plug and abandon said well, it shall forthwith be plugged and abandoned and the costs and liabilities incurred therefor shall be born by Kern, Shell and Humble in the proportions above set forth in this paragraph.

4. COMPLETION OF TEST WELL AND ADDITIONAL DRILLING OPERATIONS: Skelly and Pure will not be liable for any portion of the cost of drilling the test well above described to the "casing point" as such term is defined in this agreement, it being provided and agreed herein that Kern and Shell shall bear such cost as above provided in Paragraph 3 hereof.

From and after "casing point" in the test well shall have been reached and Kern and Shell have earned the interests ~~above~~ hereinafter provided from Skelly and Pure, the ownership of all parties hereto in the unit acreage, all production resulting therefrom, and all costs attributable thereto shall be as follows:

KERN----------	35.00%
SHELL----------	23.34%
PURE----------	20.83%
HUMBLE----------	12.50%
SKELLY----------	8.33%

All subsequent operations after the test well has reached casing point, including attempted completions or deepening operations, shall be governed by the unit operating agreement above described; it being understood by the parties that upon notice from Kern that the test well has reached total depth, each party shall have the option to be exercised within 24 hours from receipt of logs to either attempt completion, if production is indicated, or to elect to drill said well to a deeper depth. In the event all parties are not agreeable to attempted completion or the deepening of the well, the consenting parties may proceed under Paragraph 12 of the unit operating agreement above referred to and such consenting parties shall be entitled to cost reimbursement out of production as therein provided.

5. ACCESS AND INFORMATION: Each of the parties hereto and their authorized representatives shall have free access to the derrick floor and shall be entitled to all information relative to the drilling of the test well described herein. The operator shall notify all parties when any formations are encountered which indicate the presence of oil or gas in sufficient time that each such party may have a representative present to witness coring or drill stem tests which may be conducted relative to such formations. All parties shall be entitled to receive daily drilling reports and copies of all logs which may be run. The operator shall notify all parties when the exact location has been staked and when drilling operations have been commenced.

6. ASSIGNMENTS: At such time as the first test well shall have reached "casing point" as defined above, all in accord with the provisions of this agreement, Skelly and Pure hereby agree to execute and deliver to Kern and Shell instruments as follows:

A. Pure agrees to execute and deliver to Kern and Shell a stipulation in the form and language as is set forth in Exhibit "D" hereof covering an undivided one-half (1/2) of Pure's right, title and interest in and to the E/2 of NE/4 and the S/2 of Section 17, T-14-S, R-34-E, Lea County, New Mexico.

B. Skelly agrees to execute and deliver to Kern and Shell a stipulation in the form and language as is set forth in Exhibit "E" hereof covering an undivided one-half (1/2) of Skelly's right, title and interest in and to the NW/4 of Section 20, T-14-S, R-34-E, Lea County, New Mexico.

Said stipulations shall be executed and delivered to Kern and Shell by Skelly and Pure after notification (within 90 days after reaching "casing point") is received from Kern and Shell advising Skelly and Pure of the proportions in which Kern and Shell shall acquire the undivided one-half (1/2) interests to be covered by said stipulations. All rentals hereafter becoming due under the terms of the leases described in Exhibit "D" hereof shall be paid by Pure, and Kern and Shell shall reimburse Pure for one-half of all such rentals so paid in the proportions that Kern and Shell are to acquire the undivided one-half interest to be earned by them. All rentals hereafter becoming due under the terms of the lease described in Exhibit "E" hereof shall be paid by Skelly, and Kern and Shell shall reimburse Skelly for one-half of all such rentals so paid in the proportions that Kern and Shell are to acquire the undivided one-half interest to be earned by them. Skelly and Pure shall each make a good faith effort to properly and timely pay all such rentals becoming due under their respective leases but shall not be liable to Kern and Shell, or either of them, if through oversight or error any such rental is not paid or is erroneously paid.

7. LIABILITY OF PARTIES: The liability of the parties hereto shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of the cost of drilling the first test well on the unit area as set forth herein. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

8. ACREAGE OR CASH CONTRIBUTION: In the event any party hereto should receive a contribution of acreage or monies from others not a party to this agreement toward the drilling of the test well, such contribution shall be owned by Kern, Shell and Humble in accordance with the proportion each is contributing to the drilling of the test well to the casing point as herein defined.

9. EXHIBIT "B" INCORPORATED HEREIN: All of the terms and provisions of the Exhibit "B" operating agreement attached hereto are fully incorporated herein except as may be inconsistent with the provisions of this agreement, in which case the provisions of this agreement shall prevail.

10. COUNTERPART EXECUTION: This agreement may be signed in counterpart and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

IN WITNESS WHEREOF This instrument is executed as of the day and year first above written.

KERN COUNTY LAND COMPANY

~~ATTEST:~~

James A. Walker
ASSTANT Secretary

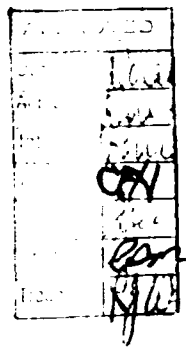
By: [signature]
VICE President

HUMBLE OIL & REFINING COMPANY

ATTEST:

_____
Secretary

By: R. R. McCarty
R. R. McCarty
Agent and Attorney in Fact



SHELL OIL COMPANY

ATTEST:

_____
Secretary

By: _____
President

THE PURE OIL COMPANY

ATTEST:

_____
Secretary

By: _____
James L. Morris, Manager
Southern Producing Division

SKELLY OIL COMPANY

ATTEST:

_____
Secretary

By: _____
President

STATE OF CALIFORNIA
City and County of San Francisco } *ss.*

On this 15th *day of* January, 19 62, *before me, LUCILLE F. ROTH, a Notary Public in and for the City and County of San Francisco, State of California, residing therein, duly commissioned and sworn, personally appeared* JOHN H. MATKIN, *Vice President, and known to me to be the* JAMES A. WALKER *known to me to be the* ASSISTANT *Secretary, of* KERN COUNTY LAND COMPANY, *the corporation that executed the within instrument and known to me to be the persons who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.*

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in said City and County and State the day and year in this certificate first above written.

Lucille F. Roth

My Commission Expires
August 13, 1965

LUCILLE F. ROTH
Notary Public
in and for the City and County of
San Francisco, State of California

_____
Notary Public in and for _____
County, _____

ATLANTIC REFINING COMPANY

ATTEST:

_____ By: _____
Secretary President

SHELL OIL COMPANY

ATTEST

_____ By: _____
Secretary President

APPROVED
TRADE
FORM
DESCRIPTION

THE PURE OIL COMPANY

[redacted]

_____ By: _____
[redacted] James L. Morris, Manager
Southern Producing Division

SKELLY OIL COMPANY

ATTEST:

_____ By: _____
Secretary President

STATE OF CALIFORNIA
City and County of San Francisco } ss.

On this [illegible] day of [illegible] 19 62 before me, LUCILLE F. ROTH, a Notary Public in and for the City and County of San Francisco, State of California, residing therein, duly commissioned and sworn, personally appeared JOHN H. WATKIN known to me to be the Vice President, and JAMES A. WALKER known to me to be the ASSISTANT Secretary, of KERN COUNTY LAND COMPANY the corporation that executed the within instrument and known to me to be the persons who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the within instrument pursuant to its by laws or a resolution of its board of directors.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in said City and County and State the day and year in this certificate first above written.

[redacted]

LUCILLE F. ROTH
Notary Public
in and for the City and County of
San Francisco, State of California

Notary Public in and for _____
County, _____

HUMBLE OIL & REFINING COMPANY

ATTEST:

_____
Secretary

By: _____
President

Legal
Land
Prod.
Expl.
Gas
Treas.

SHELL OIL COMPANY

[redacted]

_____
[redacted]

By: [signature]
[redacted]

THE PURE OIL COMPANY

ATTEST:

_____
Secretary

By: _____
James L. Morris, Manager
Southern Producing Division

SKELLY OIL COMPANY

ATTEST:

_____
Secretary

By: _____
President

THE STATE OF

STATE OF CALIFORNIA
City and County of San Francisco } ss.

On this 8th day of [illegible], 1962, before me, LUCILLE F. ROTH, a Notary Public in and for the City and County of San Francisco, State of California, residing therein, duly commissioned and sworn, personally appeared JOHN H. MATKIN known to me to be the Vice President, and JAMES A. WALKER known to me to be the ASSISTANT Secretary, of KERN COUNTY LAND COMPANY the corporation that executed the within instrument and known to me to be the persons who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in said City and County and State the day and year in this certificate first above written.

[redacted]

[signature]
LUCILLE F. ROTH
Notary Public
in and for the City and County of
San Francisco, State of California

Notary Public in and for _____
County, _____

ATTEST:

.UMBLE OIL & REFINING COMPANY

Secretary

By: _____
President

ATTEST:

SHELL OIL COMPANY

Secretary

By: _____
President

ATTEST:

THE PURE OIL COMPANY

Secretary

By: _____
James L. Morris, Manager
Southern Producing Division

SKELLY OIL COMPANY

Approved as to Form

[redacted]

By: W. F. Bailey
ATTORNEY-IN-FACT

[redacted]

STATE OF CALIFORNIA
City and County of San Francisco } *ss.*

On this 5th *day of* [illegible] *, 19*62*, before me, LUCILLE F. ROTH, a Notary Public in and for the City and County of San Francisco, State of California, residing therein, duly commissioned and sworn, personally appeared* JOHN H. MATKIN *known to me to be the* Vice President, *and* JAMES A. WALKER *known to me to be the* ASSISTANT Secretary, *of* KERN COUNTY LAND COMPANY *the corporation that executed the within instrument and known to me to be the persons who executed the within instrument on behalf of the corporation therein named, and acknowledged to me that such corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.*

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in said City and County and State the day and year in this certificate first above written.

[redacted]

LUCILLE F. ROTH
Notary Public
in and for the City and County of
San Francisco, State of California

Notary Public in and for _____
County, _____

THE STATE OF TEXAS |
|
COUNTY OF MIDLAND |

114

The foregoing instrument was acknowledged before me this 4th day of December A.D., 1961, by R. R. McCarty, Agent and Attorney in Fact for Humble Oil & Refining Company on behalf of said corporation.

Janette Crow
Notary Public in and for Midland County, Texas

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of Humble Oil & Refining Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____, A.D., 1961.

_____
Notary Public in and for _____ County, _____

THE STATE OF Texas |
|
COUNTY OF Midland |

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Shell Oil Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 19 day of December, A.D., 1961.

_____
Notary Public in and for Midland County, Texas

THE STATE OF _____ I

I

COUNTY OF Harris I

BEFORE ME, the undersigned authority, on this day personally appeared James L. Morris, known to me to be the person whose name is subscribed to the foregoing instrument, as Manager, Southern Producing Division, of The Pure Oil Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 21 day of December, A.D., 1961.

/s/
Notary Public in and for Harris County, Texas

THE STATE OF Okla. I

I

COUNTY OF Tulsa I

BEFORE ME, the undersigned authority, on this day personally appeared /s/ _____, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Skelly Oil Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE This the 13th day of December, A.D., 1961.

/s/
Notary Public in and for Tulsa County, Okla.

EXHIBIT "A"

DESCRIPTION OF LEASES

1. New Mexico State Lease No. E-6940
Dated: February 10, 1953
Lessor: State of New Mexico
Lessee: The Pure Oil Company
Description: S/2 of Sec. 17, T-14-S, R-34-E, Lea County, N.M.

2. New Mexico State Lease No. K-699
Dated: August 16, 1960
Lessor: State of N ew Mexico
Lessee: Lamar Lunt
Assignee of Lamar Lunt: The Pure Oil Company
Description: E/2NE/4 of Sec. 17, T-14-S, R-34-E, Lea County, N.M.

3. New Mexico State Lease No. K-600
Dated: July 19, 1960
Lessor: State of New Mexico
Lessee: Shell Oil Company
Description: NE/4 of Sec. 20, T-14-S, R-34-E, Lea County, N.M.

4. New Mexico State Lease No. OG-4779
Dated: November 18, 1958
Lessor: State of New Mexico
Lessee: Skelly Oil Company
Description: NW/4 of Sec. 20, T-14-S, R-34-E, Lea County, N.M.

5. New Mexico State Lease No. OG-5347
Dated: April 21, 1959
Lessor: State of New Mexico
Lessee: Monterey Oil Company
Description: NW/4 and W/2 NE/4 of Sec. 17, T-14-S, R-34-E,
Lea County, New Mexico

INTEREST OF PARTIES AND SHARING OF COSTS IN UNIT AREA

KERN----------	35.00%
SHELL----------	23.34%
PURE----------	20.83%
HUMBLE----------	12.50%
SKELLY----------	8.33%

ADDRESSES OF PARTIES FOR NOTICES

Kern County Land Company, 407 V & J Tower Building, Midland, Texas;

Shell Oil Company, Shell Building, Midland, Texas;

The Pure Oil Company, P. O. Box 239, Houston, Texas, and P. O. Box 430, Roswell, New Mexico;

Notices: Humble Oil & Refining Company, Attention: Manager, Production Department P. O. Box 1600 Midland, Texas;

tatements & Billings: Humble Oil & Refining Company, P. O. Box 2180, Houston 1, Texas, Attention: Production & Exploration Accounting Office

Skelly Oil Company, P. O. Box 993, Midland, Texas.

EXHIBIT "B"

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 25th day of October, 19 61, between KERN COUNTY LAND COMPANY,

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

(1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.

(2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.

(3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.

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

(5) The term "Unit Area" shall refer to and include 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".

(6) 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 Unit Area or as fixed by express agreement of the parties.

(7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.

(8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

There shall be no examination of title to leases, or to oil and gas interests, except that title to the drilling unit on which the exploratory well is to be drilled in accordance with the agreement to which this Exhibit "B" is attached ~~Section X~~, which drilling unit is more particularly described in Exhibit "A", shall be examined on a complete abstract record by Operator's attorney, or, if the location is on one of Operator's leases, by an attorney for one of the other parties, and the title to both the oil and gas lease and to the fee title of the lessors must be approved by the examining attorney, or accepted by all parties. A copy of the examining attorney's opinion shall be sent to each party immediately after the opinion is written, and, also, each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining attorney's requirements shall be made by the party owning the lease covering the drillsite.

If title to the proposed drillsite is not approved by the examining attorney or the lease is not acceptable for a material reason, and all the parties do not accept the title, the parties shall select a new drillsite for the first exploratory well; provided, if the parties are unable to agree upon another drillsite, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new drillsite is selected, title to the oil and gas lease covering it and to the fee title of the lessor shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the oil and gas lease covering the second choice drillsite is not approved or accepted, other drillsites shall be successively selected and title examined, until a drillsite is chosen

"Individual Loss"

to which title is approved or accepted, or until the parties fail to select another drillsite. As in the case of the drillsite first selected, so also with successive choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillsite, the contract shall, in that case and at that time, come to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the drilling unit has been examined by an attorney for one of the parties other than the party whose lease embraces the drillsite, and (2) the title has been approved by the examining attorney or the title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Failure of Title:

Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

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

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

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

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

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

C. Loss of Leases for Causes Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area.

~~**3. UNLEASED OIL AND GAS INTERESTS**~~

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

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (1/8) royalty, the party contributing that lease shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

KERN COUNTY LAND COMPANY shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit 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 from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

~~**7. TEST WELL**~~

~~On or before the_____ day of_____, 19____, Operator shall commence the drilling of a well for oil and gas in the following location:~~

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

~~unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.~~

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

~~If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.~~

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of six percent (6%) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of ---FIVE THOUSAND AND NO/100--- Dollars ($ 5,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of $ 2,500.00 .

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the the agreement to which this Exhibit "B" is attached test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, 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, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 24, and 200% 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.

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.

Within sixty (60) days after the completion of any operation under this section, 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 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. 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; if there is a credit balance it shall be paid to such Non-Consenting Party.

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

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

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 2 of the agreement to which this Exhibit "B" is attached, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well payment is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, the interests of the parties shall be revised on an acreage basis effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

(3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

Operator shall furnish all parties prior written notice before shutting in any gas well in order that such parties may, if they desire, pay shut in gas payments prior to the actual shutting in of such well.

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be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

19. MAINTENANCE OF UNIT OWNERSHIP

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

(1) the entire interest of the party in all leases and equipment and production; or

(2) an equal undivided interest in all leases and equipment and production in the Unit Area.

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

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

20. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

21. LIABILITY OF PARTIES

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

22. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area. This provision shall be applicable only insofar as such lease covers the contract area.

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

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

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

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

23. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

24. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

25. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be returned for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

(a) As to all operations hereunder, Operator shall carry for the benefit and protection of the parties hereto Workmen's compensation insurance meeting the requirements of law.
(b) In conducting all operations hereunder, Operator shall comply with the Fair Labor Standards Act and all other applicable federal and state laws and applicable rules and regulations of federal and state governmental agencies having jurisdiction.
(c) All damage or injury to the joint property shall be borne by the parties hereto in proportion to their interests therein. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death of third parties or injury to or destruction of property of third parties resulting from the operations conducted hereunder shall be borne in proportion to their interests in the joint property, and each party individually may acquire such insurance as it deems proper to protect itself against such claims.

27. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand ($1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

28. FORCE MAJEURE

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

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 restraint, 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.

29. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. 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.

30. OTHER CONDITIONS, IF ANY, ARE:

The test well to be drilled on the unit area shall be drilled pursuant to the terms and provisions of the agreement to which this Exhibit "B" is attached.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

ATTEST:

_____ _____

OPERATOR

ATTEST:

_____ _____

ATTEST:

_____ _____

P-1842-A REV 8 55
Pound Printing & Stationery Co. Houston, Texas

PASO-T-1955-2

EXHIBIT " C "

[illegible] to and made a part of OPERATING AGREEMENT dated [illegible]
by and between KERN COUNTY LAND COMPANY,
[illegible] & REFINING COMPANY, SHELL OIL COMPANY, THE PURE
[illegible] and SKELLY OIL COMPANY

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**

[illegible] construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is at-[illegible]

[illegible] construed to mean the party designated to conduct the development and operation of the subject area for the [illegible]

[illegible] construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**

[illegible] or before the last day of each month for its proportionate share of costs and expenditures during the preced-[illegible] will be accompanied by statements, reflecting the total costs and charges as set forth under Subparagraph A below:

[illegible] all charges and credits to the joint account.

[illegible] charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

[illegible]

[illegible] ordinarily considered controllable by operators of oil and gas properties;

[illegible] charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof;

[illegible] other charges and credits.

3. **Payments by Non-Operator**

[illegible] such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the [illegible] rate of six per cent (6%) per annum until paid.

4. **Adjustments**

[illegible] the right of Non-Operator to protest or question the correctness thereof. Subject to the exception [illegible] statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed [illegible] (24) months following the end of any such calendar year, unless within the said twenty-four (24) month [illegible] thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make [illegible] such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making [illegible] provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as [illegible] thereof.

5. **Audits**

[illegible] to Operator and all other Non-Operators shall have the right to audit Operator's accounts and records [illegible] for any calendar year within the twenty-four (24) month period following the end of such calendar year, pro-[illegible] must take written exception to and make claim upon the Operator for all discrepancies disclosed by said [illegible] four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable [illegible] audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. **Rentals and Royalties**

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the [illegible] casinghead gas or other products.

2. **Labor**

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as [illegible] basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor [illegible] salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

3. **Employee Benefits**

Operator's cost 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, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. **Material**

Material, equipment and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. **Transportation**

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or 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 or railway receiving point where such material is available, except by special agreement with Non-Operator.

[illegible] material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater [illegible] distance from the nearest reliable supply store or railway receiving point except by special agreement with Non-Operator. No charge shall be made [illegible] for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

A. [illegible]

(1) [illegible] provided from outside sources.

B. [illegible]

[illegible] service by Operator [illegible] and facilities as provided in Paragraph 5 of Section III entitled "Operator's Ex- [illegible] Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

[illegible] damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not con- [illegible] Operator shall furnish Non-Operator written notice of damages or losses in- [illegible] received by Operator.

8. Litigation Expense

[illegible] necessary or expedient for the protection of the joint interests, including attorneys' [illegible] obtained against the parties or any of them on account of the joint operations [illegible] parties hereto in securing evidence for the purpose of defending against any [illegible] the subject matter of this agreement.

[illegible] affecting the joint interests hereunder may be handled by the legal [illegible] commensurate with cost of providing and furnishing such services rendered may be [illegible] approved by the legal departments of or attorneys for the respective [illegible]

[illegible] unless authorized by the majority of the interests hereunder.

9. Taxes

[illegible] the properties which are the subject of this agreement, the produc- [illegible] paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

[illegible] the joint account, together with all expenditures incurred and paid in [illegible] including legal services, not recovered from insurance carrier. [illegible] and paid by Operator in settlement of any and all losses, claims, dam- [illegible] charged to the joint account.

~~11. District and Camp Expense (Field Supervision and Camp Expense)~~

~~[illegible] production superintendent and other employees serving the joint property and other [illegible] allocated directly to the properties, and a pro rata portion of the cost of [illegible] or a comparable office if location changed), and [illegible] office and all necessary camps, including housing facilities for [illegible] properties and other properties operated in the same locality. The expense [illegible] a fair monthly rental in lieu of depreciation on the investment. Such [illegible] consistent with Operator's accounting practice.~~

12. Administrative Overhead

[illegible] shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, [illegible] of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses [illegible] to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly [illegible] the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees as- [illegible] covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed [illegible] between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
[illegible]	[illegible]	[illegible]	$20.00	$15.00
[illegible]	[illegible]	35.00	30.00	20.00
[illegible]	[illegible]	[illegible]	40.00	30.00
[illegible]	[illegible]	70.00	60.00	40.00
[illegible] Deeper	[illegible]	[illegible]	80.00	60.00

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. In connection with overhead charges the status of wells shall be as follows:

(1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.

(2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.

(3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

(4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.

(5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.

(6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.

(7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.

(8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.

C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.

D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operations, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

NONE

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator after deducting [illegible] discount actually received.

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on carload basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.

(2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

B. Used Material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning,

shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable per-centage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator.

A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation and taxes. Pulling unit rates may include wages and expenses of the operator.

D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core and other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.

E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of other items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. New Material

New material (Condition "A") being new material procured for the joint account but never used thereon, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or

B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as second-hand material at seventy-five per cent (75%) of new price.

4. Other Used Material

Used material (Condition "C"), at fifty per cent (50%) of current new price, being used material which:

A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose but which with reasonable repair would be serviceable for original function or some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not warrant a reduction in price as provided in Paragraph 3 of this Section V above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventory shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to be taken, so that Non-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator who shall in such event furnish Non-Operator with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

EXHIBIT "D"

STIPULATION

STATE OF NEW MEXICO }
} KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF LEA }

WHEREAS, Kern County Land Company, hereinafter referred to as "Kern", Humble Oil & Refining Company, hereinafter referred to as "Humble", Shell Oil Company, hereinafter referred to as "Shell, The Pure Oil Company, hereinafter referred to as "Pure", and Skelly Oil Company, hereinafter referred to as "Skelly", entered into an Operating Agreement dated October 25, 1961, which provides, among other things, that as consideration for being carried free of cost to the casing point on the initial well provided for therein, Pure agrees to execute and deliver to Kern and Shell a stipulation as evidence that Pure is holding in its name for Kern and Shell an undivided one-half (1/2) interest in Pure's oil and gas leases, as follows:

1. New Mexico State Lease No. E-6940, dated February 10, 1953, from the State of New Mexico, lessor, to The Pure Oil Company, lessee, covering the South one-half (S/2) of
S Section 17, T-14-S, R-34-E, Lea County, New Mexico.

2. New Mexico State Lease No. K-699, dated August 16, 1960, from the State of New Mexico, lessor, to Lamar Lunt, lessee, covering the East one-half of the Northeast quarter (E/2 of NE/4) of Section 17, T-14-S, R-34-E, Lea County, New Mexico.

WHEREAS, said initial well hereinabove referred to has been drilled to the depth provided for in the aforesaid Operating Agreement.

NOW, THEREFORE, in consideration of the sum of One Dollar ($1.00) in hand paid by Kern and Shell to Pure, Pure hereby stipulates and agrees that it is holding in its name for Kern and Shell an undivided one-half (1/2) of its right, title and interest in and to each of the above described oil and gas leases.

Pure further agrees that said undivided one-half (1/2) interest shall be held for Kern and Shell in the following proportions:

Kern	73.3334	%
Shell	26.6666	%

IN WITNESS WHEREOF, Pure has executed this instrument this _____ day of _____, 19____.

THE PURE OIL COMPANY

ATTEST

_____ By: _____
Secretary

(Acknowledgment to be attached to original executed instrument)

EXHIBIT "E"

STIPULATION

STATE OF NEW MEXICO |
| KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF LEA |

THAT WHEREAS, Kern County Land Company, hereinafter referred to as "Kern", Humble Oil & Refining Company, hereinafter referred to as "Humble", Shell Oil Company, hereinafter referred to as "Shell", The Pure Oil Company, hereinafter referred to as "Pure", and Skelly Oil Company, hereinafter referred to as "Skelly", entered into an Operating Agreement dated October 25, 1961, which provides, among other things, that as consideration for being carried free of cost to the casing point on the initial well provided for therein, Skelly agrees to execute and deliver to Kern and Shell a stipulation as evidence that Skelly is holding in its name for Kern and Shell an undivided one-half (1/2) interest in Skelly's oil and gas lease, as follows:

> New Mexico State Lease No. OG-4779, dated November 18, 1958, from the State of New Mexico, lessor, to Skelly Oil Company, lessee, covering the Northwest quarter (NW/4) of Section 20, T-14-S, R-34-E, Lea County, New Mexico.

WHEREAS, said initial well hereinabove referred to has been drilled to the depth provided for in the aforesaid Operating Agreement.

NOW, THEREFORE, in consideration of the sum of One Dollar ($1.00) in hand paid by Kern and Shell to Skelly, Skelly hereby stipulates and agrees that it is holding in its name for Kern and Shell an undivided one-half (1/2) of its right, title and interest in and to the above described oil and gas lease.

Skelly further agrees that said undivided one-half (1/2) interest shall be held for Kern and Shell in the following proportions:

Kern	73.3334	%
Shell	26.6666	%

IN WITNESS WHEREOF, Skelly has executed this instrument this _____ day of _____, 19___.

SKELLY OIL COMPANY

ATTEST:

By: _____

_____
Secretary

(Acknowledgment to be attached to original executed instrument.)