

**CASE NO. 21418**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR APPROVAL OF  
EXPANSION OF A UNIT AREA, LEA COUNTY, NEW MEXICO**

**MEWBOURNE OIL COMPANY'S EXHIBIT LIST**

1. Landman's Affidavit (Adriana Salgado)
2. Geologist's Affidavit (Jordan Carrell)
3. Application and Proposed Ad
4. Notice Materials

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

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

**APPLICATION OF MEWBOURNE OIL COMPANY  
FOR APPROVAL OF EXPANSION OF A UNIT AREA,  
LEA COUNTY, NEW MEXICO.**

Case No. 21418

**SELF-AFFIRMED STATEMENT OF ADRIANA SALGADO**

Adriana Salgado, being duly sworn upon her oath, deposes and states:

1. I am a landman for Mewbourne Oil Company ("Mewbourne"), and have personal knowledge of the matters stated herein. I have been qualified by the Division as an expert petroleum landman.

2. The purpose of this application is to expand the existing North Wilson Deep Unit Area, an exploratory unit originally comprising 2,145.95 acres of state land in Lea County, New Mexico, and since contracted to 1,105.95 acres. The unit area would be expanded by the addition of lands for a total of 12,142.39 acres, all in Lea County, New Mexico.

3. The expanded Unit Area will cover the following State of New Mexico lands:

Township 20 South, Range 36 East, NMPM

Section 31: Lots 1-4, E/2W/2, and E/2 (All)  
Section 32: SW/4

Township 21 South, Range 35 East, NMPM

Section 4: Lots 1-16 and S/2 (All)  
Section 5: Lots 1-16 and S/2 (All)  
Section 6: Lots 1, 2, 7-10, 15, 16, and SE/4 (E/2)  
Section 7: E/2  
Section 8: All  
Section 9: All  
Section 16: All  
Section 17: All  
Sections 20-22: All  
Section 27: All  
Section 28: All  
Section 29: N/2

EXHIBIT 1



Section 33: All  
Section 34: All

Township 22 South, Range 35 East, NMPM

Section 3: Lots 1-4, S/2N/2, and S/2 (All)  
Section 10: W/2  
Section 15: W/2

The zone to be developed is the Bone Spring formation.

4. Exhibit 1-A is the proposed Unit Agreement, which is the form required by the State Land Office. A plat outlining the Unit Area is Exhibit "A" attached thereto. Tract participation is based solely on acreage, which is what the State Land Office requires.

5. Exhibit 1-B is the proposed Operating Agreement for the Unit Area.

6. Exhibit 1-C is a sample proposal letter sent to interest owners in the Unit Area. Joinder in the Unit Agreement and the Operating Agreement is completely voluntary.

7. Exhibit 1-D contains C-102s for the initial unit wells, which are the North Wilson Deep Unit Well Nos. 3H and 4H.

8. Exhibit 1-E contains the Authorizations for Expenditure for the initial unit wells. The estimated costs of the wells set forth therein are fair and reasonable, and comparable to the costs of other wells of similar depth and length drilled in this area of Lea County.

9. Exhibit 1-F is the letter of preliminary approval for the unit expansion from the Commissioner of Public Lands.

10. Several working interest owners do not approve of the unit expansion. COG Operating LLC, Apache Corporation, and Marathon Oil Permian LLC have all received optional offers from Mewbourne and we are waiting to hear back from them. I have emailed and called and left messages with ConocoPhillips Company, and have not gotten a response. Devon Energy Production Company, L.P. has stated they are not interested in committing to the expansion, and I offered to arrange a teleconference to discuss their issues. However, they stated they did not think that was necessary. As stated above, the above owners cannot be forced in to the Unit Agreement or Unit Operating Agreement, As a result, their interests will remain unaffected.

11. The attachments to this affidavit were prepared by me, or compiled from company business records.

12. The granting of this application is in the interests of conservation and the prevention of waste.

I understand that this Self-Affirmed Statement will be used as written testimony in this case. I affirm that my testimony in paragraphs 1 through 12 above is true and correct and is made under penalty of perjury under the laws of the State of New Mexico. My testimony is made as of the date handwritten next to my signature below.

Date: 1-13-2021

ASalgado  
Adriana Salgado



ONLINE VERSION

STATE/FEE  
EXPLORATORY UNIT

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

NORTH WILSON DEEP

UNIT AREA

LEA

County(ies),

NEW MEXICO

EXHIBIT

1A

ONLINE VERSION

STATE/FEE  
EXPLORATORY UNITS  
Revised February 12, 2004

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

NORTH WILSON DEEP

UNIT AREA

LEA

COUNTY(IES), NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
NORTH WILSON DEEP

UNIT AREA

LEA COUNTY(IES), NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May 20 20, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. N. M. Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the NORTH WILSON DEEP Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area: [Attach another page if you need more space.]

Township 20S, Range 36E, N.M.P.M.  
Section 31 Subdivisions: Lots 1-2, E2NW (NW), Lots 3-4, E2SW (SW), NE, SE  
Section 32 Subdivisions: SW  
Section Subdivisions:  
Section Subdivisions:  
Containing 799.52 total acres, more or less, in County(ies) LEA New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Mewbourne Oil Company  
whose address is 3901 S. Broadway Avenue, Tyler, Texas 75701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to



UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
NORTH WILSON DEEP

UNIT AREA

LEA COUNTY(IES), NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May 2020, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. N. M. Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the NORTH WILSON DEEP Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. **UNIT AREA:** The following described land is hereby designated and recognized as constituting the unit area: [Attach another page if you need more space.]

Township 21S, Range 35E, N.M.P.M.

Section 4 Subdivisions: Lots 1 - 16, SE, SW

Section 5 Subdivisions: Lots 1-16, S2

Section 6 Subdivisions: Lots 1-2, 7-10, 15-16, SE

Section 7 Subdivisions: NE, SE

Containing 2696.75 total acres, more or less, in County(ies) LEA New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. **UNITIZED SUBSTANCES:** All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. **UNIT OPERATOR:** Mewbourne Oil Company  
whose address is 3901 S. Broadway Avenue, Tyler, Texas 75701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
NORTH WILSON DEEP

UNIT AREA

LEA COUNTY(IES), NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May, 2020, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto":

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 5, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessor, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. N. M. Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the NORTH WILSON DEEP Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. **UNIT AREA:** The following described land is hereby designated and recognized as constituting the unit area: [Attach another page if you need more space.]

Township 21S, Range 35E, N.M.P.M.

Section 8 Subdivisions: N2, SW, N2SE, S2SE

Section 9 Subdivisions: NE, NW, S2

Section 16 Subdivisions: SW, NE, NW, SE

Section 17 Subdivisions: N2, S2

Containing 2560 total acres, more or less, in County(ies) LEA New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. **UNITIZED SUBSTANCES:** All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. **UNIT OPERATOR:** Mewbourne Oil Company  
whose address is 3901 S. Broadway Avenue, Tyler, Texas 75701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to

UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE NORTH WILSON DEEP UNIT AREA

LEA COUNTY(IES), NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May 20 20, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. N. M. Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the NORTH WILSON DEEP Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area: [Attach another page if you need more space.]

Township 21S, Range 35E, N.M.P.M.

Section 20 Subdivisions: E2NE, NW, W2NE, S2

Section 21 Subdivisions: NE, E2NW, NWNW, SWNW, S2

Section 22 Subdivisions: N2, SE, SW

Section Subdivisions:

Containing 1920 total acres, more or less, in County(ies) LEA New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Mewbourne Oil Company whose address is 3901 S. Broadway Avenue, Tyler, Texas 75701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to



UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
NORTH WILSON DEEP

UNIT AREA

LEA COUNTY(IES), NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May, 2020, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. N. M. Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the NORTH WILSON DEEP Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

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1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area: [Attach another page if you need more space.]

Township 21S, Range 35E, N.M.P.M.

Section 27 Subdivisions: N2NE, NW, S2NE, SE, E2SW, W2SW

Section 28 Subdivisions: NE, NW, S2

Section 29 Subdivisions: N2

Section 33 Subdivisions: NW, NE, S2

Containing 2240 total acres, more or less, in County(ies) LEA New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

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2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Mewbourne Oil Company  
whose address is 3901 S. Broadway Avenue, Tyler, Texas 75701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
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UNIT AREA

LEA COUNTY(IES), NEW MEXICO

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WITNESSETH:

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WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. N. M. Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the NORTH WILSON DEEP Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area: [Attach another page if you need more space.]

Township 21S, Range 35E, N.M.P.M.

Section 34 Subdivisions: W2, E2

Section Subdivisions:

Section Subdivisions:

Section Subdivisions:

Containing 640 total acres, more or less, in County(ies) LEA New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Mewbourne Oil Company  
whose address is 3901 S. Broadway Avenue, Tyler, Texas 75701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
NORTH WILSON DEEP

UNIT AREA

LEA

COUNTY(IES), NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May, 2020, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1945) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. N. M. Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the NORTH WILSON DEEP Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. **UNIT AREA:** The following described land is hereby designated and recognized as constituting the unit area: [Attach another page if you need more space.]

Township 22S, Range 35E, N.M.P.M.

Section 3 Subdivisions: Lots 1-2, S2NE, SE (E2) & Lots 3-4, S2NW, SW (W2)

Section 10 Subdivisions: NW, SW

Section 15 Subdivisions: W2

Section \_\_\_\_\_ Subdivisions: \_\_\_\_\_

Containing 1286.12 total acres, more or less, in County(ies) LEA New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. **UNITIZED SUBSTANCES:** All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. **UNIT OPERATOR:** Mewbourne Oil Company  
whose address is 3901 S. Broadway Avenue, Tyler, Texas 75701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to



accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. **RESIGNATION OR REMOVAL OF UNIT OPERATOR:** Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of wells.

5. **SUCCESSOR UNIT OPERATOR:** Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. **ACCOUNTING PROVISIONS:** The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. **RIGHTS AND OBLIGATIONS OF UNIT OPERATOR:** Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. **DRILLING TO DISCOVERY:** The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the top of the Bone Spring formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarrented or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 11,500 TVD feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. **OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES:** Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator

and the lessors or record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated), of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this agreement unless at the expiration of five (5) years after the first day of the month following the effective date of this agreement diligent drilling operations are in progress on said tracts.

**10. PARTICIPATION AFTER DISCOVERY:** Upon completion of a well capable of producing unitized substances in paying quantities the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

**11. ALLOCATION OF PRODUCTION:** All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

**12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES:** The respective lease owners in accordance with the terms of their leases shall pay all rentals due to the State of New Mexico.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty share in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but net as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practices; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

**13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA:** The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the fixed term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the fixed term of such



lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. **CONSERVATION:** Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

15. **DRAINAGE:** In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. **COVENANTS RUN WITH LAND:** The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photo static, or certified copy of the instrument of transfer.

17. **EFFECTIVE DATE AND TERM:** This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in five (5) years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to the Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. **RATE OF PRODUCTION:** All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Division, and in conformity with all applicable laws and lawful regulations.

19. **APPEARANCES:** Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceedings.

20. **NOTICES:** All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. **LOSS OF TITLE:** In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

22. **SUBSEQUENT JOINDER:** Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

23. **COUNTERPARTS:** This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

[Note - Signature pages follow.]



UNIT OPERATOR AND WORKING INTEREST OWNER

BUSINESS ENTITY \_\_\_\_\_ By \_\_\_\_\_  
Address \_\_\_\_\_ SIGNATURE OF OFFICER \_\_\_\_\_  
Date of Execution \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss.

**Acknowledgment in an Individual Capacity**

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

by \_\_\_\_\_  
Name(s) of Person(s)

(Seal)

\_\_\_\_\_  
Signature of Notarial Officer

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

**Acknowledgment in a Representative Capacity**

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

by \_\_\_\_\_  
Name(s) of Person(s)

as \_\_\_\_\_ of \_\_\_\_\_  
Type of authority, e.g., officer, trustee, etc Name of party on behalf of whom instrument was executed

(Seal)

\_\_\_\_\_  
Signature of Notarial Officer

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



**EXHIBIT "B"**  
**SCHEDULE OF OWNERSHIP**

TRACT #	LEASE SERIAL NO.	LESSOR	LESSEE OF RECORD	LEGAL	LEASE EXPIRATION	GROSS ACRES	LEASE ROYALTY	WORKING INTEREST OWNER	%
1	EO-1731	STATE OF NEW MEXICO	ZPZ DELAWARE I LLC	T205-R36E SEC 31: LOTS 1 & 2, E2NW (NW)	HBP	159.64	1/8	ALL S&E MORROW FORM CHEVRON U.S.A. INC.	62.53%
2	VC-0706	STATE OF NEW MEXICO	ME-TEX OIL & GAS INC	T205-R36E SEC 31: LOTS 3 & 4, E2SW (SW)	3/1/2025	159.88	1/5	DEVON ENERGY PRODUCTION COMPANY, L.P. ME-TEX OIL & GAS INC.	37.47%
3	VO-6832	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	T205-R36E SEC 31: NE	HBP	160	1/6	MEWBOURNE OIL COMPANY CAMPBELL INVESTMENT COMPANY	100.00%
								SE OF SECTION 31: MEWBOURNE OIL COMPANY KAISER-FRANCIS OIL COMPANY CHEVRON U.S.A. INC.	32.5662%
								CINAREX APACHE CORPORATION	24.070%
								SW OF SECTION 16: MEWBOURNE OIL COMPANY	21.7108%
4	BO-0230	STATE OF NEW MEXICO	CHEVRON USA INC	T205-R36E SEC 31: SE T215-R35E SEC 16: SW	HBP	320	1/8	CHEVRON U.S.A. INC.	3.7288%
								MEWBOURNE OIL COMPANY KAISER-FRANCIS OIL COMPANY CHEVRON U.S.A. INC.	60%
								CINAREX	40%
5	BO-9131	STATE OF NEW MEXICO	KAISER-FRANCIS OIL CO	T205-R36E SEC 32: SW	HBP	315.34	1/8	MEWBOURNE OIL COMPANY KAISER-FRANCIS OIL COMPANY	32.5662%
6	VB-2609	STATE OF NEW MEXICO	ASCENT ENERGY, LLC	T215-R35E SEC 5: LOTS 1, 4, 5, 8 T215-R35E SEC 4: LOTS 1-8	12/1/2020	310.8	3/16	CHEVRON U.S.A. INC. ASCENT ENERGY, LLC	24.070%
								ASCENT ENERGY, LLC	21.7108%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	17.925%
								ASCENT ENERGY, LLC	3.7288%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	100.00%
7	VO-7054	STATE OF NEW MEXICO	COG OPERATING LLC	T215-R35E SEC 4: LOTS 9-16	HBP	320	1/6	MEWBOURNE OIL COMPANY COG OPERATING LLC	4.00%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	53.125%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	14.875%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	28.00%
8	BO-1481	STATE OF NEW MEXICO	KAISER-FRANCIS OIL CO	T215-R35E SEC 4: SE	HBP	160	1/8	MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	1.50%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	79.375%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	9.625%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	9.50%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	4.00%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	40.00%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	28.00%
								MEWBOURNE OIL COMPANY COG OPERATING LLC CHEVRON U.S.A. INC. KAISER-FRANCIS OIL COMPANY	28.00%
9	VO-7063	STATE OF NEW MEXICO	CHEVRON USA INC	T215-R35E SEC 4: SW	HBP	160	1/6	MEWBOURNE OIL COMPANY FORTY ACRES ENERGY LLC CHEVRON U.S.A. INC. TLW INVESTMENTS INC. KAISER-FRANCIS OIL COMPANY	4.00%
								MEWBOURNE OIL COMPANY FORTY ACRES ENERGY LLC CHEVRON U.S.A. INC. TLW INVESTMENTS INC. KAISER-FRANCIS OIL COMPANY	40.00%
								MEWBOURNE OIL COMPANY FORTY ACRES ENERGY LLC CHEVRON U.S.A. INC. TLW INVESTMENTS INC. KAISER-FRANCIS OIL COMPANY	20.00%
								MEWBOURNE OIL COMPANY FORTY ACRES ENERGY LLC CHEVRON U.S.A. INC. TLW INVESTMENTS INC. KAISER-FRANCIS OIL COMPANY	20.00%
								MEWBOURNE OIL COMPANY FORTY ACRES ENERGY LLC CHEVRON U.S.A. INC. TLW INVESTMENTS INC. KAISER-FRANCIS OIL COMPANY	16.00%

10	80-1040	STATE OF NEW MEXICO	APACHE CORPORATION	T215-R35E SEC 5; LOTS 10 & 15	HBP	240	1/8	NEWBOURNE OIL COMPANY KAISER-FRANCIS OIL COMPANY CHEVRON U.S.A. INC.	32.5662%
11	VO-6465	STATE OF NEW MEXICO	MARATHON OIL PERMIAN LLC	T215-R35E SEC 28; NE T215-R35E SEC 5; LOTS 11-14 & S2	HBP	480	1/6	APACHE CORPORATION MARATHON OIL PERMIAN LLC NEWBOURNE OIL COMPANY KAISER-FRANCIS OIL COMPANY CHEVRON U.S.A. INC.	21.7108% 17.925% 100% 32.5662% 24.070% 21.7108% 17.925%
12	EO-9361	STATE OF NEW MEXICO	CHEVRON USA INC	T215-R35E SEC 5; LOTS 9 & 16	HBP	80	1/8	APACHE CORPORATION NEWBOURNE OIL COMPANY KAISER-FRANCIS OIL COMPANY CHEVRON U.S.A. INC.	3.728% 32.5662% 24.070% 21.7108%
13	EO-1733	STATE OF NEW MEXICO	CONOCOPHILLIPS COMPANY	T215-R35E SEC 5; LOTS 2 & 7	HBP	77.66	1/8	APACHE CORPORATION NEWBOURNE OIL COMPANY KAISER-FRANCIS OIL COMPANY CHEVRON U.S.A. INC.	17.925% 3.728% 32.5662% 24.070%
14	BO-1439	STATE OF NEW MEXICO	KAISER-FRANCIS OIL CO	T215-R35E SEC 5; LOTS 3 & 6	HBP	77.68	1/8	APACHE CORPORATION NEWBOURNE OIL COMPANY VERITAS MDC RESOURCES LLC H&L EXPLORATION & PRODUCTION CO., LLC CHEVRON U.S.A. INC.	17.925% 3.728% 32.64338% 10% 10%
15	EO-1921-0001	STATE OF NEW MEXICO	CONOCOPHILLIPS COMPANY	T215-R35E SEC 6; LOTS 1, 2, 7 & 8	HBP	155.27	1/8	APACHE CORPORATION MAGNUM HUNTER PRODUCTION, INC. KAISER-FRANCIS OIL COMPANY CHISHOLM ENERGY HOLDINGS, LLC MAVERICK OIL & GAS CORPORATION TIM MACDONALD JOE R. WRIGHT	2.47297% 11.89054% 15.96682% 7.94488% 0.00502% 0.01505% 0.06019%
16	EO-8268	STATE OF NEW MEXICO	CHEVRON USA INC	T215-R35E SEC 6; LOTS 9 & 16	HBP	80	1/8	NEWBOURNE OIL COMPANY VERITAS MDC RESOURCES LLC H&L EXPLORATION & PRODUCTION CO., LLC CHEVRON U.S.A. INC. APACHE CORPORATION MAGNUM HUNTER PRODUCTION, INC. KAISER-FRANCIS OIL COMPANY CHISHOLM ENERGY HOLDINGS, LLC MAVERICK OIL & GAS CORPORATION TIM MACDONALD JOE R. WRIGHT	32.64338% 10% 10% 9.00115% 2.47297% 11.89054% 15.96682% 7.94488% 0.00502% 0.01505% 0.06019%



17	EO-8172	STATE OF NEW MEXICO	CHEVRON USA INC	TZ15-R35E SEC 6; LOTS 10 & 15	HBP	80	1/8	MEWBOURNE OIL COMPANY VERITAS MOC RESOURCES LLC H&L EXPLORATION & PRODUCTION CO., LLC CHEVRON U.S.A. INC. APACHE CORPORATION MAGNUM HUNTER PRODUCTION, INC. KAISER-FRANCIS OIL COMPANY CHISHOLM ENERGY HOLDINGS, LLC MAVERICK OIL & GAS CORPORATION TIM MACDONALD JOE R. WRIGHT	32.643388% 10% 10% 9.00115% 2.47237% 11.89054% 15.96682% 7.94488% 0.00502% 0.01505% 0.06019%
18	VO-6950	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	TZ15-R35E SEC 6; SE	HBP	160	1/6	MEWBOURNE OIL COMPANY VERITAS MOC RESOURCES LLC H&L EXPLORATION & PRODUCTION CO., LLC CHEVRON U.S.A. INC. APACHE CORPORATION MAGNUM HUNTER PRODUCTION, INC. KAISER-FRANCIS OIL COMPANY CHISHOLM ENERGY HOLDINGS, LLC MAVERICK OIL & GAS CORPORATION TIM MACDONALD JOE R. WRIGHT	32.643388% 10% 10% 9.00115% 2.47237% 11.89054% 15.96682% 7.94488% 0.00502% 0.01505% 0.06019%
19	80-1439	STATE OF NEW MEXICO	HAL J RASMUSSEN OPER INC	TZ15-R35E SEC 7; NE	HBP	160	1/8	MEWBOURNE OIL COMPANY CHISHOLM ENERGY OPERATING, LLC	87.77319% 12.22681%
20	80-1481-0019	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	TZ15-R35E SEC 7; SE	HBP	160	1/8	MEWBOURNE OIL COMPANY DEVON ENERGY CORPORATION N2.DF SECTION 8: MEWBOURNE OIL COMPANY MCCOMBS ENERGY, LTD. CHEVRON U.S.A. INC. ARCADIA RESOURCES, L.P. OXY USA WTP LIMITED PARTNERSHIP	25% 41.666667% 23.333333% 22.5% 2.50% 10%
21	80-1481-0018	STATE OF NEW MEXICO	OXY USA WTP LIMITED PARTNERSHIP	TZ15-R35E SEC 8; N2, SW, N2SE	HBP	560	1/8	N2SE & S2SW OF SECTION 8: MEWBOURNE OIL COMPANY COG OPERATING LLC OXY USA WTP LIMITED PARTNERSHIP MEWBOURNE OIL COMPANY	40.625% 40.625% 18.75% 40.625%
22	EO-8241	STATE OF NEW MEXICO	XTO HOLDINGS, LLC	TZ15-R35E SEC 8; S2SE	HBP	80	1/8	OXY USA WTP LIMITED PARTNERSHIP NE OF SECTION 9: D-10.000' JAMES D. FINLEY CHEVRON U.S.A. INC. FINLEY RESOURCES TLW INVESTMENTS, INC.	40.625% 18.75% 51.62416% 37.5% 8.37584% 2.5%
23	EO-1732	STATE OF NEW MEXICO	JAMES D FINLEY	TZ15-R35E SEC 9; NE TZ1-R35E SEC 16; NE	HBP	320	1/8	NE OF SECTION 16: D-10.000' FINLEY RESOURCES	100%

24	VO-7049	STATE OF NEW MEXICO	CHEVRON USA INC		T21S-R35E SEC 9: NW	HBP	160	1/6	NW OF SECTION 9: G-10-000 MEWBOURNE OIL COMPANY CHEVRON U.S.A. INC. FINLEY RESOURCES TLW INVESTMENTS, INC. ALL DEPTHS BELOW 5,200' KAISER-FRANCIS OIL COMPANY FORTY ACRES ENERGY LLC MEWBOURNE OIL COMPANY SAMSON RESOURCES COMPANY CHEVRON U.S.A. INC. PETRO-QUEST EXPLORATION STEVEN D. WENTWORTH DEVON ENERGY PRODUCTION COMPANY LP FINLEY RESOURCES PENROC OIL CORPORATION STEVEN D. WENTWORTH NW MEWBOURNE OIL COMPANY CHEVRON USA INC	50% 37.5% 10% 2.5%
25	ED-244E-0003	STATE OF NEW MEXICO	KAISER-FRANCIS OIL CO		T21S-R35E SEC 9: S2	HBP	320	1/8		50% 50%
26	BO-0165	STATE OF NEW MEXICO	CHEVRON USA INC		T21S-R35E SEC 16: NW	HBP	160	1/8		25.5% 42.5% 17% 11.25% 3.75%
27	VB-0177	STATE OF NEW MEXICO	DEVON ENERGY PRODUCTION COMPANY LP		T21S-R35E SEC 16: SE	HBP	160	3/16		50% 35% 11.25% 3.75%
28	NO-4205	STATE OF NEW MEXICO	CHEVRON USA INC		T21S-R35E SEC 17: N2	HBP	320	1/8	NE MARATHON OIL PERMIAN LLC COG EXCHANGE PROPERTIES II, LLC	100% 71.250000% 3.750000%
29	ED-1921-0003	STATE OF NEW MEXICO	CHISHOLM ENERGY OPERATING LLC		T21S-R35E SEC 17: S2	HBP	320	1/8	COG OPERATING LLC DEVON ENERGY PRODUCTION COMPANY	100% 25.00000%
30	BO-1431	STATE OF NEW MEXICO	LEACO NEW MEXICO EXPLORATION & PRODUCTION, LLC		T21S-R35E SEC 20: E2NE	HBP	80	1/8	LEACO NEW MEXICO EXPL & PROD LLC	100%
31	VB-0756	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY		T21S-R35E SEC 20: NW & W2NE	HBP	240	3/16	MEWBOURNE OIL COMPANY MEWBOURNE OIL COMPANY	70% 20%
32	ED-244E-0007	STATE OF NEW MEXICO	BARBER WELL SERVICING COMPANY		T21S-R35E SEC 20: S2	HBP	320	1/8	MCCOMBS ENERGY, LTD. JAVELINA PARTNERS ZORRO PARTNERS	5% 5%
33	ED-1639	STATE OF NEW MEXICO	EOG RESOURCES INC.		T21S-R35E SEC 21: NE	HBP	160	1/8	EOG RESOURCES INC. SURFACE TO 12,500'	100%
34	ED-1924	STATE OF NEW MEXICO	CONOCOPHILLIPS COMPANY		T21S-R35E SEC 21: E2NW	HBP	80	1/8	MEWBOURNE OIL COMPANY CHEVRON U.S.A. INC.	60% 40%
35	VO-6982	STATE OF NEW MEXICO	CHEVRON USA INC		T21S-R35E SEC 21: NWNW	HBP	40	1/6	MEWBOURNE OIL COMPANY CHEVRON U.S.A. INC.	60% 40%
36	VO-5764	STATE OF NEW MEXICO	CHEVRON USA INC		T21S-R35E SEC 21: SWNW & S2	HBP	360	1/6	SWNW & SW OF SECTION 21: MEWBOURNE OIL COMPANY CHEVRON U.S.A. INC.	57% 38%
37	VO-6860	STATE OF NEW MEXICO	CHEVRON USA INC		T21S-R35E SEC 22: N2 & SE	HBP	480	1/6	TLW INVESTMENTS LLC ARCADIA RESOURCES, L.P. SE OF SECTION 21: MEWBOURNE OIL COMPANY CHEVRON U.S.A. INC.	2.50% 2.50%
38	VB-1285	STATE OF NEW MEXICO	CHEVRON USA INC		T21S-R35E SEC 22: SW	HBP	160	3/16	MEWBOURNE OIL COMPANY CHEVRON U.S.A. INC.	60% 40%

39	VC-0295	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	T215-R35E SEC 27: N2NE	12/1/2022	80	1/5	MEWBOURNE OIL COMPANY	100%
40	VB-2896	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	T215-R35E SEC 27: NW	1/1/2022	160	3/16	MEWBOURNE OIL COMPANY	100%
41	EO-1640	STATE OF NEW MEXICO	JAMES D FINLEY	T215-R35E SEC 27: S2NE	HBP	240	1/8	SURF TO 10,000'	50%
42	VB-2895	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	T215-R35E SEC 33: NE	1/1/2022	160	3/16	FINLEY RESOURCES	46.875%
43	BO-2317	STATE OF NEW MEXICO	CRESCENT PORTER HALE FOUNDATION	T215-R35E SEC 27: SE	HBP	80	1/8	JOHN R. BRYANT	3.125%
44	VC-0296	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	T215-R35E SEC 27: E2SW	12/1/2022	80	1/5	MEWBOURNE OIL COMPANY	100%
45	VB-0741	STATE OF NEW MEXICO	OXY USA INC. - OIL	T215-R35E SEC 27: W2SW	HBP	160	3/16	MEWBOURNE OIL COMPANY	100%
46	EO-1922	STATE OF NEW MEXICO	CONOCOPHILLIPS COMPANY	T215-R35E SEC 28: S2	HBP	320	1/8	OXY USA INC.	100%
47	BO-0158	STATE OF NEW MEXICO	CHEVRON USA INC	T215-R35E SEC 29: N2	HBP	320	1/8	CHEVRON U.S.A. INC.	100%
48	EO-1673	STATE OF NEW MEXICO	DEVON ENERGY PRODUCTION COMPANY LP	T215-R35E SEC 33: NW	HBP	160	1/8	DEVON ENERGY PRODUCTION COMPANY, LP	100%
49	VO-4799	STATE OF NEW MEXICO	OXY USA INC. - OIL	T215-R35E SEC 33: S2	HBP	320	1/6	RANGE RESOURCES	50%
50	VB-2796	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	T215-R35E SEC 34: E2	9/1/2021	320	3/16	OXY USA INC.	50%
51	VB-2779	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	T215-R35E SEC 34: W2	9/1/2021	320	3/16	MEWBOURNE OIL COMPANY	100%
52	EO-8322	STATE OF NEW MEXICO	ZPZ DELAWARE I LLC	T225-R35E SEC 3: LOTS 1, 2, S2NE & SE (E2)	HBP	322.89	1/8	ZPZ DELAWARE I LLC	100%
53	VB-2838	STATE OF NEW MEXICO	MEWBOURNE OIL COMPANY	T225-R35E SEC 3: LOTS 3, 4, S2NW & SW (W2)	11/1/2021	323.23	3/16	MEWBOURNE OIL COMPANY	100%
54	EO-1625	STATE OF NEW MEXICO	APACHE CORPORATION	T225-R35E SEC 10: NW	HBP	160	1/8	APACHE CORPORATION	50%
55	EO-6019	STATE OF NEW MEXICO	EOG RESOURCES INC.	T225-R35E SEC 10: SW	HBP	160	1/8	CHEVRON U.S.A. INC.	35.012951%
56	VO-6837	STATE OF NEW MEXICO	LEGACY RESERVES OPERATING, LP	T225-R35E SEC 15: W2	HBP	320	1/6	EOG RESOURCES INC.	34.983996%
								CHEVRON U.S.A. INC.	50%
								LEGACY RESERVES OPERATING, LP	100%

12,142.39

12,142.39	100%
0	0%
12,142.39	100%

**RECAPITULATION**  
 Acres of State of New Mexico Lands =  
 Acres of Fee Lands =  
**TOTAL ACRES**

## EXHIBIT "C"

### SCHEDULE OF TRACT PARTICIPATION

TRACT NUMBER	UNIT PARTICIPATION PERCENTAGE
1	1.314733%
2	1.316709%
3	1.317698%
4	2.635396%
5	2.597018%
6	2.559628%
7	2.635396%
8	1.317698%
9	1.317698%
10	1.976547%
11	3.953093%
12	0.658849%
13	0.639578%
14	0.639742%
15	1.278743%
16	0.658849%
17	0.658849%
18	1.317698%
19	1.317698%
20	1.317698%
21	4.611942%
22	0.658849%
23	2.635396%
24	1.317698%
25	2.635396%
26	1.317698%
27	1.317698%
28	2.635396%
29	2.635396%
30	0.658849%
31	1.976547%
32	2.635396%
33	1.317698%
34	0.658849%
35	0.329424%
36	2.964820%
37	3.953093%
38	1.317698%
39	0.658849%
40	1.317698%
41	1.976547%
42	1.317698%
43	0.658849%
44	0.658849%
45	1.317698%
46	2.635396%
47	2.635396%
48	1.317698%
49	2.635396%
50	2.635396%



51	2.635396%
52	2.659196%
53	2.661997%
54	1.317698%
55	1.317698%
56	2.635396%
<b>TOTAL</b>	<b>100.000000%</b>

A.A.P.L. FORM 610 - 1989

**MODEL FORM OPERATING AGREEMENT  
HORIZONTAL MODIFICATIONS**

OPERATING AGREEMENT

DATED

August 1 , 2020 ,  
*Year*

OPERATOR MEWBOURNE OIL COMPANY

CONTRACT AREA \_\_\_\_\_

SEE ATTACHED EXHIBIT "A"

\_\_\_\_\_

\_\_\_\_\_

NORTH WILSON DEEP STATE UNIT

COUNTY OR PARISH OF LEA , STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PROFESSIONAL  
LANDMEN, 4100 FOSSIL CREEK BLVD. FORT  
WORTH, TEXAS, 76137, APPROVED FORM.  
A.A.P.L. NO. 610 - 1989 (Horz)

EXHIBIT 1-B

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Mewbourne Oil Company, hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.

B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation.

C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a Horizontal Well, the term "Deepen" shall mean an operation whereby a Lateral is drilled to a Displacement greater than (i) the Displacement contained in the proposal for such operation approved by the Consenting Parties, or (ii) to the Displacement to which the Lateral was drilled pursuant to a previous proposal.

E. The term "Displacement" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall otherwise mean the length of a Lateral.

F. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

G. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

H. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. When used in connection with a Horizontal Well, the term "Drillsite" shall mean (i) the surface hole location, and (ii) the Oil and Gas Leases or Oil and Gas Interests within the Drilling Unit on or under which the wellbore, including the Lateral, is located.

I. The term "Horizontal Rig Move-On Period" shall mean the number of days after the date of rig release of a Spudder Rig until the date a rig capable of drilling a Horizontal Well to its Total Measured Depth has moved on to location.

J. The term "Horizontal Well" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean a well containing one or more Laterals which are drilled, Completed or Recompleted in a manner in which the horizontal component of the Completion interval (1) extends at least one hundred feet (100') in the objective formation(s) and (2) exceeds the vertical component of the Completion interval in the objective formation(s).

K. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.

L. The term "Lateral" shall mean that portion of a wellbore that deviates from approximate vertical orientation to approximate horizontal orientation and all wellbore beyond such deviation to Total Measured Depth.

M. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.

N. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

O. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

P. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.

Q. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

R. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.

S. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

T. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well.

U. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties. When used in connection with a Horizontal Well, the term "Sidetrack" shall mean the directional control and deviation of a well outside the existing Lateral(s) so as to change the Zone or the direction of a Lateral from the approved proposal unless done to straighten the hole or drill around junk in the hole or to overcome other mechanical difficulties.

V. The term "Spudder Rig" shall mean a drilling rig utilized only for drilling all or part of the vertical component of a Horizontal Well, a rig used only for setting conductor pipe shall not be considered a Spudder Rig.

W. The term "Terminus" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction



1 over the Contract Area, in the absence of which the term shall mean the furthest point drilled in the Lateral.  
 2 X. The term "Total Measured Depth," when used in connection with a Horizontal Well, shall mean the distance from the surface of  
 3 the ground to the Terminus, as measured along and including the vertical component of the well and Lateral(s). When the proposed  
 4 operation(s) is the drilling of, or operation on, a Horizontal Well, the terms "depth" or "total depth" wherever used in this agreement shall be  
 5 deemed to read "Total Measured Depth" insofar as it applies to such well.  
 6 Y. The term "Vertical Well" shall mean a well drilled, Completed or Recompleted other than a Horizontal Well.  
 7 Z. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and Gas  
 8 separately producible from any other common accumulation of Oil and Gas.  
 9 Unless the context otherwise clearly indicates, words used in the singular include the plural, the word "person" includes  
 10 natural and artificial persons, the plural includes the singular, and any gender includes the masculine, feminine, and neuter.

11 **ARTICLE II.**  
 12 **EXHIBITS**

13 The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:  
 14 X A. Exhibit "A," shall include the following information:  
 15 (1) Description of lands subject to this agreement,  
 16 (2) Restrictions, if any, as to depths, formations, or substances,  
 17 (3) Parties to agreement with addresses and telephone numbers for notice purposes,  
 18 (4) Percentages or fractional interests of parties to this agreement,  
 19 (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement.  
 20 (6) Burdens on production.  
 21 ~~\_\_\_ B. Exhibit "B," Form of Lease.~~  
 22 X C. Exhibit "C," Accounting Procedure.  
 23 X D. Exhibit "D," Insurance.  
 24 X E. Exhibit "E," Gas Balancing Agreement.  
 25 X F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities  
 26 ~~\_\_\_ G. Exhibit "G," Tax Partnership.~~  
 27 X H. Other: Model Form Recording Supplement

28 If any provision of any exhibit, except Exhibits "E," "F" and "G," is inconsistent with any provision contained in the body of this  
 29 agreement, the provisions in the body of this agreement shall prevail.  
 30

31 **ARTICLE III.**  
 32 **INTERESTS OF PARTIES**

33 ~~**A. Oil and Gas Interests:**~~  
 34 ~~If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this agreement~~  
 35 ~~and during the term hereof as if it were covered by the form of Oil and Gas Lease attached hereto as Exhibit "B," and the owner~~  
 36 ~~thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.~~

37 **B. Interests of Parties in Costs and Production:**  
 38 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid,  
 39 and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in  
 40 Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the Contract Area subject, however, to the  
 41 payment of royalties and other burdens on production as described hereafter.

42 Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other burdens may  
 43 be payable and except as otherwise expressly provided in this agreement, each party shall pay or deliver, or cause to be paid or delivered,  
 44 all burdens on its share of the production from the Contract Area up to, but not in excess of, twenty five percent (25%) and  
 45 shall indemnify, defend and hold the other parties free from any liability therefor. Except as otherwise expressly provided in this agreement,  
 46 if any party has contributed hereto any Lease or Interest which is burdened with any royalty, overriding royalty, production payment or  
 47 other burden on production in excess of the amounts stipulated above, such party so burdened shall assume and alone bear all such excess  
 48 obligations and shall indemnify, defend and hold the other parties hereto harmless from any and all claims attributable to such excess burden.  
 49 However, so long as the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause  
 50 to be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s) which such party  
 51 has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any liability therefor.

52 No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's lessor or  
 53 royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party  
 54 contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.

55 Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby, and in  
 56 the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in said Leaseholds shall be  
 57 deemed separate leasehold interests for the purposes of this agreement.

58 **C. Subsequently Created Interests:**  
 59 If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security for the  
 60 payment of money, or if, after the date of this agreement, any party creates an overriding royalty, production payment, net profits interest,  
 61 assignment of production or other burden payable out of production attributable to its working interest hereunder, such burden shall be  
 62 deemed a "Subsequently Created Interest." Further, if any party has contributed hereto a Lease or Interest burdened with an overriding  
 63 royalty, production payment, net profits interests, or other burden payable out of production created prior to the date of this agreement, and  
 64 such burden is not shown on Exhibit "A," such burden also shall be deemed a Subsequently Created Interest to the extent such burden  
 65 causes the burdens on such party's Lease or Interest to exceed the amount stipulated in Article III.B. above.

66 The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and alone  
 67 bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other parties from and against  
 68 any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of  
 69 Article VII.B. shall be enforceable against the Subsequently Created Interest in the same manner as they are enforceable against the working  
 70 interest of the Burdened Party. If the Burdened Party is required under this agreement to assign or relinquish to any other party, or parties,  
 71 all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment  
 72 and/or production free and clear of said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless  
 said other party, or parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.



## ARTICLE IV.

## TITLES

## A. Title Examination:

Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and, if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in procuring abstracts, fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in royalty opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A." ~~Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.~~

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with Leases or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings. Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C." Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

No well shall be drilled on the Contract Area until after (1) the title to the Drillsite or Drilling Unit, if appropriate, has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the Drilling Parties in such well.

## B. Loss or Failure of Title:

1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests, and,

(a) The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if applicable, a successor in interest to such party) 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 previously paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

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

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

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

(e) Any liability to account to a person not a party to this agreement for prior production of Oil and Gas which arises by reason of title failure shall be borne severally by each party (including a predecessor to a current party) who received production for which such accounting is required based on the amount of such production received, and each such party shall severally indemnify, defend and hold harmless all other parties hereto for any such liability to account;

(f) No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of the Lease or Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title it shall bear all expenses in connection therewith; and

(g) If any party is given credit on Exhibit "A" to a Lease or Interest which is limited solely to ownership of an interest in the wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder of the Contract Area shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest is reflected on Exhibit "A."

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

(a) Proceeds of Oil and Gas produced prior to termination of the Lease or Interest, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, previously accrued to the credit of the lost Lease or Interest, on an



1 acreage basis, up to the amount of unrecovered costs;

2 (b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed  
3 to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed  
4 (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be attributable to  
5 the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest termination is credited to other parties, the  
6 proceeds of said portion of the Oil and Gas to be contributed by the other parties in proportion to their respective interests reflected on Exhibit  
7 "A"; and,

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

10 3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles  
11 IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A." This  
12 shall include but not be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have  
13 not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of  
14 its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on  
15 account of any joint loss.

16 4. Curing Title: In the event of a Failure of Title under Article IV.B.1. or a loss of title under Article IV.B.2. above, any Lease or  
17 Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period  
18 provided by Article IV.B.1. and Article IV.B.2. above covering all or a portion of the interest that has failed or was lost shall be offered at  
19 cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B. shall not apply to such acquisition.

## ARTICLE V.

### OPERATOR

#### A. Designation and Responsibilities of Operator:

22 Mewbourne Oil Company shall be the Operator of the Contract Area, and shall conduct and direct  
23 and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its  
24 performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction  
25 of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this  
26 agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or  
27 liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonably  
28 prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in  
29 compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or  
30 liabilities incurred / except such as may result / from gross negligence or willful misconduct. The foregoing exculpatory provision does not  
31 apply to any contractual obligations Operator may have hereunder. In the event a non-operator suffers damage as a result of Operator's gross  
32 negligence or willful misconduct, the Operator will also be liable for consequential damages the non-operator has suffered and punitive damages.

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

34 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.  
35 If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as  
36 Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may  
37 be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on  
38 Exhibit "A" remaining after excluding the voting interest of Operator, such vote shall not be deemed effective until a written notice has been  
39 delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days  
40 from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the  
41 notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or  
42 inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this  
43 agreement.

44 Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the  
45 calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-  
46 Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator,  
47 after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or  
48 structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for  
49 removal of Operator.

50 2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a  
51 successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the  
52 Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or  
53 more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been  
54 removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative  
55 vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting  
56 interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and  
57 data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the  
58 successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

59 3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have  
60 resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is  
61 filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall  
62 comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy  
63 Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a  
64 resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating  
65 committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership  
66 as shown on Exhibit "A." In the event there are only two (2) parties to this agreement, during the period of time the operating committee  
67 controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the  
68 operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest  
69 in the Contract Area based on Exhibit "A."

#### C. Employees and Contractors:

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



1 **D. Rights and Duties of Operator:**

2 1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis  
3 at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its  
4 charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing  
5 before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are  
6 customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or  
7 materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written  
8 agreement, and in accordance with customs and standards prevailing in the industry.

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

13 3. Protection from Liens: Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts of  
14 contractors and suppliers and wages and salaries for services rendered or performed, and for materials supplied on, to or in respect of the  
15 Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from liens and encumbrances resulting  
16 therefrom except for those resulting from a bona fide dispute as to services rendered or materials supplied.

17 4. Custody of Funds: Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced  
18 or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the Contract Area, and such  
19 funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until used for their intended purpose or  
20 otherwise delivered to the Non-Operators or applied toward the payment of debts as provided in Article VII.B. Nothing in this paragraph shall  
21 be construed to establish a fiduciary relationship between Operator and Non-Operators for any purpose other than to account for Non-  
22 Operator funds as herein specifically provided. Nothing in this paragraph shall require the maintenance by Operator of separate accounts for  
23 the funds of Non-Operators unless the parties otherwise specifically agree.

24 5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator  
25 or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to all operations of  
26 every kind and character being conducted for the joint account on the Contract Area and to the records of operations conducted thereon or  
27 production therefrom, including Operator's books and records relating thereto. Such access rights shall not be exercised in a manner  
28 interfering with Operator's conduct of an operation hereunder and shall not obligate Operator to furnish any geologic or geophysical data of an  
29 interpretive nature unless the cost of preparation of such interpretive data was charged to the joint account. Operator will furnish to each Non-  
30 Operator upon request copies of any and all reports and information obtained by Operator in connection with production and related items,  
31 including, without limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding  
32 purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the information. Any  
33 audit of Operator's records relating to amounts expended and the appropriateness of such expenditures shall be conducted in accordance with  
34 the audit protocol specified in Exhibit "C."

35 6. Filing and Furnishing Governmental Reports: Operator will file, and upon written request promptly furnish copies to  
36 each requesting Non-Operator not in default of its payment obligations, all operational notices, reports or applications required to be filed by  
37 local, State, Federal or Indian agencies or authorities having jurisdiction over operations hereunder. Each Non-Operator shall provide to  
38 Operator on a timely basis all information necessary to Operator to make such filings.

39 7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not  
40 limited to the Initial Well:

41 (a) Operator will promptly advise Non-Operators of the date on which the well is spudded, or the date on which  
42 drilling operations are commenced.

43 (b) Operator will send to Non-Operators such reports, test results and notices regarding the progress of operations on the well  
44 as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

45 (c) Operator shall adequately test all Zones encountered which may reasonably be expected to be capable of producing Oil  
46 and Gas in paying quantities as a result of examination of the electric log or any other logs or cores or tests conducted hereunder.

47 8. Cost Estimates: Upon request of any Consenting Party, Operator shall furnish estimates of current and cumulative costs  
48 incurred for the joint account at reasonable intervals during the conduct of any operation pursuant to this agreement. Operator shall not be  
49 held liable for errors in such estimates so long as the estimates are made in good faith.

50 9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers compensation law  
51 of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said  
52 compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C." Operator  
53 shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D" attached hereto and made a  
54 part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation  
55 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

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

58 **ARTICLE VI.**

59 **DRILLING AND DEVELOPMENT**

60 **A. Initial Well:**

61 On or before the 31<sup>st</sup> day of December, 2021, Operator shall commence the drilling of the Initial Well  
62 at the following location (if a Horizontal Well, surface and Terminus/Termini of the Lateral(s)):

63  
64 **SEE ATTACHED EXHIBIT "A".**

65  
66  
67 and shall thereafter continue the drilling of the well (horizontally if a Horizontal Well) with due diligence to adequately test the  
68 Bone Spring formation.



1  
2 The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation in  
3 Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

4 **B. Subsequent Operations:**

5 1. Proposed Operations. If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or if  
6 any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of producing in paying  
7 paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under this agreement, the  
8 party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written notice of the proposed operation to  
9 the parties who have not otherwise relinquished their interest in such objective Zone under this agreement (and to all other parties in the  
10 case of a proposal for Sidetracking or Deepening as to a Vertical Well), specifying the work to be performed, the location, proposed depth,  
11 objective Zone and the estimated cost of the operation as outlined in an AFE. A proposal for the drilling of or other operations for a  
12 Horizontal Well shall: (1) state that the proposed operation is a Horizontal Well operation; (2) include drilling and Completion plans  
13 specifying the proposed: (i) Total Measured Depth(s), (ii) surface hole location(s), (iii) Terminus/Termini, (iv) Displacement(s),  
14 (v) utilization and scheduling of rig(s) (Spudder Rig, drilling and Completion), and (vi) stimulation operations, staging and sizing; and (3)  
15 include estimated drilling and Completion costs as set forth in an AFE. The parties to whom such a notice is delivered shall have thirty (30)  
16 days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the  
17 proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be  
18 given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays.  
19 Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to  
20 participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially  
21 proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

22 If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually  
23 committed to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator shall, no  
24 later than ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the  
25 forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and thereafter  
26 complete it with due diligence at the risk and expense of the parties participating therein, provided, however, said commencement date may  
27 be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole  
28 opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including  
29 rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or  
30 acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as specifically  
31 permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct said operation, written  
32 notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior proposal had been made. Those parties  
33 that did not participate in the drilling of a well for which a proposal to Deepen or Sidetrack is made hereunder shall, if such parties desire to  
34 participate in the proposed Deepening or Sidetracking operation, reimburse the Drilling Parties in accordance with Article VI.B.4. in the  
35 event of a Deepening operation and in accordance with Article VI.B.5. in the event of a Sidetracking operation.

36 2. Operations by Less Than All Parties:

37 (a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or VI.C.1.  
38 (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or  
39 parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the  
40 expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when  
41 a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator  
42 shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and  
43 if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such  
44 proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such  
45 work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party  
46 designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting  
47 operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

48 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable  
49 notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the  
50 Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of  
51 Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to  
52 such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the  
53 Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its  
54 proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a portion of its proportionate  
55 part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is  
56 not carried by a Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its  
57 proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a drilling rig is  
58 on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a total of forty-eight (48) hours  
59 (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is less than  
60 100% participation and shall notify all parties of such decision within ten (10) days, or within twenty-four (24) hours if a drilling rig is on  
61 location, following expiration of the applicable response period. If 100% subscription to the proposed operation is obtained, the proposing  
62 party shall promptly notify the Consenting Parties of their proportionate interests in the operation and the party serving as Operator shall  
63 commence such operation within the period provided in Article VI.B.1., subject to the same extension right as provided therein.

64 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by  
65 the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties  
66 shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising  
67 from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the  
68 Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however,  
69 that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall  
70 pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs  
71 were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,  
72 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying



1 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  
 2 over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the  
 3 Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging  
 4 Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed  
 5 to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective  
 6 interests, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking,  
 7 Sidetracking, Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-  
 8 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate.  
 9 Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such  
 10 share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other  
 11 interests not excepted by Article III.C. payable out of or measured by the production from such well accruing with respect to such interest  
 12 until it reverts), shall equal the total of the following:

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

19 (ii) 300 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging  
 20 Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) that portion  
 21 of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such  
 22 Non-Consenting Party if it had participated therein.

23 Notwithstanding anything to the contrary in this Article VI.B., if the well does not reach the deepest objective Zone described in  
 24 the notice proposing the well for reasons other than the encountering of granite or practically impenetrable substance or other condition in  
 25 the hole rendering further operations impracticable, Operator shall give notice thereof to each Non-Consenting Party who submitted or  
 26 voted for an alternative proposal under Article VI.B.6. to drill the well to a shallower Zone than the deepest objective Zone proposed in the  
 27 notice under which the well was drilled, and each such Non-Consenting Party shall have the option to participate in the initial proposed  
 28 Completion of the well by paying its share of the cost of drilling the well to its actual depth, calculated in the manner provided in Article  
 29 VI.B.4. (a). If any such Non-Consenting Party does not elect to participate in the first Completion proposed for such well, the  
 30 relinquishment provisions of this Article VI.B.2. (b) shall apply to such party's interest.

31 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a  
 32 well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion  
 33 thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the  
 34 Non-Consenting Party's recoupment amount. Similarly, an election not to participate in the Completing or Recompleting of a well shall be  
 35 deemed an election not to participate in any Reworking operation proposed in such a well, or portion thereof, to which the initial non-  
 36 consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's  
 37 recoupment amount. Any such Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be  
 38 deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 300 %  
 39 of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to such Non-  
 40 Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is proposed during such  
 41 recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

42 (d) Recoupment Matters. During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of  
 43 production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all ad valorem, production, severance,  
 44 excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of  
 45 production not excepted by Article III.C.

46 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting Parties shall  
 47 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  
 48 unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back, Recompleting or Deepening, the  
 49 Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in  
 50 value, less cost of salvage.

51 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations for the  
 52 Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an  
 53 itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing, Recompleting, and equipping the  
 54 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  
 55 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the  
 56 party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs  
 57 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  
 58 amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity  
 59 of Oil and Gas produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or  
 60 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such  
 61 operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned  
 62 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  
 63 above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

64 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above,  
 65 the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day following the day on  
 66 which such reversion occurs, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the  
 67 material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to  
 68 had it participated in the drilling, Sidetracking, Reworking, Deepening, Recompleting or Plugging Back of said well. Thereafter, such Non-  
 69 Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance  
 70 with the terms of this agreement and Exhibit "C" attached hereto.

71 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been  
 72 completed and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to



1 Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking, Sidetracking, Deepening, Recompleting,  
 2 Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6. to resolve competing proposals)  
 3 shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all parties  
 4 responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of  
 5 all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as  
 6 part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall  
 7 be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total  
 8 interest as shown on Exhibit "A" of all Consenting Parties.

9 In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party  
 10 may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.1.  
 11 within which to respond by paying for all stand-by costs and other costs incurred during such extended response period; Operator may require  
 12 such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than one party elects to take  
 13 such additional time to respond to the notice, standby costs shall be allocated between the parties taking additional time to respond on a day  
 14 to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all  
 15 the electing parties.

16 4. Deepening: If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed  
 17 pursuant to Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article VI.B.2. shall relate  
 18 only and be limited to the lesser of (i) the total depth actually drilled or (ii) the objective depth or Zone of which the parties were given notice  
 19 under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the Initial Objective without first complying with this  
 20 Article to afford the Non-Consenting Parties the opportunity to participate in the Deepening operation.

21 In the event any Consenting Party desires to drill or Deepen a Non-Consent Well to a depth below the Initial Objective,  
 22 such party shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-Consenting Parties).  
 23 Thereupon, Articles VI.B.1. and 2. shall apply and all parties receiving such notice shall have the right to participate or not participate in the  
 24 Deepening of such well pursuant to said Articles VI.B.1. and 2. If a Deepening operation is approved pursuant to such provisions, and if any  
 25 Non-Consenting Party elects to participate in the Deepening operation, such Non-Consenting party shall pay or make reimbursement (as the  
 26 case may be) of the following costs and expenses.

27 (a) If the proposal to Deepen is made prior to the Completion of such well as a well capable of producing in paying  
 28 quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs and expenses  
 29 incurred in connection with the drilling of said well from the surface to the Initial Objective which Non-Consenting Party would have paid  
 30 had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting Party's share of the cost of Deepening and of  
 31 participating in any further operations on the well in accordance with the other provisions of this Agreement; provided, however, all costs for  
 32 testing and Completion or attempted Completion of the well incurred by Consenting Parties prior to the point of actual operations to Deepen  
 33 beyond the Initial Objective shall be for the sole account of Consenting Parties.

34 (b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing  
 35 in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or reimburse  
 36 Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and equipping said well from the  
 37 surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less those costs recouped by the Consenting Parties  
 38 from the sale of production from the well. The Non-Consenting Party shall also pay its proportionate share of all costs of re-entering said well.  
 39 The Non-Consenting Parties' proportionate part (based on the percentage of such well Non-Consenting Party would have owned had it  
 40 previously participated in such Non-Consent Well) of the costs of salvable materials and equipment remaining in the hole and salvable surface  
 41 equipment used in connection with such well shall be determined in accordance with Exhibit "C." If the Consenting Parties have recouped the  
 42 cost of drilling, Completing, and equipping the well at the time such Deepening operation is conducted, then a Non-Consenting Party may  
 43 participate in the Deepening of the well with no payment for costs incurred prior to re-entering the well for Deepening.

44 The foregoing shall not imply a right of any Consenting Party to propose any Deepening for a Non-Consent Well prior  
 45 to the drilling of such well to its Initial Objective without the consent of the other Consenting Parties as provided in Article VI.F.

46 This Article VI.B.4 shall not apply to Deepening operations within an existing Lateral of a Horizontal Well.

47 5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an  
 48 interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its proportionate  
 49 share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore to be utilized as follows:

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

52 (b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of  
 53 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth at which the  
 54 Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's proportionate share of the  
 55 cost of the well's salvable materials and equipment down to the depth at which the Sidetracking operation is initiated shall be determined in  
 56 accordance with the provisions of Exhibit "C."

57 This Article VI.B.5, "Sidetracking," shall not apply to operations in an existing Lateral of a Horizontal Well.

58 6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to propose  
 59 the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party shall have fifteen  
 60 (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform an operation on a well where no drilling  
 61 rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from delivery of the initial proposal, if a  
 62 drilling rig is on location for the well on which such operation is to be conducted, to deliver to all parties entitled to participate in the proposed  
 63 operation such party's alternative proposal, such alternate proposal to contain the same information required to be included in the initial  
 64 proposal. Each party receiving such proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal  
 65 period, or within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is  
 66 the subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required shall be deemed  
 67 not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage interest of the parties voting shall have  
 68 priority over all other competing proposals; in the case of a tie vote, the initial proposal shall prevail. Operator shall deliver notice of such  
 69 result to all parties entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24)  
 70 hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty  
 71 four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or  
 72 to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within such period



1 shall be deemed an election not to participate in the prevailing proposal.

2 **7. Conformity to Spacing Pattern.** Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be  
3 proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract Area is producing,  
4 unless such well conforms to the then-existing well spacing pattern for such Zone.

5 **8. Paving Wells.** No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or Sidetracking  
6 operation under this agreement with respect to any well then capable of producing in paying quantities except with the consent of all parties  
7 that have not relinquished interests in the well at the time of such operation.

8 **9. Spudder Rigs.**

9 (a) **Within Approved Horizontal Well proposals (i.e. proposals which include an approved AFE).** If an approved Horizontal  
10 Well proposal provides that a Spudder Rig shall be utilized, and Operator desires to extend the proposed Horizontal Rig Move-On Period,  
11 Operator may obtain one or more extensions, each for a period of time not to exceed 30 days only upon notice and the affirmative vote  
12 of not less than 70 % in interest of the Consenting Parties to the drilling of the proposed well.

13 (b) **Not Within Approved Horizontal Well proposals.** If an approved Horizontal Well proposal does not provide that a Spudder  
14 Rig may be utilized, and Operator subsequently desires to utilize a Spudder Rig, Operator may utilize a Spudder Rig upon notice to the  
15 Drilling Parties (which notice shall include a Horizontal Rig Move-On Period) and the affirmative vote of not less than 70 % in  
16 interest of the Consenting Parties. Extension(s) of the Horizontal Rig Move-On Period may be requested by Operator in the same manner as  
17 provided in Article VI.B.9.(a) immediately above.

18 (c) **Failure to meet Horizontal Rig Move-On Period.** If a rig capable of drilling a Horizontal Well to its Total Measured Depth  
19 has not commenced operations within the Horizontal Rig Move-On Period, or any approved extension(s) thereof, unless 70 % in  
20 interest of the Consenting Parties agree to abandon the operation, Operator shall re-propose the well in the manner provided in Article VI.B  
21 of this agreement. Any party who was a Non-Consenting Party to the original drilling proposal shall be entitled to a new election. Costs of  
22 the operation, incurred both before and after such re-proposal, shall be borne as follows:

23 (1) Operator shall promptly reimburse all unused funds previously advanced for the drilling of the well to each party who  
24 advanced such unused funds;

25 (2) If the well's drilling operations are subsequently resumed, all costs, whether incurred before or after the re-proposal,  
26 shall be borne by the Consenting Parties to the re-proposed well; and, the Consenting Parties shall proportionately reimburse each party  
27 who consented to the original proposal but did not consent to the re-proposal such party's share of costs incurred prior to the re-proposal.

28 (3) If the well's drilling operations are not subsequently resumed pursuant to a re-proposal as herein provided, all costs  
29 incurred prior to the re-proposal, and all costs of abandonment, shall be borne and paid by the original Consenting Parties.

30 (d) **Commencement of Operations.** For purposes of Article VI.B., and subject to the provisions of this sub-section 9, the date a  
31 Spudder Rig commences actual drilling operations shall be considered the commencement of drilling operations of the proposed well.

32 **10. Multi-well Pads.** If multiple Horizontal Wells are drilled or proposed to be drilled from a single pad or location, the costs of  
33 such pad or location shall be allocated, and/or reallocated as necessary, to the Consenting Parties of each of the wells thereon.

34 **C. Completion of Wells; Reworking and Plugging Back:**

35 **1. Completion:** Without the consent of all parties, no well shall be drilled, Deepened or Sidetracked, except any well drilled,  
36 Deepened or Sidetracked pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling, Deepening or Sidetracking  
37 shall include:

38  **Option No. 1:** All necessary expenditures for the drilling, Deepening or ~~Sidetracking~~-testing, Completion and equipping  
39 of the <sup>Horizontal or Multi-Lateral</sup> Well, including tankage and/or surface facilities.

40  **Option No. 2:** All necessary expenditures for the drilling, Deepening or Sidetracking and testing of a Vertical Well.  
41 When such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results  
42 thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to participate  
43 in a Completion attempt whether or not Operator recommends attempting to Complete the well, together with Operator's  
44 AFE for Completion costs if not previously provided. The parties receiving such notice shall have forty-eight (48) hours  
45 (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of notice to Operator to participate in a  
46 recommended Completion attempt or to make a Completion proposal with an accompanying AFE. Operator shall deliver  
47 any such Completion proposal, or any Completion proposal conflicting with Operator's proposal, to the other parties  
48 entitled to participate in such Completion in accordance with the procedures specified in Article VI.B.6. Election to  
49 participate in a Completion attempt shall include consent to all necessary expenditures for the Completing and equipping  
50 of such well, including necessary tankage and/or surface facilities but excluding any stimulation operation not contained  
51 on the Completion AFE. Failure of any party receiving such notice to reply within the period above fixed shall constitute  
52 an election by that party not to participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall  
53 control in the case of conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a  
54 Completion, the provisions of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or  
55 Plugging Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations  
56 thereafter conducted by less than all parties; provided, however, that Article VI.B.2. shall apply separately to each  
57 separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party  
58 as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party in subsequent  
59 Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier Completions or  
60 Completions have recouped their costs pursuant to Article VI.B.2.; provided further, that any recoupment of costs by a  
61 Consenting Party shall be made solely from the production attributable to the Zone in which the Completion attempt is  
62 made. Election by a previous Non-Consenting party to participate in a subsequent Completion or Recompletion attempt  
63 shall require such party to pay its proportionate share of the cost of salvable materials and equipment installed in the well  
64 pursuant to the previous Completion or Recompletion attempt, insofar and only insofar as such materials and equipment  
65 benefit the Zone in which such party participates in a Completion attempt.

66 Notwithstanding anything to the contrary, including the selection of Option 2 above, or anything else in this agreement, Option  
67 1 shall apply to all Horizontal Wells.

68 **2. Rework, Recomplete or Plug Back:** No well shall be Reworked, Recompleted or Plugged Back except a well Reworked,  
69 Recompleted, or Plugged Back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the Reworking, Recompleting or  
70 Plugging Back of a well shall include all necessary expenditures in conducting such operations and Completing and equipping of said well,  
71 including necessary tankage and/or surface facilities.



**D. Other Operations:**

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \_\_\_\_\_ Dollars (\$ 200,000.00 ) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of \_\_\_\_\_ Dollars (\$ 150,000.00 ). Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 70 % of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

**E. Abandonment of Wells:**

1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession of such well and plug and abandon the well.

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvageable 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 and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvageable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. ~~If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "B."~~ The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.; and provided further, that Non-Consenting Parties who own an interest in a portion of the well shall pay their proportionate shares of abandonment and surface restoration cost for such well as provided in Article VI.B.2.(b).



1 **F. Termination of Operations:**

2 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,  
3 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of  
4 parties bearing 70 % of the costs of such operation; provided, however, that in the event granite or other practically impenetrable  
5 substance or condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and  
6 give notice of such condition in the manner provided in Article VI.B.1, and the provisions of Article VI.B. or VI.E. shall thereafter apply to  
7 such operation, as appropriate.

8 **G. Taking Production in Kind:**

9  **Option No. 1: Gas Balancing Agreement Attached**

10 Each party shall <sup>have the right to</sup> take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the Contract Area,  
11 exclusive of production which may be used in development and producing operations and in preparing and treating Oil and Gas for  
12 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition  
13 by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in  
14 kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

18 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil <sup>and Gas</sup>  
19 produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the  
20 obligation, to purchase such Oil <sup>and Gas</sup> or sell it to others at any time and from time to time, for the account of the non-taking party. Any  
21 such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said  
22 production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to  
23 Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil <sup>and Gas</sup> not previously delivered to a  
24 purchaser. Any purchase or sale by Operator of any other party's share of Oil <sup>and Gas</sup> shall be only for such reasonable periods of time as  
25 are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of  
26 one (1) year.

27 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator shall have no  
28 duty to share any existing market or to obtain a price equal to that received under any existing market. The sale or delivery by  
29 Operator of a non-taking party's share of Oil <sup>and Gas</sup> under the terms of any existing contract of Operator shall not give the non-taking  
30 party any interest in or make the non-taking party a party to said contract. No purchase shall be made by Operator without first  
31 giving the non-taking party at least ten (10) days written notice of such intended purchase and the price to be paid or the pricing  
32 basis to be used.

33 All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding  
34 price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all  
35 marketing arrangements and of volumes actually sold or transported, which records shall be made available to Non-Operators upon  
36 reasonable request.

37 In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines  
38 and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of  
39 total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing  
40 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator  
41 shall give notice to all parties of the first sales of Gas from any well under this agreement.

42  **Option No. 2: No Gas Balancing Agreement:**

43 Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the Contract Area,  
44 exclusive of production which may be used in development and producing operations and in preparing and treating Oil and Gas for  
45 marketing purposes and production unavoidably lost. Any extra expenditures incurred in the taking in kind or separate disposition  
46 by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in  
47 kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

51 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil  
52 and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it,  
53 but not the obligation, to purchase such Oil and/or Gas or sell it to others at any time and from time to time, for the account of the  
54 non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice  
55 to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days  
56 written notice to Operator to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously  
57 delivered to a purchaser, provided, however, that the effective date of any such revocation may be deferred at Operator's election  
58 for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term  
59 extending beyond such ten (10) day period. Any purchase or sale by Operator of any other party's share of Oil and/or Gas shall be  
60 only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular  
61 circumstances, but in no event for a period in excess of one (1) year.

62 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances, but Operator shall have no  
63 duty to share any existing market or transportation arrangement or to obtain a price or transportation fee equal to that received  
64 under any existing market or transportation arrangement. The sale or delivery by Operator of a non-taking party's share of  
65 production under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-  
66 taking party a party to said contract. No purchase of Oil and Gas and no sale of Gas shall be made by Operator without first giving  
67 the non-taking party ten days written notice of such intended purchase or sale and the price to be paid or the pricing basis to be  
68 used. Operator shall give notice to all parties of the first sale of Gas from any well under this Agreement.

69 All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding  
70 price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all  
71 marketing arrangements, and of volumes actually sold or transported, which records shall be made available to Non-Operators  
72 upon reasonable request.



ARTICLE VII.  
EXPENDITURES AND LIABILITY OF PARTIES

**A. Liability of Parties:**

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally, and no party shall have any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation hereunder. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other with respect to activities hereunder.

**B. Liens and Security Interests:**

Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording supplement and/or any financing statement prepared and submitted by any party hereto in conjunction herewith or at any time following execution hereof, and Operator is authorized to file this agreement or the recording supplement executed herewith as a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform Commercial Code in the state in which the Contract Area is situated and such other states as Operator shall deem appropriate to perfect the security interest granted hereunder. Any party may file this agreement, the recording supplement executed herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a financing statement with the proper officer under the Uniform Commercial Code.

Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interests or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest as provided in "Exhibit C," has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.

If any party fails to pay its share of cost within one hundred twenty (120) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each paying party may independently pursue any remedy available hereunder or otherwise.

If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

Each party agrees that the other parties shall be entitled to utilize the provisions of Oil and Gas lien law or other lien law of any state in which the Contract Area is situated to enforce the obligations of each party hereunder. Without limiting the generality of the foregoing, to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due hereunder for services performed or materials supplied by Operator.

**C. Advances:**

Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate



1 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  
 2 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual  
 3 expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

4 **D. Defaults and Remedies:**

5 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to make any  
 6 advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for such payment  
 7 hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the remedies specified below shall be  
 8 applicable. For purposes of this Article VII.D., all notices and elections shall be delivered only by Operator, except that Operator shall  
 9 deliver any such notice and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable  
 10 notices and elections can be delivered by any Non-Operator. Election of any one or more of the following remedies shall not preclude the  
 11 subsequent use of any other remedy specified below or otherwise available to a non-defaulting party.

12 1. Suspension of Rights: Any party may deliver to the party in default a Notice of Default, which shall specify the default,  
 13 specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one or more of the  
 14 remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such Notice of Default, all of the rights  
 15 of the defaulting party granted by this agreement may upon notice be suspended until the default is cured, without prejudice to the right of  
 16 the non-defaulting party or parties to continue to enforce the obligations of the defaulting party previously accrued or thereafter accruing  
 17 under this agreement. If Operator is the party in default, the Non-Operators shall have in addition the right, by vote of Non-Operators  
 18 owning a majority in interest in the Contract Area after excluding the voting interest of Operator, to appoint a new Operator effective  
 19 immediately. The rights of a defaulting party that may be suspended hereunder at the election of the non-defaulting parties shall include,  
 20 without limitation, the right to receive information as to any operation conducted hereunder during the period of such default, the right to  
 21 elect to participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being conducted  
 22 under this agreement even if the party has previously elected to participate in such operation, and the right to receive proceeds of  
 23 production from any well subject to this agreement.

24 2. Suit for Damages: Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint account  
 25 expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default until the date of  
 26 collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from suing any defaulting party to  
 27 collect consequential damages accruing to such party as a result of the default.

28 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the defaulting  
 29 party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in which event if the billing is  
 30 for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a well which is to be or has been plugged as a  
 31 dry hole, or for the Completion or Recompletion of any well, the defaulting party will be conclusively deemed to have elected not to  
 32 participate in the operation and to be a Non-Consenting Party with respect thereto under Article VI.B. or VI.C., as the case may be, to the  
 33 extent of the costs unpaid by such party, notwithstanding any election to participate theretofore made. If election is made to proceed under  
 34 this provision, then the non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

35 Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure its  
 36 default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such payment shall not  
 37 prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the non-defaulting parties as a result of the  
 38 default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the non-defaulting parties in proportion to their  
 39 interests, and the non-defaulting parties electing to participate in the ownership of such interest shall be required to contribute their shares  
 40 of the defaulted amount upon their election to participate therein.

41 4. Advance Payment: If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or Non-  
 42 Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting party of such defaulting party's  
 43 anticipated share of any item of expense for which Operator, or Non-Operators, as the case may be, would be entitled to reimbursement  
 44 under any provision of this agreement, whether or not such expense was the subject of the previous default. Such right includes, but is not  
 45 limited to, the right to require advance payment for the estimated costs of drilling a well or Completion of a well as to which an election to  
 46 participate in drilling or Completion has been made. If the defaulting party fails to pay the required advance payment, the non-defaulting  
 47 parties may pursue any of the remedies provided in this Article VII.D. or any other default remedy provided elsewhere in this agreement.  
 48 Any excess of funds advanced remaining when the operation is completed and all costs have been paid shall be promptly returned to the  
 49 advancing party.

50 5. Costs and Attorneys' Fees: In the event any party is required to bring legal proceedings to enforce any financial obligation of a  
 51 party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of collection, and a reasonable  
 52 attorney's fee, which the lien provided for herein shall also secure.

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

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

61 Operator shall notify Non-Operators of the anticipated completion of a shut-in well, or the shutting in or return to production of  
 62 a producing well, at least five (5) days (excluding Saturday, Sunday, and legal holidays) prior to taking such action, or at the earliest  
 63 opportunity permitted by circumstances, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-  
 64 Operators, the loss of any lease contributed hereto by Non-Operators for failure to make timely payments of any shut-in well payment shall  
 65 be borne jointly by the parties hereto under the provisions of Article IV.B.3.

66 **F. Taxes:**

67 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property  
 68 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they  
 69 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be  
 70 limited to, royalties, overriding royalties and production payments) on Leases and Oil and Gas Interests contributed by such Non-Operator.  
 71 If the assessed valuation of any Lease is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or  
 72 production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such Lease,



1 and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based  
 2 in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges  
 3 to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest.  
 4 Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C."

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

11 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with  
 12 respect to the production or handling of such party's share of Oil and Gas produced under the terms of this agreement.

#### 13 ARTICLE VIII.

#### 14 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

##### 15 A. Surrender of Leases:

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

18 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written  
 19 notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after delivery of  
 20 the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a party to whom such  
 21 notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases described in the notice. If all  
 22 parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its  
 23 interest in such Lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production  
 24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an Oil and Gas Interest,  
 25 the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such Oil  
 26 and Gas Interest for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to  
 27 be on the form attached hereto as Exhibit "B." Upon such assignment or lease, the assigning party shall be relieved from all obligations  
 28 thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable  
 29 thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than  
 30 the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor  
 31 the reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased  
 32 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less the  
 33 estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less than such  
 34 costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the assignment or lease is in  
 35 favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest  
 36 of all such parties. If the interest of the parties to whom the assignment is to be made varies according to depth, then the interest assigned  
 37 shall similarly reflect such variances.

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

##### 42 B. Renewal or Extension of Leases:

43 If any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties  
 44 shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease,  
 45 promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following delivery  
 46 of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease affects lands  
 47 within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost allocated to that part  
 48 of such Lease within the Contract Area, which shall be in proportion to the interest held at that time by the parties in the Contract Area. Each  
 49 party who participates in the purchase of a renewal or replacement Lease shall be given an assignment of its proportionate interest therein  
 50 by the acquiring party.

51 If some, but less than all, of the parties elect to participate in the purchase of a renewal or replacement Lease, it shall be owned  
 52 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the  
 53 Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such  
 54 renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto shall not cause a  
 55 readjustment of the interests of the parties stated in Exhibit "A," but any renewal or replacement Lease in which less than all parties elect to  
 56 participate shall not be subject to this agreement but shall be deemed subject to a separate Operating Agreement in the form of this  
 57 agreement.

58 If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in  
 59 renewal or replacement Leases and their right to receive an assignment of interest shall also reflect such depth variances.

60 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by  
 61 the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the expiration of  
 62 its predecessor Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the existing Lease, shall  
 63 be subject to this provision so long as this agreement is in effect at the time of such acquisition or at the time the renewal or replacement  
 64 Lease becomes effective; but any Lease taken or contracted for more than six (6) months after the expiration of an existing Lease shall not  
 65 be deemed a renewal or replacement Lease and shall not be subject to the provisions of this agreement.

66 The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases.

##### 67 C. Acreage or Cash Contributions:

68 ~~While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other~~  
 69 ~~operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be~~  
 70 ~~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~~  
 71 ~~contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions~~  
 72 ~~said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be~~



~~governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled inside the Contract Area.~~

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

**D. Assignment; Maintenance of Uniform Interest:**

For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other disposition of its interest in the Oil and Gas Leases and Oil and Gas Interests embraced within the Contract Area or in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or
2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production in the Contract Area.

Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and Gas Lease or Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of the transfer of ownership, provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

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

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

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

**F. Preferential Right to Purchase:**

(Optional - Check if applicable)

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description sufficient to identify the property, 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 notice is delivered, to purchase for the stated consideration 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 transfer title to its interest to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests, or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which such party owns a majority of the stock.~~

**ARTICLE IX.**

**INTERNAL REVENUE CODE ELECTION**

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

**ARTICLE X.**

**CLAIMS AND LAWSUITS**

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



1 shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

2 **ARTICLE XI.**  
3 **FORCE MAJEURE**

4 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than  
5 the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of  
6 the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are  
7 affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force  
8 majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war,  
9 blockade, public riot, lightning, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or  
10 inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not  
11 reasonably within the control of the party claiming suspension.

12 The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The  
13 requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or  
14 other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the  
15 discretion of the party concerned.

16 **ARTICLE XII.**  
17 **NOTICES**

18 All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically  
19 provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier or any other form  
20 of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices  
21 permitted by this agreement shall be confirmed immediately thereafter by written notice. The originating notice given under any provision  
22 hereof shall be deemed delivered only when received by the party to whom such notice is directed, and the time for such party to deliver  
23 any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this agreement with  
24 respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in  
25 accordance with this agreement, or to the telecopy, facsimile or telex machine of such party. The second or any responsive notice shall be  
26 deemed delivered when deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex,  
27 telecopy or facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48  
28 hours, such response shall be given orally or by telephone, telex, telecopy or other facsimile within such period. Each party shall have the  
29 right to change its address at any time, and from time to time, by giving written notice thereof to all other parties. If a party is not available  
30 to receive notice orally or by telephone when a party attempts to deliver a notice required to be delivered within 24 or 48 hours, the notice  
31 may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for  
32 any responsive notice.

33 **ARTICLE XIII.**  
34 **TERM OF AGREEMENT**

35 This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for  
36 the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to  
37 any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

38  **Option No. 1:** So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part  
39 of the Contract Area, whether by production, extension, renewal or otherwise

40  **Option No. 2:** In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this  
41 agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this  
42 agreement shall continue in force so long as any such well is capable of production, and for an additional period of 180  
43 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are  
44 engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a  
45 well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production  
46 results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or  
47 any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the  
48 Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging  
49 Back or Reworking operations are commenced within 180 days from the date of abandonment of said well. "Abandonment"  
50 for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the  
51 elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

52 The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any  
53 remedy therefor which has accrued or attached prior to the date of such termination.

54 Upon termination of this agreement and the satisfaction of all obligations hereunder, in the event a memorandum of this  
55 Operating Agreement has been filed of record, Operator is authorized to file of record in all necessary recording offices a notice of  
56 termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon request of Operator, if  
57 Operator has satisfied all its financial obligations.

58 **ARTICLE XIV.**  
59 **COMPLIANCE WITH LAWS AND REGULATIONS**

60 **A. Laws, Regulations and Orders:**

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

64 **B. Governing Law:**

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

69 **C. Regulatory Agencies:**

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



1 or adjacent to the Contract Area.

2 With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries,  
3 claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules,  
4 rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies  
5 to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further  
6 agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that  
7 Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon  
8 owing by Operator as a result of such incorrect interpretation or application.

9 **ARTICLE XV.**

10 **MISCELLANEOUS**

11 **A. Execution:**

12 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by  
13 such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is  
14 tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract  
15 Area. Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any  
16 time prior to the actual spud date of the Initial Well but in no event later than five days prior to the date specified in Article VI.A. for  
17 commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient  
18 participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the  
19 parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other  
20 costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. Except as otherwise provided in Article  
21 IV.B, in the event operations on a well shall be commenced without execution of this agreement by all persons listed on Exhibit "A" as  
22 having a current interest in such well, or in the event that subsequent to the commencement of operations on the well previously unknown  
23 or undisclosed persons owning working interests in a well are discovered, or both, the parties executing this agreement agree to one of the  
24 following:

25  **Option No. 1.** Operator shall indemnify executing Non-Operators with respect to all costs incurred for the well which would  
26 have been charged to each such person under this agreement as if such person had executed the same and Operator shall receive  
27 all revenues which would have been received by each such person under this agreement as if such person had executed the same.

28  **Option No. 2.** The Operator shall advise all parties of the total interest of the parties that have executed this agreement. Each  
29 party executing this agreement, within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery  
30 of such notice, shall advise the Operator of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or  
31 (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interest of all  
32 parties executing this agreement) of non-executing persons' interests, or (iii) carry its proportionate part (determined as provided  
33 in (ii)) of non-executing persons' interests together with all or a portion of its proportionate part of any non-executing persons  
34 interests that any executing party did not elect to take. Any interest of non-executing persons that is not carried by an executing  
35 party shall be deemed to be carried by the Operator. Failure to advise the Operator within the time required shall be deemed an  
36 election under (i).

37 **B. Successors and Assigns:**

38 This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal  
39 representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the  
40 Contract Area.

41 **C. Counterparts:**

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

43 **D. Severability:**

44 For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws, this  
45 agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this agreement to  
46 comply with all of its financial obligations provided herein shall be a material default.

ARTICLE XVI.  
OTHER PROVISIONS

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A. Costs Associated With Hearings:

Should it be necessary to conduct hearings before governmental agencies for the securing of spacing or pooling orders, or for certifying new gas, the costs attributed to such hearings as well as fees paid attorneys and witnesses, shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A".

B. Superseded Agreements:

This Operating Agreement dated, August 1, 2020, shall supersede in its entirety any and all previous Joint Operating Agreements pertaining to or covering any portion of the Contract Area during the period this Operating Agreement is in force and effect. Should this Joint Operating Agreement expire under its own terms for any reason, any portion of the Contract Area previously subject to a JOA shall be governed by the terms of that previous JOA.

C. Replacement Exhibit "A":

Exhibit "A" may be amended from time to time to reflect re-calculation of interests based upon uncommitted interests, differences in parties to the agreement and/or their respective addresses and changes in interests or parties based upon the title examination by Operator. Operator will circulate a replacement Exhibit "A" reflecting an effective date and any such changes. Non-Operator shall have fifteen (10) days to dispute.

D. Excluded Wellbores:

This Operating Agreement specifically excludes existing wellbores, associated equipment, associated production including the operation of such wells existing as of the date of this Operating Agreement whether or not such wellbores are producing, shut-in or otherwise temporarily abandoned.

E. Cash Call:

Operator shall have the right, as its discretion, but no sooner than thirty (30) days of operations, to require, as a condition for participation under the terms of this Agreement, prepayment of all costs, including dry hole costs, recompletion costs or costs associated with remedial work, based on an Authority for Expenditure for any well drilled on the Contract Area. Failure by any party to remit its proportionate part of the above referenced prepayment to Operator within thirty (30) days receipt of notice of the required prepayment shall be deemed an election by such party not to participate in the costs of the proposed operation, and thereafter, the proposed operation shall be conducted under Article VI.B.2. of this Agreement.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989 (Horz.)

IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of August, 2020

1 \_\_\_\_\_, who has prepared and circulated this form for execution, represents and warrants  
2  
3 that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form Operating  
4 Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made  
5 by strikethrough and/or insertion and that are clearly recognizable as changes in Articles \_\_\_\_\_  
6 have been made to the form.  
7  
8

9  
10 ATTEST OR WITNESS:

OPERATOR  
MEWBOURNE OIL COMPANY

11 \_\_\_\_\_  
12  
13 By \_\_\_\_\_

14  
15 Jonathan White  
16 Type or print name

17  
18 Title Attorney-in-Fact

19  
20 Date \_\_\_\_\_

21  
22 Tax ID or S.S. No. 75-1254872  
23  
24

25  
26 NON-OPERATORS

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28  
29 \_\_\_\_\_  
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31 By \_\_\_\_\_

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33 \_\_\_\_\_  
34 Type or print name

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36 Title \_\_\_\_\_

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38 Date \_\_\_\_\_

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40 Tax ID or S.S. No. \_\_\_\_\_  
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64 Type or print name

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66 Title \_\_\_\_\_

67  
68 Date \_\_\_\_\_

69  
70 Tax ID or S.S. No. \_\_\_\_\_  
71  
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ACKNOWLEDGMENTS

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

Individual acknowledgment:

State of \_\_\_\_\_ )
) ss.
County of \_\_\_\_\_ )

This instrument was acknowledged before me on

\_\_\_\_\_ by \_\_\_\_\_

(Seal, if any)

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

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

Acknowledgment in representative capacity:

State of Texas )
) ss.
County of Smith )

This instrument was acknowledged before me on

\_\_\_\_\_ by Jonathan White \_\_\_\_\_ as
Attorney-in-Fact of Mewbourne Oil Company, a Delaware corporation on behalf of said corporation

(Seal, if any)

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

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

Acknowledgment in representative capacity:

State of \_\_\_\_\_ )
) ss.
County of \_\_\_\_\_ )

This instrument was acknowledged before me on

\_\_\_\_\_ by \_\_\_\_\_ as
\_\_\_\_\_ of \_\_\_\_\_

(Seal, if any)

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

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

Acknowledgment in representative capacity:

State of \_\_\_\_\_ )
) ss.
County of \_\_\_\_\_ )

This instrument was acknowledged before me on

\_\_\_\_\_ by \_\_\_\_\_ as
\_\_\_\_\_ of \_\_\_\_\_

(Seal, if any)

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

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

**EXHIBIT "A"**

Attached to and made a part of that certain Operating Agreement dated August 1, 2020, by and between MEWBOURNE OIL COMPANY as Operator and CHEVRON U.S.A. INC., et al, as Non-Operators.

1. LANDS SUBJECT TO THIS AGREEMENT:

Township 20 South, Range 36 East, N.M.P.M., Lea County, New Mexico

Section 31: All            Section 32: S2

Township 21 South, Range 35 East, N.M.P.M., Lea County, New Mexico

Section 4: All            Section 5: All            Section 6: E2  
Section 7: E2            Section 8: All            Section 9: All  
Section 16: All            Section 17: All            Section 18: E2  
Section 20: All            Section 21: All            Section 22: All  
Section 27: All            Section 28: All            Section 29: N2  
Section 33: All            Section 34: All

Township 22 South, Range 35 East, N.M.P.M., Lea County, New Mexico

Section 3: All            Section 4: All            Section 10: W2  
Section 15: W2

containing 13,269.79 acres, more or less

2. DEPTH RESTRICTIONS AND EXCLUSIONS:

Limited to the Bone Spring and Wolfcamp formations.

3. ADDRESSES OF THE PARTIES:

Mewbourne Oil Company  
500 West Texas, Suite 1020  
Midland, Texas 79701  
Attn: Land Department  
Phone: (432) 682-3715

Chevron U.S.A. Inc.  
1400 Smith Street  
Houston, Texas 77002

Forty Acres Energy LLC  
11757 Katy Freeway, #1000  
Houston, Texas 77079

Devon Energy Production Company, LP  
333 W. Sheridan Ave.  
Oklahoma City, OK 73102

Kaiser-Francis Oil Company  
6733 South Yale Ave  
Tulsa, Oklahoma 74136

Marathon Oil Permian LLC  
5555 San Felipe Street  
Houston, Texas 77056

OXY USA WTP Limited Partnership  
5 Greenway Plaza, Suite 110  
Houston, Texas 77056

ZPZ Delaware I LLC  
2000 Post Oak Blvd., Suite 100  
Houston, Texas 77056

Ascent Energy, LLC  
1125 17th St, Suite 410  
Denver, Colorado 80202

Legacy Reserves Operating, LP  
303 W. Wall St., Suite 1800  
Midland, Texas 79701

HNG Oil Company  
5509 Champions Dr.  
Midland, Texas 79706

EOG Resources, Inc.  
5509 Champions Dr.  
Midland, Texas 79706

COG Operating LLC  
600 W. Illinois Ave.  
Midland, Texas 79701

COG Exchange Properties II, LLC  
600 W. Illinois Ave.  
Midland, Texas 79701

Range Resources Inc.  
100 Throckmorton Street, Suite 1200  
Fort Worth, Texas 76102

Apache Corporation  
2000 Post Oak Blvd., Suite 100  
Houston, Texas 77056

ConocoPhillips Company

Samson Resources Company



925 N. Eldridge Parkway  
Houston, Texas 77079

Cimarex Energy Co.  
600 N. Marienfeld St., Suite 600  
Midland, Texas 79701

McCombs Energy, Ltd.  
750 E. Mulberry Ave., Suite 403  
San Antonio, Texas 78212

Chisholm Energy Operating, LLC  
801 Cherry St., Suite 1200-Unit 20  
Fort Worth, Texas 76102

Leaco New Mexico Exploration & Production LLC  
2000 Post Oak Blvd., Suite 100  
Houston, Texas 77056

Chisholm Energy Holdings, LLC  
801 Cherry St., Suite 1200-Unit 20  
Fort Worth, Texas 76102

Magnum Hunter Production, Inc.  
600 N. Marienfeld St., Suite 600  
Midland, Texas 79701

Veritas MOC Resources LLC  
P.O. Box 10850  
Fort Worth, Texas 76114

Arcadia Resources, L.P.  
303 NW 63<sup>rd</sup> St.  
Oklahoma City, OK 73116  
Attn: Land Manager

Penroc Oil Corporation  
1515 W. Calle Sur., Suite 174  
Hobbs, New Mexico 77046

Zorro Partners  
616 Texas St.  
Fort Worth, Texas 76102

Steven D. Wentworth  
1111 Bagby Sky, Lobby 2  
Houston, Texas 77002

John R. Bryant  
6624 Whispering Woods Ct.  
Plano, Texas 75024-7440

Finley Resources  
P.O. Box 2200  
Fort Worth, Texas 76113

Petraitis Oil & Gas  
P.O. Box 10886  
Midland, Texas 79702

Joe R. Wright  
393 Calle Colina  
Santa Fe, New Mexico 87501

15 East 5<sup>th</sup> Street, Suite 1000  
Tulsa, Oklahoma 74103

Me-Tex Oil & Gas Inc.  
119 E Bender Blvd  
Hobbs, New Mexico 88240

BWB Partners I  
500 West Texas, Suite 1425  
Midland, Texas 79701

Crescent Porter Hale Foundation  
1660 Bush Street, Suite 300  
San Francisco, California 90109

Partnership Properties Company  
717 17th St.  
Denver, Colorado 80201

H&L Exploration & Production Co., LLC  
P.O. Box 10850  
Fort Worth, Texas 76114

TLW Investments, Inc.  
1001 Fannin, Suite 2020  
Houston, Texas 77002

Petro-Quest Exploration  
P.O. Box 10016  
Midland, Texas 79702

Javelina Partners  
616 Texas St.  
Fort Worth, Texas 76102

S.E.S. Oil & Gas  
214 W. Texas, Suite 900  
Midland, Texas 79701

Manta Oil & Gas  
190 E. Stacy Rd, Box 306-373  
Allen, Texas 75002

Campbell Investment Company  
P.O. Box 3854  
Roswell, New Mexico 88202

OXY Y-1 Company  
5 Greenway Plaza, Suite 110  
Houston, Texas 77046

Tim MacDonald  
3017 Avenue O  
Galveston, Texas 77550-6847

Maverick Oil & Gas Corporation  
1001 W. Wall St.  
Midland, Texas 79701

4. PERCENTAGES OF THE PARTIES:

Working Interest Owner

Initial, Substitute and Subsequent Wells

\*Interest TBD after final elections are made.

5. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

See Exhibit "B" on the Unit Agreement State Form.

6. BURDENS ON PRODUCTION:

Burdens of record as of the effective date of this Agreement.

End of Exhibit "A"



**EXHIBIT "B"**

(THERE IS NO EXHIBIT "B" TO THIS AGREEMENT)



## Exhibit " C "

### ACCOUNTING PROCEDURE JOINT OPERATIONS

1 Attached to and made part of that certain Operating Agreement dated August 1, 2020 between MEWBOURNE OIL COMPANY, as  
2 Operator and CHEVRON U.S.A. INC., et al. as Non-Operators.  
3 \_\_\_\_\_  
4 \_\_\_\_\_  
5 \_\_\_\_\_

#### I. GENERAL PROVISIONS

8 IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE  
9 COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE  
10 BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.

12 IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE  
13 PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT  
14 FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT  
15 OF THE PARTIES IN SUCH EVENT.

#### 1. DEFINITIONS

18 All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

21 "Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this  
22 definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities  
23 of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an  
24 individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.

26 "Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting  
27 Procedure is attached.

29 "Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified  
30 in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

32 "Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest  
33 Railway Receiving Point to the property.

35 "Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

37 "Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is  
38 to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable  
39 field personnel.

41 "First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's  
42 field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may  
43 include, but are not limited to:

- 45 • Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance,  
46 construction, well remedial work, equipment movement and drilling
- 47 • Responsibility for day-to-day direct oversight of rig operations
- 48 • Responsibility for day-to-day direct oversight of construction operations
- 49 • Coordination of job priorities and approval of work procedures
- 50 • Responsibility for optimal resource utilization (equipment, Materials, personnel)
- 51 • Responsibility for meeting production and field operating expense targets
- 52 • Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental  
53 part of the supervisor's operating responsibilities
- 54 • Responsibility for all emergency responses with field staff
- 55 • Responsibility for implementing safety and environmental practices
- 56 • Responsibility for field adherence to company policy
- 57 • Responsibility for employment decisions and performance appraisals for field personnel
- 58 • Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group  
59 or team leaders.

61 "Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be  
62 shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.

64 "Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection,  
65 maintenance, repair, abandonment, and restoration of the Joint Property.



1 "Joint Property" means the real and personal property subject to the Agreement.

2  
3 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other  
4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions  
5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,  
6 promulgated or issued.

7  
8 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

9  
10 "Non-Operators" means the Parties to the Agreement other than the Operator.

11  
12 "Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and  
13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,  
14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of  
15 offshore operations, all of which are located offshore.

16  
17 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.

18  
19 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of  
20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other  
21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.

22  
23 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.

24  
25 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as  
26 "Party."

27  
28 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,  
29 or is otherwise obligated, to pay and bear.

30  
31 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of  
32 the costs and risks of conducting an operation under the Agreement.

33  
34 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.

35  
36 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual  
37 railhead may not exist.

38  
39 "Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a  
40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,  
41 scheduling and dispatching center, and other associated functions serving the Joint Property.

42  
43 "Supply Store" means a recognized source or common stock point for a given Material item.

44  
45 "Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by  
46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint  
47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second  
48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-  
49 Operator, Non-Operator Affiliates, and/or third parties.

## 50 51 2. STATEMENTS AND BILLINGS

52  
53 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the  
54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all  
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified  
56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.  
57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.

58  
59 The Operator may make available to Non-Operators any statements and bills required under Section 1.2 and/or Section 1.3.A (*Advances*  
60 *and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper  
61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and  
62 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of  
63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via  
64 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings  
65 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written  
66 notice to the Operator.

1   **3. ADVANCES AND PAYMENTS BY THE PARTIES**

2  
3    A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated  
4    cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of  
5    the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances  
6    received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the  
7    subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator  
8    shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.

9  
10   B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If  
11   payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the  
12   *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum  
13   contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court  
14   costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or  
15   discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the  
16   Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment  
17   was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed.  
18   Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the  
19   Operator at the time payment is made, to the extent such reduction is caused by:

- 20  
21   (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working  
22   interest or Participating Interest, as applicable; or  
23   (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved  
24   or is not otherwise obligated to pay under the Agreement; or  
25   (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has  
26   furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator  
27   shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty  
28   (30) day period following the Operator's receipt of such written notice; or  
29   (4) charges outside the adjustment period, as provided in Section 1.4 (*Adjustments*).

30  
31   **4. ADJUSTMENTS**

32  
33   A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof, however, all bills  
34   and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct,  
35   with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said  
36   period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response  
37   to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section 1.5 (*Expenditure*  
38   *Audits*).

39  
40   B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section 1.4.B, are limited to the  
41   twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared  
42   on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month  
43   period are limited to adjustments resulting from the following:

- 44  
45   (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or  
46   (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the  
47   Operator relating to another property, or  
48   (3) a government/regulatory audit, or  
49   (4) a working interest ownership or Participating Interest adjustment.

50  
51   **5. EXPENDITURE AUDITS**

52  
53   A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's  
54   accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in  
55   which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the  
56   adjustment of accounts as provided for in Section 1.4 (*Adjustments*). Any Party that is subject to payout accounting under the  
57   Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of  
58   the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the  
59   volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting  
60   required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the  
61   twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

62  
63   Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a  
64   manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators'  
65   audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year  
66   without prior approval of the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of



1 those Non-Operators approving such audit.

2  
3 The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after  
4 completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month  
5 requirement for taking specific detailed written exception as required in Section 1.4.A (*Adjustments*) above. All claims shall be  
6 supported with sufficient documentation.

7  
8 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to  
9 the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator  
10 hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to  
11 comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with  
12 the additional deadlines in Section 1.5.B or 1.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against  
13 the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations,  
14 provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section 1.5.B or  
15 1.5.C.

16  
17 B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator  
18 receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive  
19 response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion  
20 thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section  
21 1.3.B (*Advances and Payments by the Parties*).

22  
23 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator  
24 shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator  
25 shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not  
26 adequately fulfilling its duties. Unless otherwise provided for in Section 1.5.E, if the Operator fails to provide substantive response  
27 to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately  
28 granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and  
29 Payments by the Parties*).

30  
31 D. If any Party fails to meet the deadlines in Sections 1.5.B or 1.5.C or if any audit issues are outstanding fifteen (15) months after  
32 Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution  
33 meeting, as set forth in this Section 1.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable.  
34 The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting  
35 shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with  
36 authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution  
37 reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the  
38 Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself.  
39 Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information  
40 supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may  
41 be discussed at subsequent meetings until each such issue is resolved.

42  
43 If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall  
44 be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute  
45 shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present  
46 at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to  
47 ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any  
48 Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60)  
49 days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other  
50 provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or  
51 to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

52  
53 E.  (*Optional Provision – Forfeiture Penalties*)

54 *If the Non-Operators fail to meet the deadline in Section 1.5.C, any unresolved exceptions that were not addressed by the Non-*  
55 *Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been*  
56 *withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section 1.5.B or 1.5.C, any unresolved exceptions that*  
57 *were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response*  
58 *of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made,*  
59 *without interest, to the Joint Account.*

## 60 61 6. APPROVAL BY PARTIES

### 62 63 A. GENERAL MATTERS

64  
65 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting  
66 Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the

1 Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the  
2 Non-Operators shall be controlling on all Non-Operators.

3  
4 This Section 1.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from  
5 that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are  
6 covered by Section 1.6.B.

7  
8 **B. AMENDMENTS**

9  
10 If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting  
11 Procedure can be amended by an affirmative vote of two (2) or more Parties, one of which is the Operator,  
12 having a combined working interest of at least seventy percent (70 %), which approval shall be binding on all Parties,  
13 provided, however, approval of at least one (1) Non-Operator shall be required.

14  
15 **C. AFFILIATES**

16  
17 For the purpose of administering the voting procedures of Sections 1.6.A and 1.6.B, if Parties to this Agreement are Affiliates of each  
18 other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating  
19 Interest of such Affiliates.

20  
21 For the purposes of administering the voting procedures in Section 1.6.A, if a Non-Operator is an Affiliate of the Operator, votes  
22 under Section 1.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's  
23 Affiliate.

24  
25 **II. DIRECT CHARGES**

26  
27 The Operator shall charge the Joint Account with the following items:

28  
29 **1. RENTALS AND ROYALTIES**

30  
31 Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations.

32  
33 **2. LABOR**

34  
35 **A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive  
36 Compensation Programs"), for**

- 37  
38 (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,  
39  
40 (2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint  
41 Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) or are not a  
42 function covered under Section III (*Overhead*),  
43  
44 (3) Operator's employees providing First Level Supervision,  
45  
46 (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the  
47 overhead rates in Section III (*Overhead*),  
48  
49 (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the  
50 overhead rates in Section III (*Overhead*).

51  
52 Charges for the Operator's employees identified in Section II.2.A may be made based on the employee's actual salaries and wages,  
53 or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.

54  
55 Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid  
56 to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section  
57 1.6.A (*General Matters*).

58  
59 **B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees whose  
60 salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or other termination  
61 allowances. Such costs under this Section II.2.B may be charged on a "when and as-paid basis" or by "percentage assessment" on the  
62 amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If percentage assessment is used, the rate shall  
63 be based on the Operator's cost experience.**

64  
65 **C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to costs  
66 chargeable to the Joint Account under Sections II.2.A and B.**



- 1 D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the  
2 expenses are incurred in connection with directly chargeable activities.  
3
- 4 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the  
5 Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a  
6 Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation  
7 costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the  
8 Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).  
9
- 10 F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and  
11 wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal  
12 Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly  
13 benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are  
14 available.  
15
- 16 G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable  
17 to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account  
18 under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most  
19 recently recommended by COPAS.  
20
- 21 H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose  
22 salaries and wages are chargeable under Section II.2.A.  
23

### 24 3. MATERIAL

25  
26 Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section  
27 IV (*Material Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as  
28 may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation  
29 of surplus stocks shall be avoided.  
30

### 31 4. TRANSPORTATION

32  
33 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.  
34

35 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point  
36 to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material  
37 from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the  
38 methods listed below:  
39

40 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a  
41 theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per  
42 hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall  
43 consistently apply the selected alternative.  
44

45 (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial  
46 charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged  
47 directly to the Joint Property and shall not be included when calculating the Equalized Freight.  
48

### 49 5. SERVICES

50  
51 The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and  
52 utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to  
53 contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").  
54

55 The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).  
56

### 57 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

58  
59 In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:  
60

61 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to  
62 production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership  
63 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who  
64 are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense,  
65 insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation  
66 not to exceed \_\_\_\_\_ ten \_\_\_\_\_ percent (\_\_\_\_ 10 \_\_\_\_%) per annum; provided, however, depreciation shall not be charged when the

1 equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for  
2 abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the  
3 immediate area of the Joint Property.

- 4  
5 B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area  
6 of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall  
7 adequately document and support commercial rates and shall periodically review and update the rate and the supporting  
8 documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport  
9 Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

10  
11 **7. AFFILIATES**

- 12  
13 A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators  
14 may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are  
15 specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed  
16 to such individual project do not exceed \$ 100,000.00. If the total costs for an Affiliate's goods and services charged to such  
17 individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such  
18 Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

- 19  
20 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators,  
21 charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the  
22 charges exceed \$ 100,000.00 in a given calendar year.

- 23  
24 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property,  
25 unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support  
26 commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however,  
27 documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or  
28 charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for  
29 Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).

30  
31 If the Parties fail to designate an amount in Sections II.7.A or II.7.B, in each instance the amount deemed adopted by the Parties as a  
32 result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement  
33 does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be  
34 zero dollars (\$0.00).

35  
36 **8. DAMAGES AND LOSSES TO JOINT PROPERTY**

37  
38 All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the  
39 extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties  
40 shall be solely liable.

41  
42 The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been  
43 received by the Operator.

44  
45 **9. LEGAL EXPENSE.**

46  
47 Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, and liens incurred in or resulting from  
48 operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement. Costs  
49 of the Operator's or Affiliate's legal staff or outside attorneys, including fees and expenses, are not chargeable unless approved by the  
50 Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.

51  
52 Notwithstanding the foregoing paragraph, costs for procuring abstracts, fees paid to outside attorneys for title examinations (including  
53 preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent  
54 permitted as a direct charge in the Agreement.

55  
56  
57 **10. TAXES AND PERMITS**

58  
59 All taxes and permitting fees of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production  
60 therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the  
61 penalties and interest result from the Operator's gross negligence or willful misconduct.

62  
63 If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then  
64 notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's  
65 working interest.



1 Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other  
2 tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

3  
4 Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted,  
5 provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for  
6 tax charges and to determine that the correct amount of taxes were charged to the Joint Account. If the Non-Operator is not permitted to  
7 review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the  
8 amount owed by the Joint Account.

#### 10 11. INSURANCE

11  
12 Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are  
13 conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation and employer's liability insurance  
14 obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the  
15 jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the manual rates of the adjacent state shall be  
16 used for personnel performing work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and  
17 Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

#### 19 12. COMMUNICATIONS

20  
21 Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio  
22 and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance  
23 with the provisions of COPAS MFI-44 ("Field Computer and Communication Systems"). If the communications facilities or systems  
24 serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and*  
25 *Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's  
26 Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator  
27 shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting  
28 documentation.

#### 30 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

31  
32 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by  
33 Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for  
34 ecological, environmental and safety matters, including management, administration, and permitting, shall be covered by Sections II.2  
35 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as applicable.

36  
37 Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting  
38 responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution  
39 containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

#### 41 14. ABANDONMENT AND RECLAMATION

42  
43 Costs incurred for abandonment and reclamation of the Joint Property, including costs required by lease agreements or by Laws.

#### 45 15. OTHER EXPENDITURES

46  
47 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III  
48 (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the  
49 Joint Operations. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

### 52 III. OVERHEAD

53  
54 As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section II (*Direct Charges*), the Operator  
55 shall charge the Joint Account in accordance with this Section III.

56  
57 Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates or third parties and regardless  
58 of location, shall include, but not be limited to, costs and expenses of:

- 59 • warehousing, other than for warehouses that are jointly owned under this Agreement
- 60 • design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A(ii), and III.2, Option B)
- 61 • inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
- 62 • procurement
- 63 • administration
- 64 • accounting and auditing
- 65 • gas dispatching and gas chart integration
- 66

- 1 • human resources
- 2 • management
- 3 • supervision not directly charged under Section II.2 (*Labor*)
- 4 • legal services not directly chargeable under Section II.9 (*Legal Expense*)
- 5 • taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- 6 • preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings with
- 7 governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site inspections; reviewing,
- 8 interpreting, or submitting comments on or lobbying with respect to Laws or proposed Laws.

9  
10 Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel performing  
11 overhead functions, as well as office and other related expenses of overhead functions.

12  
13 **I. OVERHEAD—DRILLING AND PRODUCING OPERATIONS**

14  
15 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other provisions of this  
16 Section III, the Operator shall charge on either:

- 17  
18  (Alternative 1) Fixed Rate Basis, Section III.1.B.  
19  (Alternative 2) Percentage Basis, Section III.1.C.

20  
21 **A. TECHNICAL SERVICES**

22  
23 (i) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major*  
24 *Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages,  
25 related payroll burdens and benefits, and Personal Expenses for **On-site** Technical Services, including third party Technical  
26 Services:

- 27  
28  (Alternative 1 – Direct) shall be charged direct to the Joint Account.  
29  
30  (Alternative 2 – Overhead) shall be covered by the overhead rates.

31  
32 (ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major*  
33 *Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages,  
34 related payroll burdens and benefits, and Personal Expenses for **Off-site** Technical Services, including third party Technical  
35 Services:

- 36  
37  (Alternative 1 – All Overhead) shall be covered by the overhead rates.  
38  
39  (Alternative 2 – All Direct) shall be charged direct to the Joint Account.  
40  
41  (Alternative 3 – Drilling Direct) shall be charged direct to the Joint Account, only to the extent such Technical Services  
42 are directly attributable to drilling, re-drilling, deepening, or sidetracking operations, through completion, temporary  
43 abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover,  
44 recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section  
45 III.2 (*Overhead - Major Construction and Catastrophe*) shall be covered by the overhead rates.

46  
47 Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are subject to limitations  
48 set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical work shall not be governed by this Section  
49 III.1.A, but instead governed by other provisions of this Accounting Procedure relating to the type of work being performed.

50  
51 **B. OVERHEAD—FIXED RATE BASIS**

52  
53 (1) The Operator shall charge the Joint Account at the following rates per well per month:

54  
55 Drilling Well Rate per month \$ 8,000.00 (prorated for less than a full month)

56  
57 Producing Well Rate per month \$ 800.00

58  
59 (2) Application of Overhead—Drilling Well Rate shall be as follows:

60  
61 (a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or completion  
62 equipment used on the well is released, whichever occurs later. Charges for offshore and inland waters drilling wells shall  
63 begin on the date the drilling or completion equipment arrives on location and terminate on the date the drilling or completion  
64 equipment moves off location, or is released, whichever occurs first. No charge shall be made during suspension of drilling  
65 and/or completion operations for fifteen (15) or more consecutive calendar days.  
66



- 1 (b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more  
2 consecutive work-days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date  
3 operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges  
4 shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.  
5  
6 (3) Application of Overhead—Producing Well Rate shall be as follows:  
7  
8 (a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for  
9 any portion of the month shall be considered as a one-well charge for the entire month.  
10  
11 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is  
12 considered a separate well by the governing regulatory authority.  
13  
14 (c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well,  
15 unless the Drilling Well Rate applies, as provided in Sections III.B.(2)(a) or (b). This one-well charge shall be made whether  
16 or not the well has produced.  
17  
18 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall  
19 be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.  
20  
21 (e) Any well not meeting the criteria set forth in Sections III.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead  
22 charge.  
23  
24 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided,  
25 however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the  
26 rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment  
27 shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or  
28 amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the  
29 effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").  
30

31 ~~C—OVERHEAD—PERCENTAGE BASIS~~

32  
33 ~~(1)—Operator shall charge the Joint Account at the following rates:~~

- 34  
35 ~~(a) Development Rate \_\_\_\_\_ percent (\_\_\_\_%) of the cost of development of the Joint Property, exclusive of costs~~  
36 ~~provided under Section II.9 (Legal Expense) and all Material salvage credits;~~  
37  
38 ~~(b) Operating Rate \_\_\_\_\_ percent (\_\_\_\_%) of the cost of operating the Joint Property, exclusive of costs~~  
39 ~~provided under Sections II.1 (Rentals and Royalties) and II.9 (Legal Expense); all Material salvage credits; the value~~  
40 ~~of substances purchased for enhanced recovery; all property and ad valorem taxes; and any other taxes and assessments that~~  
41 ~~are levied, assessed, and paid upon the mineral interest in and to the Joint Property;~~  
42

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

44  
45 ~~(a) The Development Rate shall be applied to all costs in connection with:~~

- 46  
47 ~~[i]—drilling, redrilling, sidetracking, or deepening of a well~~  
48 ~~[ii]—a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-days~~  
49 ~~[iii]—preliminary expenditures necessary in preparation for drilling~~  
50 ~~[iv]—expenditures incurred in abandoning when the well is not completed as a producer~~  
51 ~~[v]—construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a~~  
52 ~~fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (Overhead—Major Construction~~  
53 ~~and Catastrophe);~~  
54

55 ~~(b) The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2~~  
56 ~~(Overhead—Major Construction and Catastrophe).~~  
57

58 **2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE**

59  
60 To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator  
61 shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following  
62 rates for any Major Construction project in excess of the Operator's expenditure limit under the Agreement, or for any Catastrophe  
63 regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major  
64 Construction Overhead shall be assessed for any single Major Construction project costing in excess of \$100,000 gross.  
65  
66

1 Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly  
2 discernible as a fixed asset required for the development and operation of the Joint Property, or in the dismantlement, abandonment,  
3 removal, and restoration of platforms, production equipment, and other operating facilities.

4  
5 Catastrophe is defined as a sudden calamitous event bringing damage, loss, or destruction to property or the environment, such as an oil  
6 spill, blowout, explosion, fire, storm, hurricane, or other disaster. The overhead rate shall be applied to those costs necessary to restore the  
7 Joint Property to the equivalent condition that existed prior to the event.

8  
9 A. If the Operator absorbs the engineering, design and drafting costs related to the project:

10  
11 (1)  5  % of total costs if such costs are less than \$100,000; plus

12  
13 (2)  3  % of total costs in excess of \$100,000 but less than \$1,000,000; plus

14  
15 (3)  2  % of total costs in excess of \$1,000,000.

16  
17 B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

18  
19 (1)  5  % of total costs if such costs are less than \$100,000; plus

20  
21 (2)  3  % of total costs in excess of \$100,000 but less than \$1,000,000; plus

22  
23 (3)  2  % of total costs in excess of \$1,000,000.

24  
25 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single Major  
26 Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping  
27 units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each  
28 single occurrence or event.

29  
30 On each project, the Operator shall advise the Non-Operator(s) in advance which of the above options shall apply.

31  
32 For the purposes of calculating Catastrophe Overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations  
33 directly resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by salvage or  
34 insurance recoveries. Expenditures that qualify for Major Construction or Catastrophe Overhead shall not qualify for overhead under any  
35 other overhead provisions.

36  
37 In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7  
38 (*Affiliates*), the provisions of this Section III.2 shall govern.

### 39 40 3. AMENDMENT OF OVERHEAD RATES

41  
42 The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient  
43 or excessive, in accordance with the provisions of Section I.6.B (*Amendments*).

## 44 45 IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

46  
47 The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and  
48 dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-  
49 Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality,  
50 fitness for use, or any other matter.

### 51 52 53 I. DIRECT PURCHASES

54  
55 Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The  
56 Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to  
57 the extent such failure was the result of the Operator's gross negligence or willful misconduct. A direct purchase shall be deemed to occur  
58 when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location.  
59 Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material  
60 does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective  
61 or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60)  
62 days after the Operator has received adjustment from the manufacturer, distributor, or agent.



1   **2. TRANSFERS**

2  
3   A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or from another operated property, (ii) has  
4   assumed liability for the storage costs and changes in value, and (iii) has previously secured and held title to the transferred Material.  
5   Similarly, the removal of Material from the Joint Property to a storage facility or to another operated property is also considered a transfer,  
6   provided, however, Material that is moved from the Joint Property to a storage location for safe-keeping pending disposition may remain  
7   charged to the Joint Account and is not considered a transfer. Material shall be disposed of in accordance with Section IV.3 (*Disposition of*  
8   *Surplus*) and the Agreement to which this Accounting Procedure is attached.

9  
10   **A. PRICING**

11  
12   The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer.  
13   Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the  
14   Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator  
15   shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or  
16   sized tubulars are approved by the Parties pursuant to Section 1.6.A (*General Matters*). Transfers of new Material will be priced  
17   using one of the following pricing methods, provided, however, the Operator shall use consistent pricing methods, and not alternate  
18   between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer.

- 19  
20   (1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM)  
21   or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).  
22  
23       (a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices (Houston,  
24       Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in Section IV.2.B (*Freight*).  
25  
26       (b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a Supply  
27       Store nearest the Joint Property where like Material is normally available, or point of manufacture plus transportation  
28       costs as defined in Section IV.2.B (*Freight*).  
29  
30   (2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.  
31  
32   (3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous twelve (12)  
33   months from the date of physical transfer.  
34  
35   (4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties owning the  
36   Material for Material being transferred from the Joint Property.

37  
38   **B. FREIGHT**

39  
40   Transportation costs shall be added to the Material transfer price using the method prescribed by the COPAS Computerized  
41   Equipment Pricing System (CEPS). If not using CEPS, transportation costs shall be calculated as follows:

- 42  
43   (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the  
44   Railway Receiving Point based on the carload weight basis as recommended by the COPAS MF1-38 ("Material Pricing  
45   Manual") and other COPAS MFIs in effect at the time of the transfer.  
46  
47   (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point.  
48   For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs  
49   for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway  
50   Receiving Point.  
51  
52   (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the  
53   Railway Receiving Point.  
54  
55   (4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the  
56   Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point

57  
58   Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the Railway Receiving Point  
59   to the Joint Property are in addition to the foregoing, and may be charged to the Joint Account based on actual costs incurred. All  
60   transportation costs are subject to Equalized Freight as provided in Section II.4 (*Transportation*) of this Accounting Procedure.

61  
62   **C. TAXES**

63  
64   Sales and use taxes shall be added to the Material transfer price using either the method contained in the COPAS Computerized  
65   Equipment Pricing System (CEPS) or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either  
66   case, the Joint Account shall be charged or credited at the rate that would have governed had the Material been a direct purchase.

1 D. CONDITION  
2

3 (1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%)  
4 of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the  
5 Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused  
6 Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original  
7 cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be  
8 credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties  
9 owning such Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the  
10 Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property.  
11 The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material  
12 charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal  
13 or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material  
14 for the receiving property.  
15

16 (2) Condition "B" – Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced  
17 by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by seventy-five percent  
18 (75%).  
19

20 Except as provided in Section IV.2.D(3), all reconditioning costs required to return the Material to Condition "B" or to correct  
21 handling, transportation or other damages will be borne by the divesting property.  
22

23 If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the  
24 Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) multiplied  
25 by sixty-five percent (65%).  
26

27 Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property that was  
28 not placed in service on the property shall be credited as charged without gain or loss.  
29

30 (3) Condition "C" – Material that is not in sound and serviceable condition and not suitable for its original function until after  
31 reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C  
32 (*Taxes*) by fifty percent (50%).  
33

34 The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of  
35 reconditioning, does not exceed Condition "B" value.  
36

37 (4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is  
38 obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for  
39 items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be  
40 priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line  
41 pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line  
42 pipe, e.g., power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods  
43 shall be priced on a non-upset basis. For other items, the price used should result in the Joint Account being charged or credited  
44 with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section I.6.A (*General*  
45 *Matters*).  
46

47 (5) Condition "E" – Junk shall be priced at prevailing scrap value prices.  
48

49 E. OTHER PRICING PROVISIONS  
5051 (1) Preparation Costs  
52

53 Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator  
54 in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged  
55 to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the  
56 Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of  
57 the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or  
58 credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with  
59 COPAS MFI-38 ("Material Pricing Manual").  
60

61 (2) Loading and Unloading Costs  
62

63 Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with  
64 the methods specified in COPAS MFI-38 ("Material Pricing Manual").  
65  
66



1 **3. DISPOSITION OF SURPLUS**

2  
3 Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but  
4 shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.

5  
6 Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to  
7 either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Material, the Operator should make good  
8 faith efforts to dispose of surplus within twelve (12) months through buy/sale agreements, trade, sale to a third party, division in kind, or  
9 other dispositions as agreed to by the Parties.

10  
11 Disposal of surplus Materials shall be made in accordance with the terms of the Agreement to which this Accounting Procedure is  
12 attached. If the Agreement contains no provisions governing disposal of surplus Material, the following terms shall apply:

- 13  
14 • The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that  
15 is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is  
16 attached without the prior approval of the Parties owning such Material.
- 17  
18 • If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such  
19 Material.
- 20  
21 • Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on  
22 the pricing methods set forth in Section IV.2 (*Transfers*).
- 23  
24 • Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the  
25 Materials, based on the pricing methods set forth in Section IV.2 (*Transfers*), is less than or equal to the Operator's expenditure  
26 limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as  
27 Condition C.
- 28  
29 • Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval  
30 of the Parties owning such Material.

31  
32 **4. SPECIAL PRICING PROVISIONS**

33  
34 **A. PREMIUM PRICING**

35  
36 Whenever Material is available only at inflated prices due to national emergencies, strikes, government imposed foreign trade  
37 restrictions, or other unusual causes over which the Operator has no control, for direct purchase the Operator may charge the Joint  
38 Account for the required Material at the Operator's actual cost incurred in providing such Material, making it suitable for use, and  
39 moving it to the Joint Property. Material transferred or disposed of during premium pricing situations shall be valued in accordance  
40 with Section IV.2 (*Transfers*) or Section IV.3 (*Disposition of Surplus*), as applicable.

41  
42 **B. SHOP-MADE ITEMS**

43  
44 Items fabricated by the Operator's employees, or by contract laborers under the direction of the Operator, shall be priced using the  
45 value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's  
46 scrap or junk account, the Material shall be priced at either twenty-five percent (25%) of the current price as determined in Section  
47 IV.2.A (*Pricing*) or scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item  
48 commensurate with its use.

49  
50 **C. MILL REJECTS**

51  
52 Mill rejects purchased as "limited service" casing or tubing shall be priced at eighty percent (80%) of K-55/J-55 price as determined in  
53 Section IV.2 (*Transfers*). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-55/J-  
54 55 casing or tubing at the nearest size and weight.

55  
56  
57 **V. INVENTORIES OF CONTROLLABLE MATERIAL.**

58  
59  
60 The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient detail to perform physical inventories.

61  
62 Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within twelve (12)  
63 months following the taking of the inventory or receipt of Non-Operator inventory report. Charges and credits for overages or shortages will be  
64 valued for the Joint Account in accordance with Section IV.2 (*Transfers*) and shall be based on the Condition "B" prices in effect on the date of  
65 physical inventory unless the inventorying Parties can provide sufficient evidence another Material condition applies.

1 **1. DIRECTED INVENTORIES**

2  
3 Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators  
4 (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform directed inventories more frequently  
5 than once every five (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the Operator receives  
6 written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of  
7 any directed inventory.

8  
9 Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up  
10 work in settling the inventory will be absorbed by the Party incurring such costs. The Operator is expected to exercise judgment in keeping  
11 expenses within reasonable limits. Any anticipated disproportionate or extraordinary costs should be discussed and agreed upon prior to  
12 commencement of the inventory. Expenses of directed inventories may include the following:

- 13  
14 A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel  
15 performing the inventory or a rate agreed to by the Parties pursuant to Section L6.A (*General Matters*). The per diem rate shall also  
16 be applied to a reasonable number of days for pre-inventory work and report preparation.  
17  
18 B. Actual transportation costs and Personal Expenses for the inventory team.  
19  
20 C. Reasonable charges for report preparation and distribution to the Non-Operators.  
21

22 **2. NON-DIRECTED INVENTORIES**

## 23 A. OPERATOR INVENTORIES

24  
25  
26 Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The  
27 expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.  
28

## 29 B. NON-OPERATOR INVENTORIES

30  
31 Subject to the terms of the Agreement to which this Accounting Procedure is attached, the Non-Operators may conduct a physical  
32 inventory at reasonable times at their sole cost and risk after giving the Operator at least ninety (90) days prior written notice. The  
33 Non-Operator inventory report shall be furnished to the Operator in writing within ninety (90) days of completing the inventory  
34 fieldwork.  
35

## 36 C. SPECIAL INVENTORIES

37  
38 The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator*  
39 *Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however,  
40 inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section  
41 V.1 (*Directed Inventories*).  
42  
43  
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66



**EXHIBIT "D"**

Attached to and made a part of that certain Operating Agreement dated August 1, 2020, between MEWBOURNE OIL COMPANY, as Operator, and CHEVRON U.S.A. INC., et al, as Non-Operator.

**INSURANCE**

At all times during the conduct of operations hereunder, Operator shall maintain in force the following insurance, at the expense of and for the benefit of the Joint Account:

1. Workers' Compensation Insurance
  - a. Statutory Workers' Compensation coverage to include all areas involved in operations covered under this contract.
  - b. Employers liability with a limit of \$500,000 each accident.
  
2. Comprehensive General Liability Insurance (CGL)
  - a. Standard Comprehensive General Liability including coverage for products/completed operations.
  - b. Contractual liability, insuring contracts between Mewbourne Oil Company and their contractors covering assumed tort liability.
  - c. Limits of Liability:

General Aggregate Limit	\$2,000,000
Products and Completed Operations Aggregate Limit	\$1,000,000
Personal and Advertising Injury Limit	\$1,000,000
Each Occurrence Limit	\$1,000,000
  
3. Automobile Liability Insurance
  - a. Standard Comprehensive form including all owned, non-owned and hired automobile equipment.
  - b. Limits of Liability:

	\$1,000,000
Combined Single Limit	
  
4. Contractors and Subcontractors

Operator agrees to use its best efforts to assure that its contractors and subcontractors also comply with the insurance requirements listed in paragraphs 1-3 above and that certain contractors and subcontractors engaged in higher risk activities carry appropriate insurance coverage.
  
5. Umbrella Policy

In addition to paragraphs 1-3 above, Operator shall also carry an Umbrella Liability Policy with coverage of at least \$5,000,000.

6. Operator's Extra Expense Insurance

Operator will carry Operator's Extra Expense Insurance covering costs of well control, clean up, and redrilling, with a minimum limit per occurrence of \$3,000,000 for well depths of 0-10,000' and \$10,000,000 for well depths over 10,000'.

7. Additional Insurance

In addition to the above referenced types of insurance coverage, Operator may, but is not required to, carry additional types of insurance coverage including, but not limited to various types of additional excess umbrella liability, public property damage, oil lease property, pollution or contamination, or similar coverage. The actual premiums paid for all insurance shall be charged on a pro-rata basis to the Joint Account of the parties hereto.

8. Other Provisions

Any liability, loss, damage claim or expense resulting from accidents or occurrences not covered by insurance of the character referred to above, or in excess of the insurance actually carried under the above provisions, shall be borne by the parties hereto in the proportions which they own in the unit area. In the event Operator is unable to procure and maintain any of the insurance enumerated above, Operator shall promptly give written notice thereof to the other parties and in such event, resulting loss, damage, claim and expense shall be borne by the parties hereto in proportion to their respective interests in the unit area. Such notice shall also constitute a waiver of the requirement that Operator procure and maintain the insurance which is the subject of notice.

9. Notwithstanding anything contained herein to the contrary, a party to this Agreement may elect to self-insure for the insurance set forth in 2, 3, 5 and 6 above, provided such party has a market value in excess of \$1,000,000,000.00. In such event of self-insurance, the party electing to self-insure will provide the other parties to this Agreement with a letter of self-insurance. Additionally, if a party elects to self-insure, the Operator shall not charge the self-insuring party for any premiums paid for insurance other than the Workers' Compensation Insurance provided for in 1 above and any such charges for Workers' Compensation Insurance shall be charged in accordance with Exhibit "C".

End of Exhibit "D"



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

## EXHIBIT "E"

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

7  
8  
9  
10 OPERATING AGREEMENT DATED August 1, 2020  
11 BY AND BETWEEN MEWBOURNE OIL COMPANY, Operator  
12 AND CHEVRON U.S.A. INC., et al. as Non-Operators ("OPERATING AGREEMENT")  
13 RELATING TO THE Lands on Exhibit "A" AREA,  
14 Lea COUNTY/PARISH, STATE OF New Mexico

## 1. DEFINITIONS

17 The following definitions shall apply to this Agreement:

- 18 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales  
19 agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are  
20 representative of prices and delivery conditions existing under other similar agreements in the area between  
21 unaffiliated parties at the same time for natural gas of comparable quality and quantity.
- 22 1.02 "Balancing Area" shall mean (select one):  
23  each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a  
24 single well is completed in two or more producing intervals, each producing interval from which the Gas  
25 production is not commingled in the wellbore shall be considered a separate well.  
26  all of the acreage and depths subject to the Operating Agreement.  
27  Notwithstanding anything contained herein to the contrary, the Parties agree to the following: i. Non-Operator's authorize and agree  
28 that Operator will always market Non-Operator's share of the Gas from the Balancing Area pursuant to the terms of the Operating  
29 Agreement; and ii. Operator will market Non-Operator's share of the Gas from the Balancing Area on the same terms as Operator's  
30 Gas from the Balancing Area.
- 31 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced  
32 from the Balancing Area during each month.
- 33 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified  
34 as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made  
35 available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by  
36 field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel,  
37 recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.
- 38 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full  
39 Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.
- 40 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic  
41 foot of space at a standard pressure base and at a standard temperature base.
- 42 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat  
43 required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a  
44 constant pressure of 14.73 pounds per square inch absolute.
- 45 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the  
46 event this Agreement is not employed in connection with an operating agreement, the individual or entity  
47 designated as the operator of the well(s) located in the Balancing Area.
- 48 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than  
49 the Percentage interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 50 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in  
51 the cumulative quantity of all Gas produced from the Balancing Area.
- 52 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors,  
53 transferees and assigns.
- 54 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the  
55 Balancing Area pursuant to the Operating Agreement covering the Balancing Area.
- 56 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding  
57 royalties, production payments or similar interests.
- 58 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than  
59 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 60 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its  
61 Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.
- 62 1.16  (Optional) "Winter Period" shall mean the month(s) of \_\_\_\_\_ in one  
63 calendar year and the month(s) of \_\_\_\_\_ in the succeeding calendar year.

## 2. BALANCING AREA

64 2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered  
65 by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area  
66 measured in (Alternative 1)  Mcfs or (Alternative 2)  MMBtus.

67 2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more  
68 maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area  
69 and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

## 3. RIGHT OF PARTIES TO TAKE GAS

70 3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes  
71 nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating  
72 to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other  
73



1 requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the  
2 transporting pipeline in accordance with the terms of this Agreement.

3 3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the  
4 extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to  
5 preserve correlative rights, or to maintain oil production.

6 3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the  
7 right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any  
8 Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced  
9 Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all  
10 Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not  
11 taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the  
12 Balancing Area bear to the total Percentage Interests of such Parties.

13 3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is  
14 underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking  
15 Party.

16 3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any  
17 Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum  
18 Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production  
19 that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative  
20 rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of  
21 production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum  
22 efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency,  
23 mode of operation, production facility capabilities and pipeline pressures.

24 3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be  
25 produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or  
26 to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails  
27 to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any  
28 reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of  
29 such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain  
30 such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its  
31 markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent  
32 with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one  
33 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall  
34 be deemed to be Gas taken for the account of such Party.

#### 35 4. IN-KIND BALANCING

36 4.1 Effective the first day of any calendar month following at least forty five (45) days' prior  
37 written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current  
38 Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined  
39 by multiplying twenty five percent (25%) of the Full Shares of Current Production of all Overproduced Parties by  
40 a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which  
41 is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an  
42 Overproduced Party be required to provide more than twenty five percent (25%) of its Full Share of Current  
43 Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced  
44 Party to begin taking Makeup Gas.

45 4.2  (Optional - Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the  
46 average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1  
47 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the  
48 \_\_\_\_\_ (\_\_\_\_\_) months immediately preceding the Winter Period.

49 4.2  (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no  
50 Overproduced Party will be required to provide more than zero percent (0%) of its Full Share  
51 of Current Production for Makeup Gas during the Winter Period.

52 4.3  (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or  
53 (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced  
54 Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may  
55 be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to  
56 \_\_\_\_\_ percent (\_\_\_\_%) of such Overproduced Party's Full Share of Current Production.

#### 57 5. STATEMENT OF GAS BALANCES

58 5.1 ~~The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each~~  
59 ~~Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty five (45) days~~  
60 ~~after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of~~  
61 ~~Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between~~  
62 ~~the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or~~  
63 ~~Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum~~  
64 ~~Accountants Societies Bulletin No.24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to~~  
65 ~~the Operator any data required by the Operator for preparation of the statements required hereunder. See Article 14. OTHER PROVISIONS, Note 5.1~~

66 5.2 ~~If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or~~  
67 ~~where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation~~  
68 ~~volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and~~  
69 ~~during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit~~  
70 ~~will be charged to the account of the Party failing to provide the required data. See Article 14. OTHER PROVISIONS, Note 5.2~~

#### 71 6. PAYMENTS ON PRODUCTION

72 6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas  
73 actually taken by such Party.

74 6.2  (Alternative I - Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty



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

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

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

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

## 7. CASH SETTLEMENTS

7.1 ~~Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.~~ See Article 14. OTHER PROVISIONS, Note 7.1

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

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

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

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

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

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

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

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

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

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

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



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

5 7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party  
 6 an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the  
 7 Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be  
 8 furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by  
 9 agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an  
 10 in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties  
 11 fail to reach agreement on an in-kind settlement.

12 7.9  (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an  
 13 Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or  
 14 other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such  
 15 governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced  
 16 Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental  
 17 authority.

18 7.10  (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party  
 19 may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas  
 20 imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative  
 21 imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once  
 22 every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash  
 23 settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30)  
 24 days after the settlement is made.

## 25 8. TESTING

26 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to  
 27 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)  
 28 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to  
 29 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only  
 30 after thirty ( 30 ) days' prior written notice to the Operator and shall last no longer than  
 31 forty eight ( 48 ) hours.

## 32 9. OPERATING COSTS

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

## 37 10. LIQUIDS

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

## 40 11. AUDIT RIGHTS

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

## 53 12. MISCELLANEOUS

54 12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of  
 55 any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the  
 56 Operating Agreement, the provisions of this Agreement shall govern.

57 12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for  
 58 any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such  
 59 indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under  
 60 the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages  
 61 sustained and costs incurred in connection therewith.

62 12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this  
 63 Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in  
 64 connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or  
 65 willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party, (other  
 66 than Operator) to pay any amounts owed pursuant to the terms hereof.

67 12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and  
 68 effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to  
 69 the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives  
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1 and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of  
2 any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of  
3 any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

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

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

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

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

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

### 29 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

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

39 13.2  (Optional - Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not  
40 limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions  
41 of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its  
42 interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are  
43 Parties hereto in such Balancing Area of such fact at least sixty (60) days prior to closing the  
44 transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within  
45 thirty (30) days after receipt of the Overproduced Party's notice, a cash settlement of its  
46 Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement  
47 pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash  
48 settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60)  
49 days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced  
50 Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in  
51 Sections 7.3 through 7.6 hereof, and. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from  
52 the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the  
53 Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance  
54 with the provisions of Section 13.1 hereof.

55 13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its  
56 interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to  
57 any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

### 58 14. OTHER PROVISIONS

59 5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the total volume of Gas and the total volume of Gas  
60 actually taken or sold. Within forty-five (45) days after the month of production, the Operator will furnish a production statement for such month. If an  
61 imbalance occurs during such month, Operator shall provide a statement showing (1) each Party's Full Share of Current Production, (2) the total volume of  
62 Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current  
63 Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum  
64 Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data  
65 required by the Operator for preparation of the statements required hereunder.

66 5.2 If any Party fails to provide the data required herein for four (4) consecutive production months after an imbalance occurs, Operator or the other  
67 Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be  
68 conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with  
69 such audit will be charged to the account of the Party requesting the audit.

70 7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, or the termination of the Operating  
71 Agreement or any pooling or unit agreement covering the Balancing Area, any Party may give written notice calling for cash settlement of the Gas  
72 production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.  
73  
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A.A.P.L. FORM 610-E - GAS BALANCING AGREEMENT - 1992

1 15. COUNTERPARTS

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

7 IN WITNESS WHEREOF, this Agreement shall be effective as of the 1<sup>st</sup> day of August, 2020.

8 ATTEST OR WITNESS:

OPERATOR

MEWBOURNE OIL COMPANY

BY:

Jonathan White

Type or print name

Title Attorney-in-Fact

Date

Tax ID or S.S. No. 75-1254872

NON-OPERATORS

BY:

Type or print name

Title

Date

Tax ID or S.S. No.

BY:

Type or print name

Title

Date

Tax ID or S.S. No.

BY:

Type or print name

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**ACKNOWLEDGMENTS**

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

Individual acknowledgment:

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

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

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

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

\_\_\_\_\_ by \_\_\_\_\_

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

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

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

Acknowledgment in representative capacity:

State of Texas )

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

County of Smith )

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

\_\_\_\_\_ by Jonathan White as

Attorney-in-Fact of Mewbourne Oil Company, a Delaware corporation on behalf of said corporation

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

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

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

Acknowledgment in representative capacity:

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

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

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

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

\_\_\_\_\_ by \_\_\_\_\_ as

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

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

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

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

**EXHIBIT "F"**

Attached to and made a part of that certain Operating Agreement  
dated August 1, 2020, between MEWBOURNE OIL COMPANY, as Operator,  
and CHEVRON U.S.A. INC., et al, as Non-Operators.

**Non-Discrimination and Certification of Non-Segregated Facilities**

Operator and any successor, substitute or replacement therefore (whether succeeding, substituting for or replacing Operator in whole or in part, temporarily or permanently) is considered a "Contractor" of the Federal Government and subject to the terms, provisions and representations set forth below. By execution or ratification of, or joinder in, this agreement, or by accepting the benefits hereof in any way, each party so situated hereby ratifies, adopts and confirms the following as "Contractor".

1. Contract is an Equal Opportunity Employer, and will not discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, handicap, or status as Vietnam Era Veteran.

2. Contractor shall comply with the applicable requirements of the following laws, regulations and orders:

A. Execution Order 11246, as amended, which prohibits job discrimination on the basis of race, color, religion, sex or national origin, and requires affirmative action to ensure equality of opportunity in all aspects of employment.

B. Section 503 of the Rehabilitation Act of 1973, as amended, which prohibits job discrimination because of a disability and requires affirmative action to employ and advance in employment qualified individuals with disabilities who, with reasonable accommodation, can perform the essential functions of a job.

C. 38 U.S.C. 4212 of the Vietnam Era Veterans Readjustment Assistance Act of 1974, which prohibits job discrimination and requires affirmative action to employ and advance in employment qualified Vietnam Era Veterans and qualified special disabled veterans.

3. Contractor certifies that it does not and will not maintain or provide for its employees any facilities which are segregated by race, color, religion, or national origin, or permit its employees to perform any services at any location under its control, where segregated facilities are maintained, and Contractor will obtain a similar certification for all non-exempt subcontracts, as required by 41 C.F.R. Section 60-1.8.



**EXHIBIT "G"**

(THERE IS NO EXHIBIT "G" TO THIS AGREEMENT)

## EXHIBIT “H”

**MODEL FORM RECORDING SUPPLEMENT TO  
OPERATING AGREEMENT AND FINANCING STATEMENT**

THIS AGREEMENT, entered into by and between Mewbourne Oil Company, hereinafter referred to as “Operator,” and the signatory party or parties other than Operator, hereinafter referred to individually as “Non-Operator,” and collectively as “Non-Operators.”

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit “A” (said land, Leases and Interests being hereinafter called the “Contract Area”), and in any instance in which the Leases or Interests of a party are not of record, the record owner and the party hereto that owns the interest or rights therein are reflected on Exhibit “A”;

WHEREAS, the parties hereto have executed an Operating Agreement dated August 1, 2020 (herein the “Operating Agreement”), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

WHEREAS, the parties hereto have executed this agreement for the purpose of imparting notice to all persons of the rights and obligations of the parties under the Operating Agreement and for the further purpose of perfecting those rights capable of perfection.

NOW, THEREFORE, in consideration of the mutual rights and obligations of the parties hereto, it is agreed as follows:

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.

2. The parties do hereby agree that:

- A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.
- B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.
- C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.
- D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit “A,” all production of Oil and Gas from the Contract Area shall be owned by the parties as provided in the Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.
- E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.
- F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.
- G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers.

This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.

- H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.
- I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party’s right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.
- J. Each party’s interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party’s share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.
- K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.

3. The parties hereby grant reciprocal liens and security interests as follows:

- A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement and the Operating Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under this agreement and the Operating Agreement. Such lien and security interest granted by each party hereto shall include such party’s leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from the sale of production at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.



- B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement and the Operating Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.
  - C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interest or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.
  - D. If any party fails to pay its share of expenses within one hundred-twenty (120) days after rendition of a statement therefor by Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.
  - E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.
  - F. The lien and security interest granted in this paragraph 3 supplements identical rights granted under the Operating Agreement.
  - G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials supplied by Operator.
  - H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.
4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial obligations.
  5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.
  6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.
  7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.
  8. Other provisions.

This instrument may be executed in multi-counterparts, no one of which need be executed by all parties hereto and the same shall be binding upon those parties who execute, whether or not all named parties join in execution hereof. Counterparts thus executed shall together constitute but one and the same instrument. In the interest of facilitating filing or recording this instrument thus executed in multi-counterparts, each executing party hereby authorizes removal of signature and acknowledgment pages and reassembly of the same into a single document composed of one copy of the substantive portions of this instrument attached to multiple separately executed signature and acknowledgment pages.

\_\_\_\_\_, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610RS-1989 Model Form Recording Supplement to Operating Agreement and Financing Statement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in Articles \_\_\_\_\_, have been made to the form.

IN WITNESS WHEREOF, this agreement shall be effective as of the 1<sup>st</sup> day of August, 2020.

**OPERATOR**

ATTEST OR WITNESS

\_\_\_\_\_  
MEWBOURNE OIL COMPANY

By: Jonathan White

Type or Print Name

Title: Attorney-in-Fact

Date: \_\_\_\_\_

Address: \_\_\_\_\_

**NON-OPERATORS**

ATTEST OR WITNESS

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

Type or Print Name

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

Date: \_\_\_\_\_

Address: \_\_\_\_\_

ATTEST OR WITNESS

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

Type or Print Name

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

Date: \_\_\_\_\_

Address: \_\_\_\_\_

ATTEST OR WITNESS

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

Type or Print Name

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

Date: \_\_\_\_\_

Address: \_\_\_\_\_



ACKNOWLEDGMENTS

NOTE:

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

State of \_\_\_\_\_ §

§ ss.

County of \_\_\_\_\_ §

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

(Seal, if any)

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

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

Acknowledgment in Representative Capacity

State of Texas §

§ ss.

County of Smith §

This instrument was acknowledged before me on \_\_\_\_\_  
by Jonathan White as Attorney-in-Fact of  
Mewbourne Oil Company, a Delaware corporation on behalf of said corporation

(Seal, if any)

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

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

State of \_\_\_\_\_ §

§ ss.

County of \_\_\_\_\_ §

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

(Seal, if any)

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

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

**MEWBOURNE OIL COMPANY**

500 West Texas, Suite 1020  
Midland, Texas 79701  
Phone (432) 682-3715

Sent via Certified Mail

August 13, 2020

Ascent Energy, LLC  
1125 17th St, Suite 410  
Denver, CO 80202  
Attn: Land Manager

RE: Expansion of North Wilson Deep Unit  
Notice and Consent to Join Unit  
Lands within T20S-R36E, T21S-R35E & T22S-R35E, Lea County, New Mexico

Ladies and Gentlemen:

Mewbourne Oil Company ("MOC") proposes to expand the North Wilson Deep Unit (the "Unit") in the lands described below in Lea County, New Mexico. The Unit will include all state acreage. The purpose of this letter is to inform you and all other Working Interest Owners in the Unit of MOC's proposal and invite your participation in this Unit expansion. The proposed expansion of the Unit encompasses the following acreage and depths:

Township 20 South, Range 36 East, N.M.P.M., Lea County, New Mexico  
Section 31: All            Section 32: S2

Township 21 South, Range 35 East, N.M.P.M., Lea County, New Mexico  
Section 4: All            Section 5: All            Section 6: E2  
Section 7: E2            Section 8: All            Section 9: All  
Section 16: All            Section 17: All            Section 18: E2  
Section 20: All            Section 21: All            Section 22: All  
Section 27: All            Section 28: All            Section 29: N2  
Section 33: All            Section 34: All

Township 22 South, Range 35 East, N.M.P.M., Lea County, New Mexico  
Section 3: All            Section 4: All            Section 10: W2  
Section 15: W2

(containing 13,269.79 acres, more or less) (the "Lands"). The primary development objectives will be in the Bone Spring and Wolfcamp formations.

The New Mexico State Land Office ("SLO") provided preliminary approval and are giving full support for MOC's expansion of the Unit due to MOC's efficient development plans and in the interest of conservation. MOC soon will file its Application for Unitization ("Application") with the NMOCD.

EXHIBIT 1-C



As shown on Exhibit B to the Unit Agreement, Ascent Energy, LLC, is the current Working Interest Owner of record as to the following tracts in the proposed expansion of the North Wilson Deep Unit:

- Tract 7 – (T21S-R35E, Sec 4: Lots 1-8)

Enclosed for your review and approval is the proposed Unit Agreement for the Expansion of the North Wilson Deep Unit, Unit Operating Agreement, as well as four (4) copies of the requested Unit Agreement signature pages. Please execute, acknowledge and return three (3) originals to me at the address listed on the letterhead above, keeping one for your records. Thank you for your time and consideration of this matter. We look forward to your participation in this rewarding project with us. If you have any questions, please contact me by phone or email as listed below.

Respectfully,  
Mewbourne Oil Company



Adriana Salgado  
Landman  
[asalgado@mewbourne.com](mailto:asalgado@mewbourne.com)  
Office: 432-682-3715  
Cell: 432-528-5955

District I  
1625 N. French Dr., Hobbs, NM 88240  
Phone: (575) 393-6161 Fax: (575) 393-0720  
District II  
811 S. First St., Artesia, NM 88210  
Phone: (575) 748-1283 Fax: (575) 748-9720  
District III  
1000 Rio Brazos Road, Aztec, NM 87410  
Phone: (505) 334-6178 Fax: (505) 334-6170  
District IV  
1220 S. St. Francis Dr., Santa Fe, NM 87505  
Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico  
Energy, Minerals & Natural Resources Department  
OIL CONSERVATION DIVISION  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Form C-102  
Revised August 1, 2011  
Submit one copy to appropriate  
District Office

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

<sup>1</sup> API Number		<sup>2</sup> Pool Code		<sup>3</sup> Pool Name		
<sup>4</sup> Property Code		<sup>5</sup> Property Name <b>NORTH WILSON DEEP UNIT</b>			<sup>6</sup> Well Number <b>3H</b>	
<sup>7</sup> OGRID NO.		<sup>8</sup> Operator Name <b>MEWBOURNE OIL COMPANY</b>			<sup>9</sup> Elevation <b>3662'</b>	

<sup>10</sup> Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet From the	East/West line	County
<b>F</b>	<b>17</b>	<b>21S</b>	<b>35E</b>		<b>2330</b>	<b>NORTH</b>	<b>1600</b>	<b>WEST</b>	<b>LEA</b>

<sup>11</sup> Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
<b>E</b>	<b>29</b>	<b>21S</b>	<b>35E</b>		<b>2540</b>	<b>NORTH</b>	<b>440</b>	<b>WEST</b>	<b>LEA</b>

<sup>12</sup> Dedicated Acres	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code	<sup>15</sup> Order No.
-------------------------------	-------------------------------	----------------------------------	-------------------------

No allowable will be assigned to this completion until all interest have been consolidated or a non-standard unit has been approved by the division.

**GEODETTIC DATA**  
NAD 83 GRID - NM EAST

**SURFACE LOCATION**  
N 539588.3 - E 831290.8  
LAT: 32.4798785° N  
LONG: 103.3930518° W

**GEODETTIC DATA**  
NAD 83 GRID - NM EAST

**BOTTOM HOLE**  
N 528808.6 - E 830222.5  
LAT: 32.4502768° N  
LONG: 103.3968224° W

**CORNER DATA**  
NAD 83 GRID - NM EAST

A: FOUND NAIL N 526063.9 - E 829805.6	I: FOUND 3/4" REBAR N 536671.5 - E 834996.6
B: FOUND 3/4" REBAR N 531345.9 - E 829761.3	J: FOUND 12"x4"x4" LIMESTONE ROCK N 534030.7 - E 835020.3
C: FOUND 12"x4"x4" LIMESTONE ROCK N 533983.1 - E 829739.3	K: FOUND 1/2" REBAR N 531388.9 - E 835040.6
D: FOUND 3/4" REBAR N 536624.0 - E 829716.2	L: FOUND 1/2" REBAR N 528748.9 - E 835065.4
E: CALCULATED CORNER N 541904.6 - E 829671.3	M: FOUND 6"x4"x4" LIMESTONE ROCK N 526106.9 - E 835090.2
F: FOUND LIMESTONE ROCK N 541926.5 - E 832309.8	N: FOUND 1" PIPE N 531359.3 - E 832400.3
G: FOUND LIMESTONE ROCK N 541952.2 - E 834936.7	O: FOUND 12"x4"x4" LIMESTONE ROCK N 536645.7 - E 832356.2
H: FOUND LIMESTONE ROCK N 539312.3 - E 834973.1	

**<sup>17</sup> OPERATOR CERTIFICATION**  
*I hereby certify that the information contained herein is true and complete.*

EXHIBIT 1-D

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

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

E-mail Address: \_\_\_\_\_

**<sup>18</sup> SURVEYOR CERTIFICATION**  
*I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.*

**8-31-20**  
Date of Survey

Signature and Seal of Professional Surveyor: \_\_\_\_\_

**19680**  
Certificate Number

S 89°31'21" W 2639.01' S 89°26'30" W 2627.44'

S 89°31'47" W 2640.57' S 89°26'24" W 2640.99'

S 89°42'35" W 2639.45' S 89°21'28" W 2640.86'

S 89°32'02" W 5285.61'



District I  
1625 N. French Dr., Hobbs, NM 88240  
Phone: (575) 393-6161 Fax: (575) 393-0720  
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Phone: (575) 748-1283 Fax: (575) 748-9720  
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1000 Rio Brazos Road, Aztec, NM 87410  
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Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico  
Energy, Minerals & Natural Resources Department  
OIL CONSERVATION DIVISION  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Form C-102  
Revised August 1, 2011  
Submit one copy to appropriate  
District Office

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

<sup>1</sup> API Number	<sup>2</sup> Pool Code	<sup>3</sup> Pool Name
<sup>4</sup> Property Code	<sup>5</sup> Property Name <b>NORTH WILSON DEEP UNIT</b>	
<sup>7</sup> GRID NO.	<sup>8</sup> Operator Name <b>MEWBOURNE OIL COMPANY</b>	<sup>6</sup> Well Number <b>4H</b>
		<sup>9</sup> Elevation <b>3662'</b>

<sup>10</sup> Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet From the	East/West line	County
<b>F</b>	<b>17</b>	<b>21S</b>	<b>35E</b>		<b>2330</b>	<b>NORTH</b>	<b>1630</b>	<b>WEST</b>	<b>LEA</b>

<sup>11</sup> Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
<b>F</b>	<b>29</b>	<b>21S</b>	<b>35E</b>		<b>2535</b>	<b>NORTH</b>	<b>1800</b>	<b>WEST</b>	<b>LEA</b>

<sup>12</sup> Dedicated Acres	<sup>13</sup> Joint or Infill	<sup>14</sup> Consolidation Code	<sup>15</sup> Order No.
-------------------------------	-------------------------------	----------------------------------	-------------------------

No allowable will be assigned to this completion until all interest have been consolidated or a non-standard unit has been approved by the division.

**16**

**GEODETIC DATA**  
NAD 83 GRID - NM EAST

**SURFACE LOCATION**  
N 539588.6 - E 831320.8  
LAT: 32.4798785° N  
LONG: 103.3929546° W

**GEODETIC DATA**  
NAD 83 GRID - NM EAST

**BOTTOM HOLE**  
N 528819.9 - E 831582.3  
LAT: 32.4502751° N  
LONG: 103.3924146° W

**CORNER DATA**  
NAD 83 GRID - NM EAST

A: FOUND NAIL  
N 526063.9 - E 829805.6

B: FOUND 3/4" REBAR  
N 531345.9 - E 829761.3

C: FOUND 12"x4"x4"  
LIMESTONE ROCK  
N 533983.1 - E 829739.3

D: FOUND 3/4" REBAR  
N 536624.0 - E 829716.2

E: CALCULATED CORNER  
N 541904.6 - E 829671.3

F: FOUND LIMESTONE ROCK  
N 541926.5 - E 832309.8

G: FOUND LIMESTONE ROCK  
N 541952.2 - E 834936.7

H: FOUND LIMESTONE ROCK  
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I: FOUND 3/4" REBAR  
N 536671.5 - E 834996.6

J: FOUND 12"x4"x4"  
LIMESTONE ROCK  
N 534030.7 - E 835020.3

K: FOUND 1/2" REBAR  
N 531388.9 - E 835040.6

L: FOUND 1/2" REBAR  
N 528748.9 - E 835064.4

M: FOUND 6"x4"x4"  
LIMESTONE ROCK  
N 526106.9 - E 835090.2

N: FOUND 1" PIPE  
N 531359.3 - E 832400.3

O: FOUND 12"x4"x4"  
LIMESTONE ROCK  
N 536645.7 - E 832356.2

**17 OPERATOR CERTIFICATION**  
*I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.*

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed Name \_\_\_\_\_

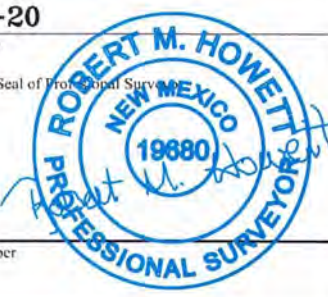
E-mail Address \_\_\_\_\_

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

**8-31-20**  
Date of Survey

Signature and Seal of Professional Surveyor \_\_\_\_\_

**19680**  
Certificate Number



Job No.: LS20080405



**MEWBOURNE OIL COMPANY**  
AUTHORIZATION FOR EXPENDITURE

Well Name: **NORTH WILSON DEEP UNIT #3H** Prospect: **NORTH WILSON DEEP UNIT**  
 Location: **SL: 2330 FNL & 1600 FWL (17); BHL: 2540 FNL & 440 FWL (29)** County: **Lea** ST: **NM**  
 Sec. **17** Blk:  Survey:  TWP: **21S** RNG: **35E** Prop. TVD: **10123** TMD: **20588**

INTANGIBLE COSTS 0180		CODE	TCP	CODE	CC
Regulatory Permits & Surveys		0180-0100	\$20,000	0180-0200	
Location / Road / Site / Preparation		0180-0105	\$35,000	0180-0205	\$35,000
Location / Restoration		0180-0106	\$200,000	0180-0206	\$33,000
Daywork / Turnkey / Footage Drilling	30 days drlg / 3 days comp @ \$18,250/d	0180-0110	\$584,700	0180-0210	\$58,500
Fuel	1700 gal/day @ \$1.30/gal	0180-0114	\$70,800	0180-0214	\$260,000
Mud, Chemical & Additives		0180-0120	\$170,000	0180-0220	
Horizontal Drillout Services				0180-0222	\$200,000
Cementing		0180-0125	\$80,000	0180-0225	\$25,000
Logging & Wireline Services		0180-0130	\$2,300	0180-0230	\$300,000
Casing / Tubing / Snubbing Service		0180-0134	\$18,000	0180-0234	\$40,000
Mud Logging		0180-0137	\$30,000		
Stimulation	50 Stg 19.8 MM gal / 19.8 MM lb			0180-0241	\$1,270,000
Stimulation Rentals & Other				0180-0242	\$160,000
Water & Other		0180-0145	\$35,000	0180-0245	\$625,000
Bits		0180-0148	\$128,200	0180-0248	\$5,000
Inspection & Repair Services		0180-0150	\$50,000	0180-0250	\$5,000
Misc. Air & Pumping Services		0180-0154		0180-0254	\$10,000
Testing & Flowback Services		0180-0158	\$12,000	0180-0258	\$24,000
Completion / Workover Rig				0180-0260	\$10,500
Rig Mobilization		0180-0164	\$120,000		
Transportation		0180-0165	\$30,000	0180-0265	\$30,000
Welding Services		0180-0168	\$4,000	0180-0268	\$15,000
Contract Services & Supervision		0180-0170		0180-0270	\$21,000
Directional Services	Includes Vertical Control	0180-0175	\$418,500		
Equipment Rental		0180-0180	\$227,300	0180-0280	\$24,000
Well / Lease Legal		0180-0184	\$5,000	0180-0284	
Well / Lease Insurance		0180-0185	\$5,600	0180-0285	
Intangible Supplies		0180-0188	\$7,000	0180-0288	\$10,000
Damages		0180-0190	\$10,000	0180-0290	\$10,000
ROW & Easements		0180-0192		0180-0292	\$5,000
Pipeline Interconnect				0180-0293	
Company Supervision		0180-0195	\$336,000	0180-0295	\$96,000
Overhead Fixed Rate		0180-0196	\$10,000	0180-0296	\$20,000
Well Abandonment		0180-0198		0180-0298	
Contingencies	2% (TCP) 2% (CC)	0180-0199	\$52,200	0180-0299	\$65,800
<b>TOTAL</b>			<b>\$2,661,600</b>		<b>\$3,357,800</b>

TANGIBLE COSTS 0181		CODE	TCP	CODE	CC
Casing (19.1" - 30")		0181-0793			
Casing (10.1" - 19.0")	1890' - 13 3/8" 54.5# J-55 ST&C @ \$32.16/ft	0181-0794	\$64,900		
Casing (8.1" - 10.0")	5690' - 9 5/8" 40# HCL80 LT&C @ \$26.51/ft	0181-0795	\$161,100		
Casing (6.1" - 8.0")	10070' - 7" 29# HCP-110 LT&C @ \$21.47/ft	0181-0796	\$230,900		
Casing (4.1" - 6.0")	10750' - 4 1/2" 13.5# P-110 BPN @ \$11.72/ft			0181-0797	\$134,600
Tubing	9380' - 2 7/8" 6.5# EUE tbq @ \$4.54/ft			0181-0798	\$45,500
Drilling Head		0181-0860	\$35,000		
Tubing Head & Upper Section				0181-0870	\$30,000
Horizontal Completion Tools	Completion Liner Hanger			0181-0871	\$45,000
Sucker Rods				0181-0875	
Subsurface Equipment	Packer			0181-0880	\$10,000
Artificial Lift Systems	Gas Lift Valves			0181-0884	\$15,000
Pumping Unit				0181-0885	
Surface Pumps & Prime Movers	(1/2) VRU/HTB/Transfer			0181-0886	\$60,000
Tanks - Oil	(1/2) 6 - 750 bbl			0181-0890	\$60,000
Tanks - Water	(1/2) 5 - 750 bbl coated			0181-0891	\$55,000
Separation / Treating Equipment	(1/2) VRT/Flare/30"x10"x1k 3ph/48"x15"x1k# hor. 3ph/G			0181-0895	\$150,000
Heater Treaters, Line Heaters	8'x20'x75# HT			0181-0897	\$27,000
Metering Equipment				0181-0898	\$15,000
Line Pipe & Valves - Gathering	(1/2) 1 mile Poly SWD & 1 mile Steel Gas			0181-0900	\$46,500
Fittings / Valves & Accessories				0181-0908	\$75,000
Cathodic Protection	Inc. automation			0181-0909	\$112,500
Electrical Installation				0181-0910	\$112,500
Equipment Installation				0181-0920	\$97,500
Pipeline Construction	(1/2) 1 mile Poly SWD & 1 mile Steel Gas				
<b>TOTAL</b>			<b>\$491,900</b>		<b>\$1,323,600</b>
<b>SUBTOTAL</b>			<b>\$3,153,500</b>		<b>\$4,681,400</b>

**TOTAL WELL COST \$7,834,900**

Extra Expense Insurance

I elect to be covered by Operator's Extra Expense Insurance and pay my proportionate share of the premium.  
Operator has secured Extra Expense Insurance covering costs of well control, clean up and redrilling as estimated in Line Item 0180-0185.

I elect to purchase my own well control insurance policy.

If neither box is checked above, non-operating working interest owner elects to be covered by Operator's well control insurance.

Prepared by: H. Buckley Date: 9/14/2020

Company Approval: \_\_\_\_\_ Date: \_\_\_\_\_

Joint Owner Interest: \_\_\_\_\_ Amount: \_\_\_\_\_

Joint Owner Name: \_\_\_\_\_ Signature: \_\_\_\_\_

EXHIBIT 1-E



# MEWBOURNE OIL COMPANY

## AUTHORIZATION FOR EXPENDITURE

Well Name: <b>NORTH WILSON DEEP UNIT #4H</b>		Prospect: <b>NORTH WILSON DEEP UNIT</b>	
Location: <b>SL: 2330 FNL &amp; 1630 FWL (17); BHL: 2535 FNL &amp; 1800 FWL (29)</b>		County: <b>Lea</b> ST: <b>NM</b>	
Sec. <b>17</b>	Blk: <b></b>	Survey: <b></b>	TWP: <b>21S</b> RNG: <b>35E</b> Prop. TVD: <b>9910</b> TMD: <b>20300</b>

INTANGIBLE COSTS 0180		CODE	TCP	CODE	CC
Regulatory Permits & Surveys		0180-0100	\$20,000	0180-0200	
Location / Road / Site / Preparation		0180-0105	\$35,000	0180-0205	\$35,000
Location / Restoration		0180-0106	\$200,000	0180-0206	\$33,000
Daywork / Turnkey / Footage Drilling	30 days drlg / 3 days comp @ \$18,250/d	0180-0110	\$584,700	0180-0210	\$58,500
Fuel	1700 gal/day @ \$1.30/gal	0180-0114	\$70,800	0180-0214	\$260,000
Mud, Chemical & Additives		0180-0120	\$170,000	0180-0220	
Horizontal Drillout Services				0180-0222	\$200,000
Cementing		0180-0125	\$80,000	0180-0225	\$25,000
Logging & Wireline Services		0180-0130	\$2,300	0180-0230	\$300,000
Casing / Tubing / Snubbing Service		0180-0134	\$18,000	0180-0234	\$40,000
Mud Logging		0180-0137	\$30,000		
Stimulation	50 Stg 19.8 MM gal / 19.8 MM lb			0180-0241	\$1,270,000
Stimulation Rentals & Other				0180-0242	\$160,000
Water & Other		0180-0145	\$35,000	0180-0245	\$625,000
Bits		0180-0148	\$128,200	0180-0248	\$5,000
Inspection & Repair Services		0180-0150	\$50,000	0180-0250	\$5,000
Misc. Air & Pumping Services		0180-0154		0180-0254	\$10,000
Testing & Flowback Services		0180-0158	\$12,000	0180-0258	\$24,000
Completion / Workover Rig				0180-0260	\$10,500
Rig Mobilization		0180-0164	\$120,000		
Transportation		0180-0165	\$30,000	0180-0265	\$30,000
Welding Services		0180-0168	\$4,000	0180-0268	\$15,000
Contract Services & Supervision		0180-0170		0180-0270	\$21,000
Directional Services	Includes Vertical Control	0180-0175	\$418,500		
Equipment Rental		0180-0180	\$227,300	0180-0280	\$24,000
Well / Lease Legal		0180-0184	\$5,000	0180-0284	
Well / Lease Insurance		0180-0185	\$5,600	0180-0285	
Intangible Supplies		0180-0188	\$7,000	0180-0288	\$10,000
Damages		0180-0190	\$10,000	0180-0290	\$10,000
ROW & Easements		0180-0192		0180-0292	\$5,000
Pipeline Interconnect				0180-0293	
Company Supervision		0180-0195	\$336,000	0180-0295	\$96,000
Overhead Fixed Rate		0180-0196	\$10,000	0180-0296	\$20,000
Well Abandonment		0180-0198		0180-0298	
Contingencies	2% (TCP) 2% (CC)	0180-0199	\$52,200	0180-0299	\$65,800
<b>TOTAL</b>			<b>\$2,661,600</b>		<b>\$3,357,800</b>

TANGIBLE COSTS 0181		CODE	TCP	CODE	CC
Casing (19.1" - 30")		0181-0793			
Casing (10.1" - 19.0")	1890' - 13 3/8" 54.5# J-55 ST&C @ \$32.16/ft	0181-0794	\$64,900		
Casing (8.1" - 10.0")	5690' - 9 5/8" 40# HCL80 LT&C @ \$26.51/ft	0181-0795	\$161,100		
Casing (6.1" - 8.0")	9855' - 7" 29# HCP-110 LT&C @ \$21.47/ft	0181-0796	\$226,000		
Casing (4.1" - 6.0")	10750' - 4 1/2" 13.5# P-110 BPN @ \$11.72/ft			0181-0797	\$134,600
Tubing	9165' - 2 7/8" 6.5# EUE tbg @ \$4.54/ft			0181-0798	\$44,400
Drilling Head		0181-0860	\$35,000		
Tubing Head & Upper Section				0181-0870	\$30,000
Horizontal Completion Tools	Completion Liner Hanger			0181-0871	\$45,000
Sucker Rods				0181-0875	
Subsurface Equipment	Packer			0181-0880	\$10,000
Artificial Lift Systems	Gas Lift Valves			0181-0884	\$15,000
Pumping Unit				0181-0885	
Surface Pumps & Prime Movers	(1/2) VRU/HTB/Transfer			0181-0886	\$60,000
Tanks - Oil	(1/2) 6 - 750 bbl			0181-0890	\$60,000
Tanks - Water	(1/2) 5 - 750 bbl coated			0181-0891	\$55,000
Separation / Treating Equipment	(1/2) VRT/Flare/30"x10"x1k 3ph/48"x15"x1k# hor. 3ph/G			0181-0895	\$150,000
Heater Treaters, Line Heaters	8'x20'x75# HT			0181-0897	\$27,000
Metering Equipment				0181-0898	\$15,000
Line Pipe & Valves - Gathering	(1/2) 1 mile Poly SWD & 1 mile Steel Gas			0181-0900	\$46,500
Fittings / Valves & Accessories				0181-0906	\$232,500
Cathodic Protection	Inc. automation			0181-0908	\$75,000
Electrical Installation				0181-0909	\$112,500
Equipment Installation				0181-0910	\$112,500
Pipeline Construction	(1/2) 1 mile Poly SWD & 1 mile Steel Gas			0181-0920	\$97,500
<b>TOTAL</b>			<b>\$487,000</b>		<b>\$1,322,500</b>
<b>SUBTOTAL</b>			<b>\$3,148,600</b>		<b>\$4,680,300</b>

**TOTAL WELL COST                      \$7,828,900**

Extra Expense Insurance

I elect to be covered by Operator's Extra Expense Insurance and pay my proportionate share of the premium.  
Operator has secured Extra Expense Insurance covering costs of well control, clean up and redrilling as estimated in Line Item 0180-0185.

I elect to purchase my own well control insurance policy.

If neither box is checked above, non-operating working interest owner elects to be covered by Operator's well control insurance.

Prepared by: H. Buckley Date: 9/14/2020

Company Approval: \_\_\_\_\_ Date: \_\_\_\_\_

Joint Owner Interest: \_\_\_\_\_ Amount: \_\_\_\_\_

Joint Owner Name: \_\_\_\_\_ Signature: \_\_\_\_\_



**Stephanie Garcia Richard**  
COMMISSIONER

*State of New Mexico*  
**Commissioner of Public Lands**

310 OLD SANTA FE TRAIL  
P.O. BOX 1148  
SANTA FE, NEW MEXICO 87504-1148

**COMMISSIONER'S OFFICE**

Phone (505) 827-5760  
Fax (505) 827-5766  
www.nmstatelands.org

July 16, 2020

Mewbourne Oil Company  
ATTN: Ms. Adriana Jimenez-Salgado  
500 W. Texas Ave. #1020  
Midland, Texas 79701

Re: Preliminary Approval of Unit Expansion  
North Wilson Deep Unit  
Lea County, New Mexico

Dear Ms. Jimenez-Salgado:

We have received the unexecuted copy of the unit agreement addendum that you have submitted for the proposed North Wilson Deep Unit expansion area, Lea County, New Mexico. This agreement addendum meets the general requirements for preliminary approval as to form and content, and preliminary approval is hereby granted as of this date.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short-term leases until final approval and an effective date have been given. Requested lease extensions are addressed in a separate transaction.

As specified in the unit agreement addendum and Option B of your e-mail dated July 7, 2020, Mewbourne Oil Company has agreed, as of the effective date of the addendum, on the following Option to expand the Unit:

**OPTION B**

- 1.) SLO will allow the full 12,166.18 acres to be added to the existing 1,105.95 acre unit for a total of 13,272.13 acres.
- 2.) The first 2 wells will be spud by 12/31/2021, or within one year from the effective date of the Unit Agreement.
- 3.) 14 wells will need to be drilled and producing by the end of 5 years, or the unit will contract down to the producing drill blocks.
- 4.) Unit will contract to producing drill blocks after 10 years.

When submitting your agreement for final approval, please include the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 19.2.100.51, a statement of facts showing that:

EXHIBIT


1-F



- a. The agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
  - b. Under the proposed unit operation, the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas in place under its lands in the proposed unit area.
  - c. Each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
  - d. The unit agreement is in other respects for the best interest of the Trust.
3. All ratifications and joinders from the Lessees of Record and Working Interest Owners. We require one set, all with original signatures acknowledged by a notary.
  4. Approval order from the New Mexico Oil Conservation Division. State Land Office approval is conditioned upon approval by the New Mexico Oil Conservation Division.
  5. One copy of the Unit Operating Agreement (if applicable).
  6. A \$2,100.00 total filing fee. The filing fee is \$100 for each section or partial section included in the unit, whether state or privately owned.

If you have any questions or if we may be of further assistance, please contact Units Manager Scott Dawson at 505.827.5791 or [sdawson@slo.state.nm.us](mailto:sdawson@slo.state.nm.us)

Respectfully,



STEPHANIE GARCIA RICHARD  
COMMISSIONER OF PUBLIC LANDS

SR/sd

cc: NMOCD, Attn: Mr. Leonard Lowe  
SLORMD, Attn: Ms. Billie Luther  
OGMD and Units Reader Files

## Dawson, Scott

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**From:** Adriana Salgado <asalgado@mewbourne.com>  
**Sent:** Tuesday, July 7, 2020 2:23 PM  
**To:** Dawson, Scott  
**Subject:** [EXTERNAL] Expansion of North Wilson Deep Unit

Good afternoon, Scott.

I hope this email finds you doing well and staying healthy! I wanted to reach out to see if we could get to an agreement on the Expansion of the North Wilson Deep State Unit proposal that we have been working on. The following 2 options are what we would like to propose:

### OPTION A

- 1.) SLO will allow the full 13,000+ acres to be added to the unit.
- 2.) The first 2 wells will be spud by 12/31/2021, or within one year from the effective date of the Unit Agreement.
- 3.) 14 wells will need to be drilled and producing by the end of 5 years, or the unit will contract down to the producing drill blocks (We believe 14 wells is a fair number as it's the median number of wells from our original suggestion of 8 wells and the SLO's suggestion of 20 wells).
- 4.) If 14 wells are drilled within the first 5 years, the SLO will not contract the unit so long as diligent drilling continues in the unit until full development is realized.

### OPTION B

- 1.) SLO will allow the full 13,000+ acres to be added to the unit.
- 2.) The first 2 wells will be spud by 12/31/2021, or within one year from the effective date of the Unit Agreement.
- 3.) 14 wells will need to be drilled and producing by the end of 5 years, or the unit will contract down to the producing drill blocks (We believe 14 wells is a fair number as it's the median number of wells from our original suggestion of 8 wells and the SLO's suggestion of 20 wells).
- 4.) Unit will contract to producing drill blocks after 10 years.

Please let me know if the SLO agrees to either of those options so that I may begin working on Ratifications.

Thank you!  
Adriana



**Adriana Jimenez-Salgado**  
Landman  
Mewbourne Oil Company

500 W. Texas Ave. #1020  
Midland, TX 79701  
Office: (432) 682-3715  
Phone: (432) 528-5955  
Email: [asalgado@mewbourne.com](mailto:asalgado@mewbourne.com)

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# MEWBOURNE OIL COMPANY

500 West Texas, Suite 1020

Midland, Texas 79701

Phone (432) 682-3715

Fax (432) 685-4170

May 6, 2020

New Mexico Commissioner of Public Lands

310 Old Santa Fe Trail

Santa Fe, New Mexico 87501

Attn: Mr. Scott Dawson, Units Manager

APPROVED ON 7/22/20  
COMMISSIONER OF PUBLIC LANDS

Re: Request for Preliminary Approval  
Extension of North Deep Wilson Unit  
Lea County, New Mexico

Stephanie Gerene Richard/JS

Mr. Dawson,

Mewbourne Oil Company seeks approval for the expansion of its North Wilson Deep Unit containing approximately 13,272.13 acres of state lands situated in Sections 31 and 32 of Township 20 South, Range 36 East, Sections 4, 5, 6, 7, 8, 9, 16, 17, 18, 20, 21, 22, 27, 28, 29, 33 and 34 of Township 21 South, Range 35 East, and Sections 3, 4, 10, and 15 of Township 22 South, Range 35 East.

Listed in the table below are the serial numbers of all State Trust leases, along with location descriptions and expiration dates, of those areas included in the proposed expansion of the North Deep Wilson Unit:

LEASE SERIAL NO.	LEGAL	LEASE EXPIRATION
E0-1731	T20S-R36E SEC 31: LOTS 1 & 2, E2NW (NW)	HBP
VC-0706	T20S-R36E SEC 31: LOTS 3 & 4, E2SW (SW)	3/1/2025
V0-6832	T20S-R36E SEC 31: NE	HBP
B0-0230	T20S-R36E SEC 31: SE T21S-R35E SEC 16: SW	HBP
VB-0935	T20S-R36E SEC 32: SE	HBP
B0-1931	T20S-R36E SEC 32: SW T21S-R35E SEC 5: LOTS 1, 4, 5, 8	HBP
VB-2609	T21S-R35E SEC 4: LOTS 1-8	12/1/2020
V0-7054	T21S-R35E SEC 4: LOTS 9-16	HBP
B0-1481	T21S-R35E SEC 4: SE	HBP
V0-7063	T21S-R35E SEC 4: SW	HBP

B0-1040	T21S-R35E SEC 5: LOTS 10 & 15 T21S-R35E SEC 28: NE	HBP
VO-6465	T21S-R35E SEC 5: LOTS 11-14 & S2	HBP
EO-9361	T21S-R35E SEC 5: LOTS 9 & 16	HBP
EO-1733	T21S-R35E SEC 5: LOTS 2 & 7	HBP
B0-1439	T21S-R35E SEC 5: LOTS 3 & 6	HBP
EO-1921-0001	T21S-R35E SEC 6: LOTS 1, 2, 7 & 8	HBP
EO-8268	T21S-R35E SEC 6: LOTS 9 & 16	HBP
EO-8172	T21S-R35E SEC 6: LOTS 10 & 15	HBP
VO-6950	T21S-R35E SEC 6: SE	HBP
B0-1439	T21S-R35E SEC 7: NE	HBP
B0-1481-0019	T21S-R35E SEC 7: SE	HBP
B0-1481-0018	T21S-R35E SEC 8: N2, SW, N2SE	HBP
EO-8241	T21S-R35E SEC 8: S2SE	HBP
EO-1732	T21S-R35E SEC 9: NE T21-R35E SEC 16: NE	HBP
VO-7049	T21S-R35E SEC 9: NW	HBP
EO-2446-0003	T21S-R35E SEC 9: S2	HBP
B0-0165	T21S-R35E SEC 16: NW	HBP
VB-0177	T21S-R35E SEC 16: SE	HBP
K0-4205	T21S-R35E SEC 17: N2	HBP
EO-1921-0003	T21S-R35E SEC 17: S2	HBP
VO-5917	T21S-R35E SEC 18: E2	HBP
B0-1431	T21S-R35E SEC 20: E2NE	HBP
VB-0756	T21S-R35E SEC 20: NW & W2NE	HBP
EO-2446-0007	T21S-R35E SEC 20: S2	HBP
EO-1639	T21S-R35E SEC 21: NE	HBP
EO-1924	T21S-R35E SEC 21: E2NW	HBP
VO-6982	T21S-R35E SEC 21: NWNW	HBP
VO-5764	T21S-R35E SEC 21: SWNW & S2	HBP
VO-6860	T21S-R35E SEC 22: N2 & SE	HBP
VB-1285	T21S-R35E SEC 22: SW	HBP
VC-0295	T21S-R35E SEC 27: N2NE	12/1/2022
VB-2896	T21S-R35E SEC 27: NW	1/1/2022
EO-1640	T21S-R35E SEC 27: S2NE T21S-R35E SEC 33: NE	HBP
VB-2895	T21S-R35E SEC 27: SE	1/1/2022
B0-2317	T21S-R35E SEC 27: E2SW	HBP
VC-0296	T21S-R35E SEC 27: W2SW	12/1/2022
VB-0741	T21S-R35E SEC 28: NW	HBP
EO-1922	T21S-R35E SEC 28: S2	HBP
B0-0158	T21S-R35E SEC 29: N2	HBP
EO-1673	T21S-R35E SEC 33: NW	HBP



VO-4799	T21S-R35E SEC 33: S2	HBP
VB-2796	T21S-R35E SEC 34: E2	9/1/2021
VB-2779	T21S-R35E SEC 34: W2	9/1/2021
E0-8322	T22S-R35E SEC 3: LOTS 1, 2, S2NE & SE (E2)	HBP
VB-2838	T22S-R35E SEC 3: LOTS 3, 4, S2NW & SW (W2)	11/1/2021
LG-4234	T22S-R35E SEC 4: LOTS 1-4, S2N2 & S2 (ALL)	HBP
E0-1625	T22S-R35E SEC 10: NW	HBP
E0-6019	T22S-R35E SEC 10: SW	HBP
VO-6837	T22S-R35E SEC 15: W2	HBP

The deepest unitized formation that is proposed for testing is the Wolfcamp formation at the projected approximate depth of 11,500' TVD.

For your review, enclosed you will find a draft of the Unit Agreement along with Exhibit A-Map of Unit Area, Exhibit B-Schedule of Ownership, Exhibit C-Schedule of Tract Participation and Geological Reports.

Please feel free to contact me with any questions you may have, or for any additional information you may need, by email at [asalgado@mewbourne.com](mailto:asalgado@mewbourne.com) or at the phone numbers listed below.

Thank you for your time,

*Asalgado*



**Adriana Jimenez-Salgado**  
Landman  
Mewbourne Oil Company

Office: (432) 682-3715  
Phone: (432) 528-5955

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

**APPLICATION OF MEWBOURNE OIL  
COMPANY FOR EXPANSION OF UNIT AREA,  
LEA COUNTY, NEW MEXICO**

**Case No. 21418**

**SELF-AFFIRMED STATEMENT OF  
JORDAN CARRELL**

1. I am over 18 years of age and am competent to provide this Self-Affirmed Statement. I have personal knowledge of the matters addressed herein.
2. I am a geologist at Mewbourne Oil Company ("Mewbourne"). I am familiar with the geological matters that pertain to Mewbourne's application.
3. I have previously testified before the New Mexico Oil Conservation Division as an expert in geology, and my qualifications were accepted.
4. A general location map of the proposed expansion of the North Wilson Deep Unit is attached as Exhibit 2-A. The area lies entirely within the Delaware Basin and is approximately two miles west of the Central Basin Platform. The proposed unit area will cover depths from the top of the Bone Spring formation to the base of the Wolfcamp formation.
5. A structure map of the top of the Bone Spring formation is attached as Exhibit 2-B. The current North Wilson Deep Unit is displayed with diagonal blue lines and the proposed expansion boundary of the unit is shown in red. The map shows that the structure of the Bone Spring dips to the west-southwest. Across the proposed unit area there is approximately 100' of elevation change per mile in the north-south orientation, which is the direction that horizontal wells will be drilled. The map also shows lines of cross-sections through the proposed unit area and the location of the initial test wells that will be drilled within the expanded unit.

EXHIBIT

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6. Attached as Exhibit 2-C is a gross thickness isopach map of the Bone Spring formation, which is the initial zone for development within the proposed unit area. It shows that the Bone Spring across the proposed unit area has an approximate thickness of 2600-2800'.

7. Attached as Exhibit 2-D is an activity map of the horizontal Bone Spring wells in the immediate area. Other than Mewbourne's Second Bone Spring well in Section 6, Township 21 South, Range 35 East, NMPM, there have been no new wells drilled within the proposed expanded unit area in over ten years.

8. Attached as Exhibit 2-E is a north to south Bone Spring cross-section along line A-A'. The well logs on the cross section provide a representative sample of the Bone Spring formation in the area. There is a resistivity log on the left and a porosity log on the right for each well. These logs show there are consistent sands within the First, Second, and Third Bone Spring intervals. Within the Second Bone Spring interval there is an upper sand and a lower sand that can be seen by the reduced resistivity levels that are approximately 60' thick. Our initial test wells, the North Wilson Deep Unit Nos. 3H and 4H, will target these intervals as indicated by the solid red arrows. The dashed arrows represent additional prospective targets in the Avalon Shale and First Bone Spring interval.

9. Attached as Exhibits 2-F through 2-H are west to east cross-sections in the northern, central, and southern part of the proposed unit area. These cross-sections show relatively consistent thickness within the Bone Spring formation across the entire area.

10. Attached as Exhibit 2-I is a north to south Wolfcamp cross-section along line A-A'. The well logs on the cross section provide a representative sample of the Wolfcamp formation in the area. The Wolfcamp consists primarily of limestone in the area with interbedded shales. The Wolfcamp in this area has proven to produce oil by past vertical wells but has not been completed

in over 10 years. Our initial focus is on developing the Bone Spring formation; however, we believe the Wolfcamp formation also has the potential for horizontal development.

11. Attached as Exhibit 2-J is a development plan for the proposed unit area. It shows the planned initial test well location for the Second Bone Spring and the potential locations of future extended laterals and surface facilities.

12. Exhibits 2-K and 2-L are well planning reports for the initial unit wells. The reports contain plots and lateral schematics of the planned wellbores. The wells' producing intervals will be orthodox.

13. Based on the information discussed above, I am able to conclude that:

- a) The expansion of the unit area is justified from a geologic standpoint;
- b) There is no faulting or other geologic impediment that could adversely affect the drilling of the proposed wells; and
- c) Each quarter-quarter section in the expanded unit area will contribute more or less equally to production.

14. In my opinion, the granting of Mewbourne's application will serve the interests of conservation and the prevention of waste.

15. Exhibits 2-A through 2-L were either prepared by me or compiled from company business records.

I understand that this Self-Affirmed Statement will be used as written testimony in this case. I affirm that my testimony in paragraphs 1 through 15 above is true and correct and is made under penalty of perjury under the laws of the State of New Mexico. My testimony is made as of the date handwritten next to my signature below.

  
Jordan Carrell

1-12-21  
Date



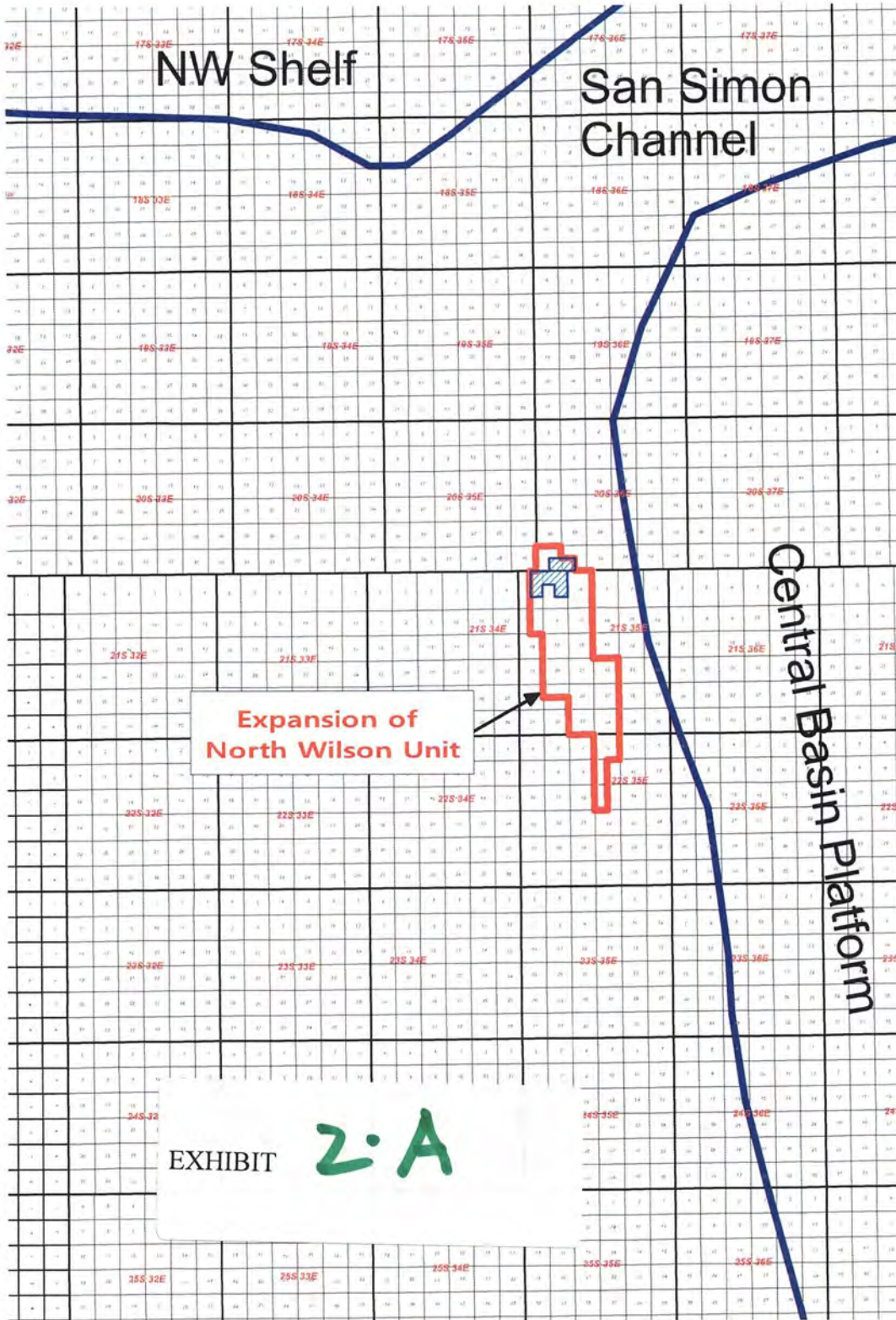
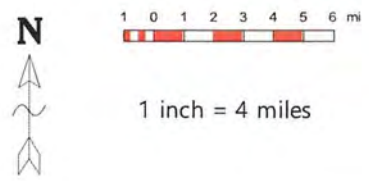



EXHIBIT **2-A**



 <b>Mewbourne Oil Company</b>		
<b>NE Delaware Basin Regional Map</b> <b>North Wilson Deep Unit</b>		
Author: JRC	Lea Co, New Mexico	Date: 1/12/21

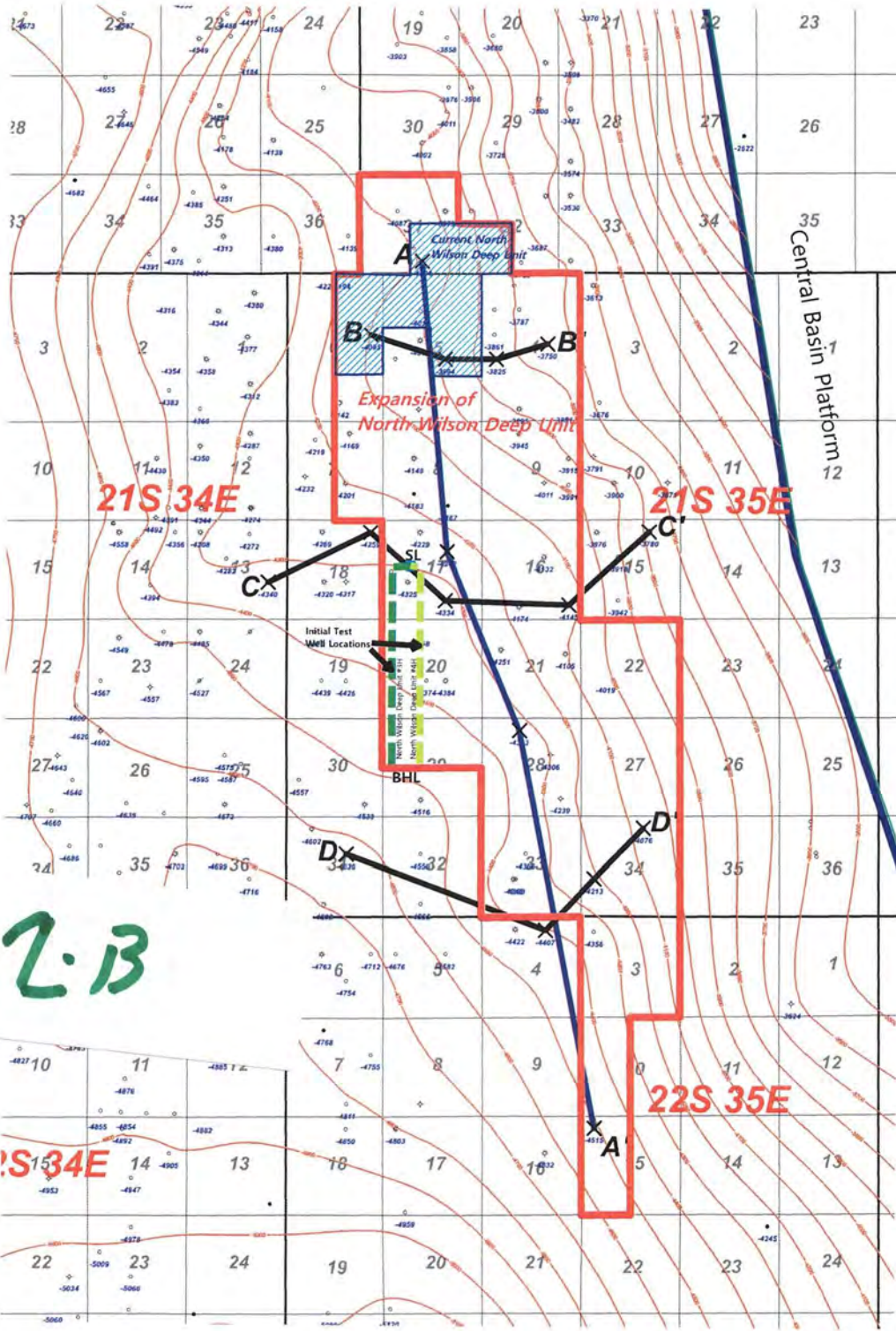



EXHIBIT **2.B**

Wells deeper than 7000'

●  
*Bone Spring structural top (subsea ft)*



 <b>Mewbourne Oil Company</b>		
<b>Bone Spring Structure Map</b> North Wilson Deep Unit		
Author: JRC	Contour Interval: 100'	Date: 1/21/21
Lea Co, NM		



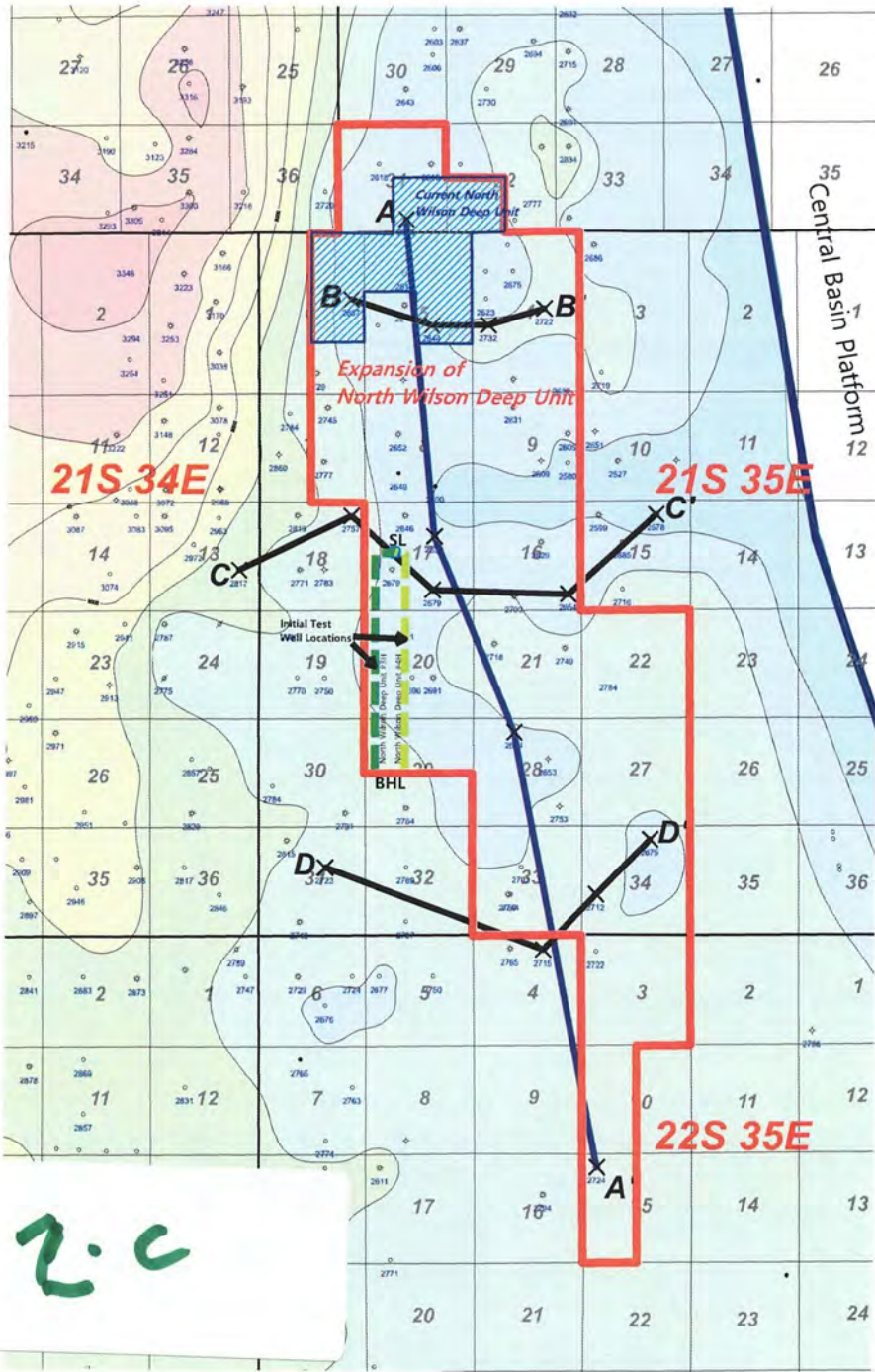
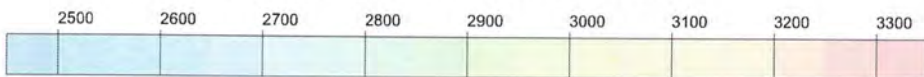


EXHIBIT **2.c**

Bone Spring Fm Gross Thickness (ft)



Wells deeper than 7000'

●  
*Bone Spring Gross  
thickness (ft)*

<b>Bone Spring Gross Thickness Map North Wilson Deep Unit</b>		
Author: JRC	Contour Interval: 100'	Date: 1/12/21
Lea Co, NM		

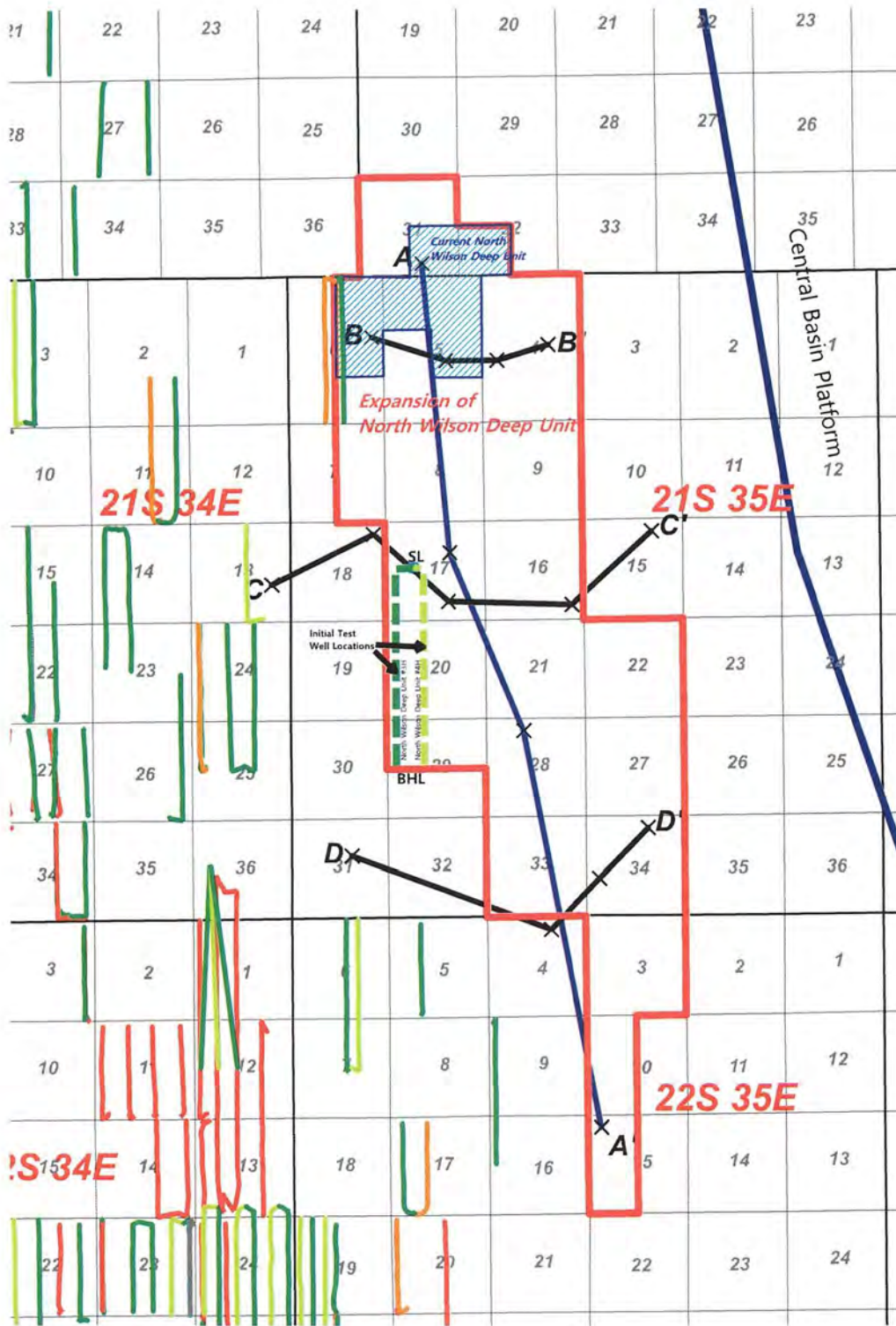


EXHIBIT 2.D

Hz Well Activity Color Code

- Avalon Shale
- 1st BSPG Sand
- Upper 2nd BSPG Sand
- Lower 2nd BSPG Sand
- 3rd BSPG Sand



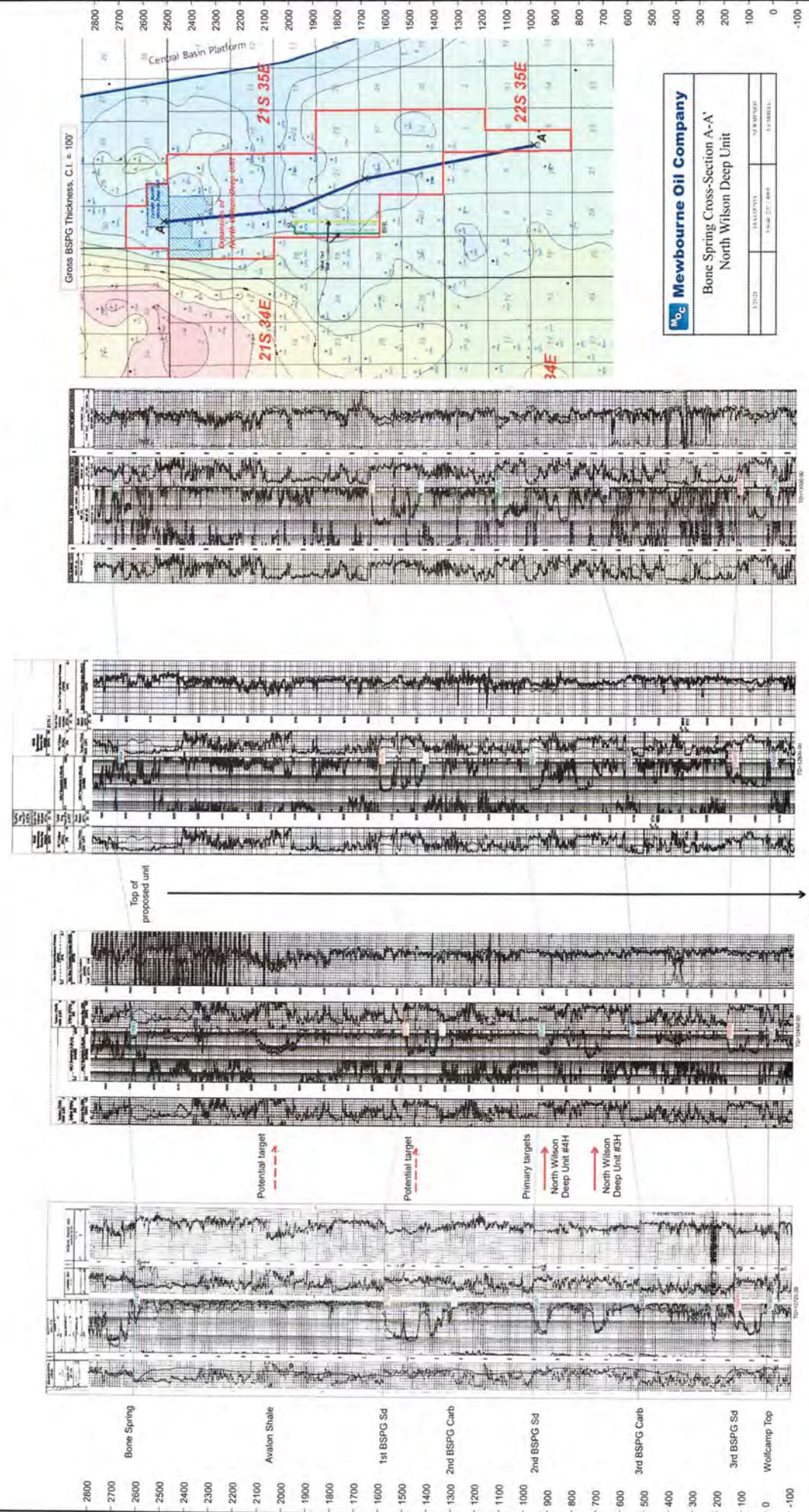
<b>MOC Mewbourne Oil Company</b>	
<b>Horizontal Bone Spring Activity Map</b> North Wilson Deep Unit	
Author: JRC	Date: 1/12/21
Lea Co, NM	



A'

A

SECTION 2008  
 OPERATIONAL PLAN  
 SECTION 2008  
 OPERATIONAL PLAN  
 SECTION 2008  
 OPERATIONAL PLAN  
 SECTION 2008  
 OPERATIONAL PLAN



**Mewbourne Oil Company**

Bone Spring Cross-Section A-A'  
 North Wilson Deep Unit

12/2/20	15-NOV-2020	12/2/20
15-NOV-2020	15-NOV-2020	15-NOV-2020

2.5

EXHIBIT

WFMP base is proposed base of unit



B

B'

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GULF OIL CORP.  
SOUTH WILSON DEEP UNIT 1  
TRIP 11 - 8. Range 35E, Line 4  
Datum=3013.00

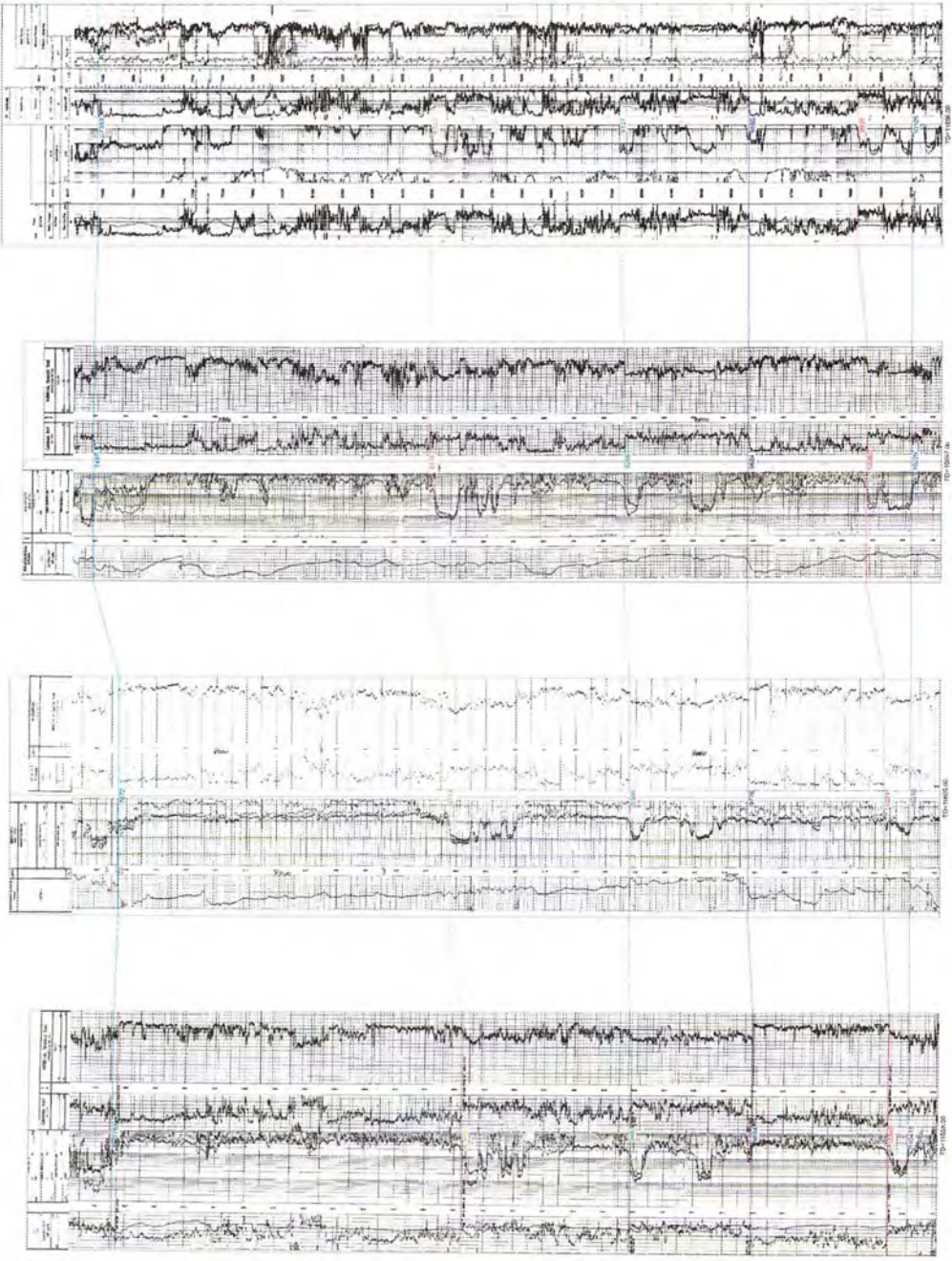
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FMSI PAZ INCORPORATED  
SOUTH WILSON DEEP UNIT 1  
TRIP 11 - 8. Range 35E, Line 4  
Datum=3013.00

3000710500  
HONGKONG & N.O.  
SOUTH WILSON DEEP UNIT 1  
TRIP 11 - 8. Range 35E, Line 4  
Datum=3013.00

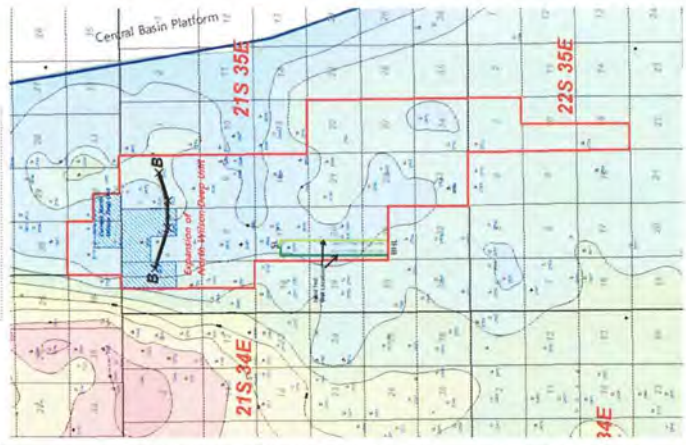
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SOUTH WILSON DEEP UNIT 1  
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Bone Spring  
Avalon Shale  
1st BSPG Sd  
2nd BSPG Carb  
2nd BSPG Sd  
3rd BSPG Carb  
3rd BSPG Sd  
Wolfcamp



Gross BSPG Thickness, C.I. = 100'



**Mewbourne Oil Company**  
Bone Spring Cross-Section B-B'  
North Wilson Deep Unit

DATE	VERSION	BY	APP'D
12/12/11	1.0	MEW	JW

2.F

EXHIBIT



C

C

**RECORDED**  
 DUNLAP SECTION (MAY) PAPER RECORDED  
 DUNLAP 21 - 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100  
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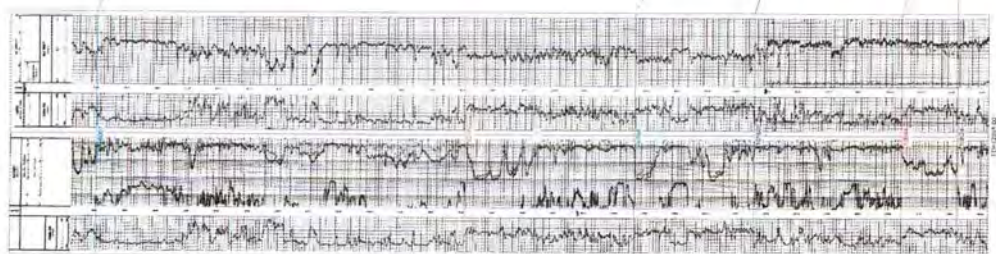
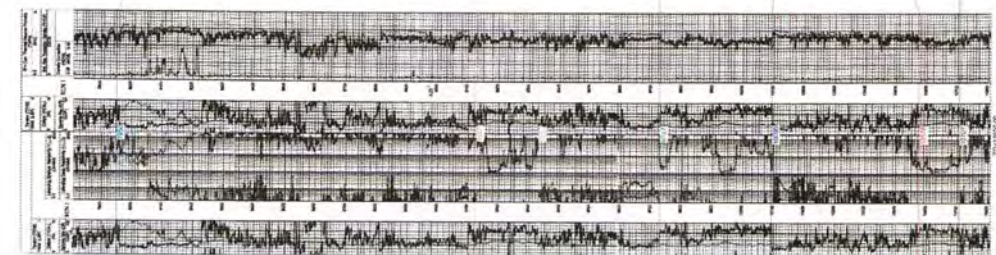
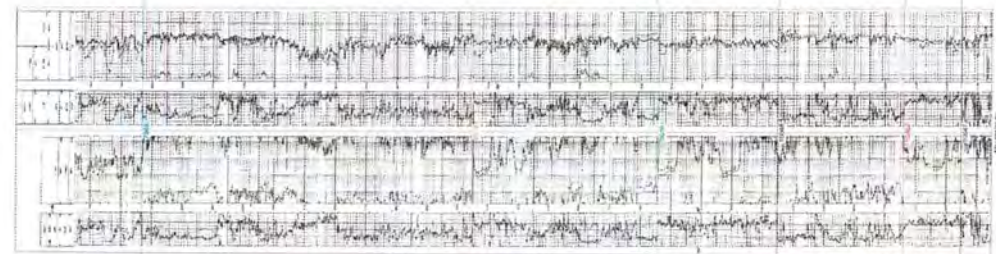
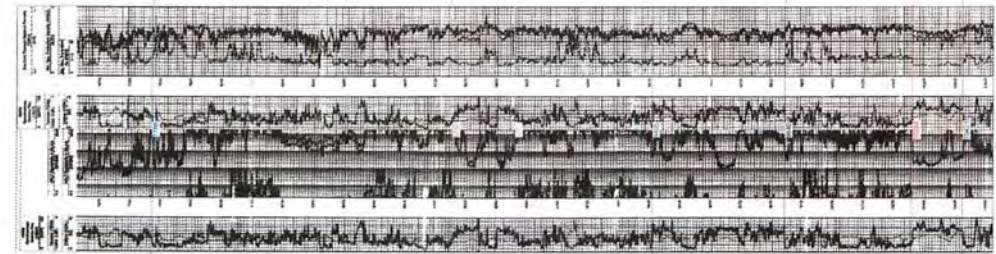
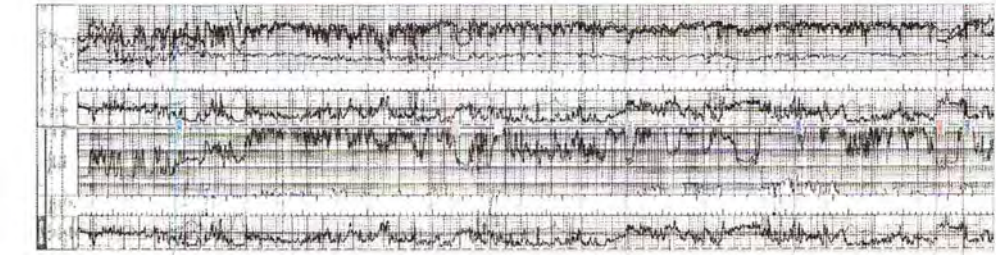
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Bone Spring  
 Avalon Shale  
 1st BSPG Sd  
 2nd BSPG Carb  
 2nd BSPG Sd  
 3rd BSPG Carb  
 3rd BSPG Sd  
 Wolfcamp



**Mewbourne Oil Company**  
 Bone Spring Cross-Section C-C'  
 North Wilson Deep Unit  
 10/15/2015  
 10/15/2015  
 10/15/2015

EXHIBIT  
**2.6**



D'

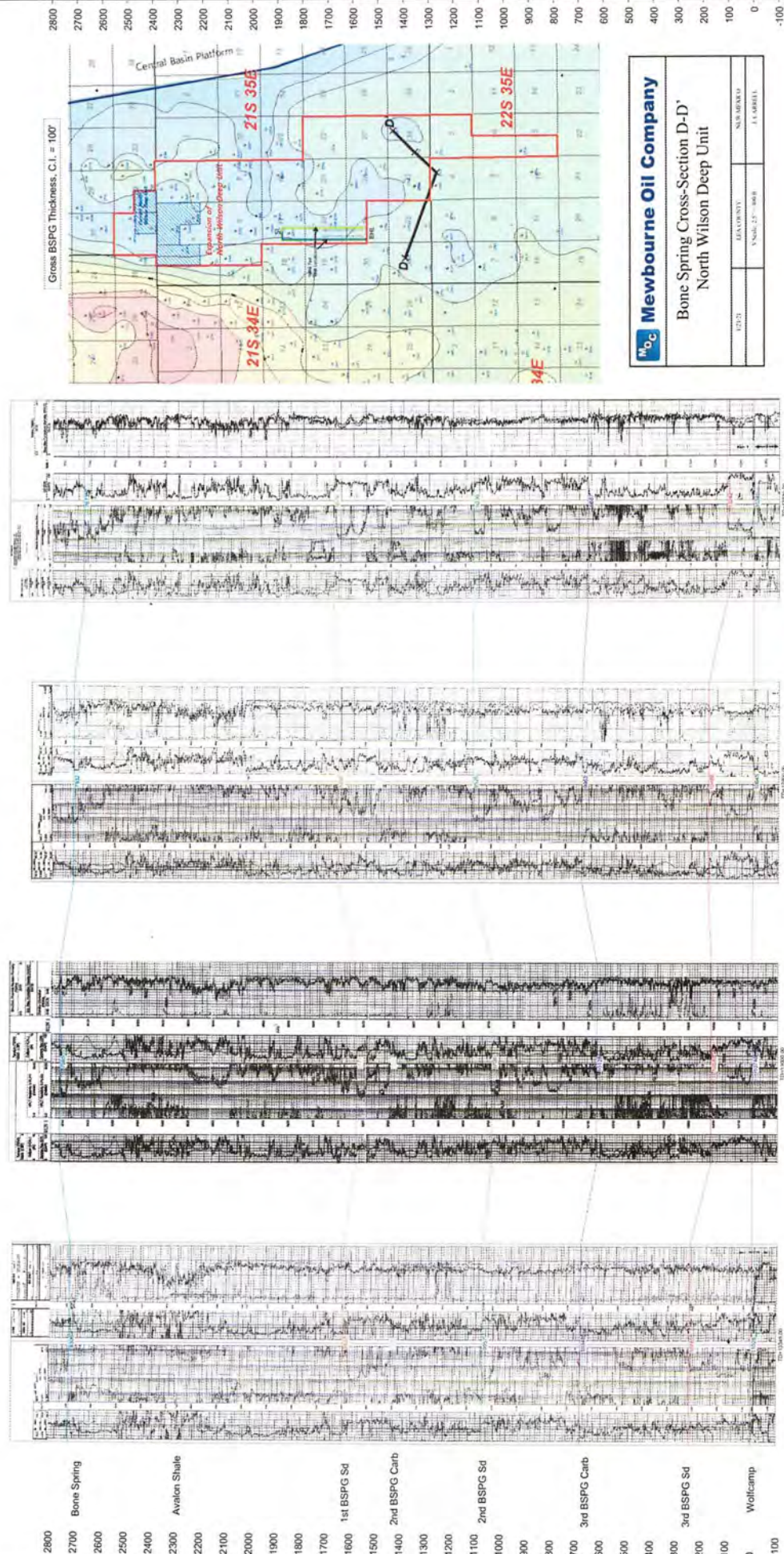
D

CHAMBERLAIN OIL COMPANY  
 1001 11th Street, Suite 210  
 Denver, Colorado 80202  
 Telephone: 303.733.1111  
 Fax: 303.733.1112

MARLBORO OIL CO.  
 1001 11th Street, Suite 210  
 Denver, Colorado 80202  
 Telephone: 303.733.1111  
 Fax: 303.733.1112

MICHIGAN OIL COMPANY  
 1001 11th Street, Suite 210  
 Denver, Colorado 80202  
 Telephone: 303.733.1111  
 Fax: 303.733.1112

MEXICO OIL COMPANY  
 1001 11th Street, Suite 210  
 Denver, Colorado 80202  
 Telephone: 303.733.1111  
 Fax: 303.733.1112



**MOC Mewbourne Oil Company**

Bone Spring Cross-Section D-D'  
North Wilson Deep Unit

12/2/25	LEAVENWORTH	NEWARK
Volume 25 - 0008	J.S. ARBEE	

2-H

EXHIBIT



A'

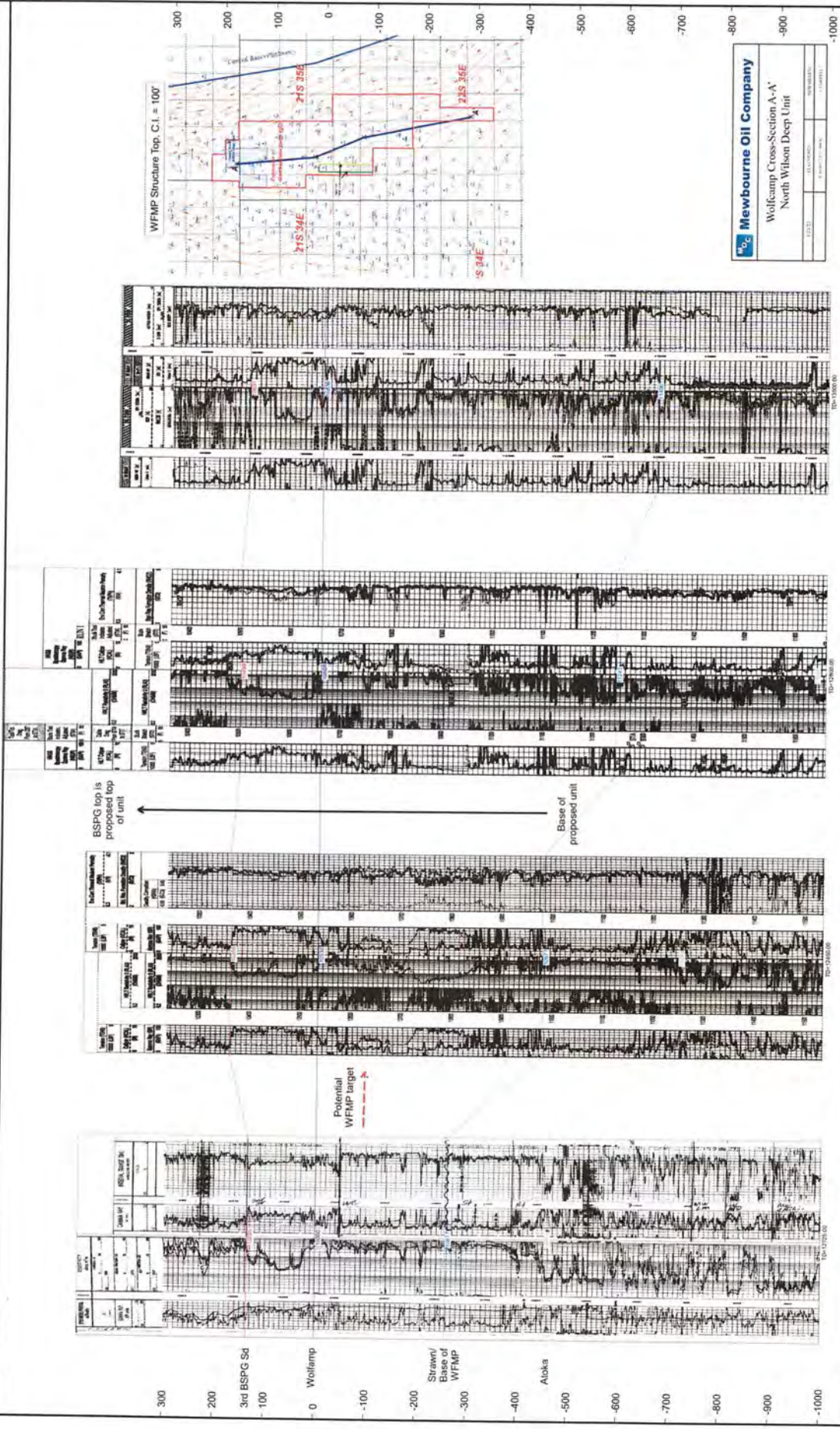
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 COOKING VESSEL 1  
 TWP 22 S, Range 24 E, Sec. 15  
 (Datum: 2008.00)

20200327-0020  
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 LEGACY PETROLEUM INC.  
 TWP 21 S, Range 24 E, Sec. 28  
 (Datum: 2011.00)

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 MARIETTA OIL SERVICES LLC  
 TWP 21 S, Range 24 E, Sec. 17  
 (Datum: 2011.00)

20200327-0020  
 27146.8  
 20200327-0020  
 OIL SERVICES INC.  
 NORTH WILSON DEEP UNIT 1  
 TWP 21 S, Range 24 E, Sec. 15  
 (Datum: 2011.00)



**Mewbourne Oil Company**  
 Wolfcamp Cross-Section A-A'  
 North Wilson Deep Unit

DATE	DESCRIPTION	BY

EXHIBIT 2.1



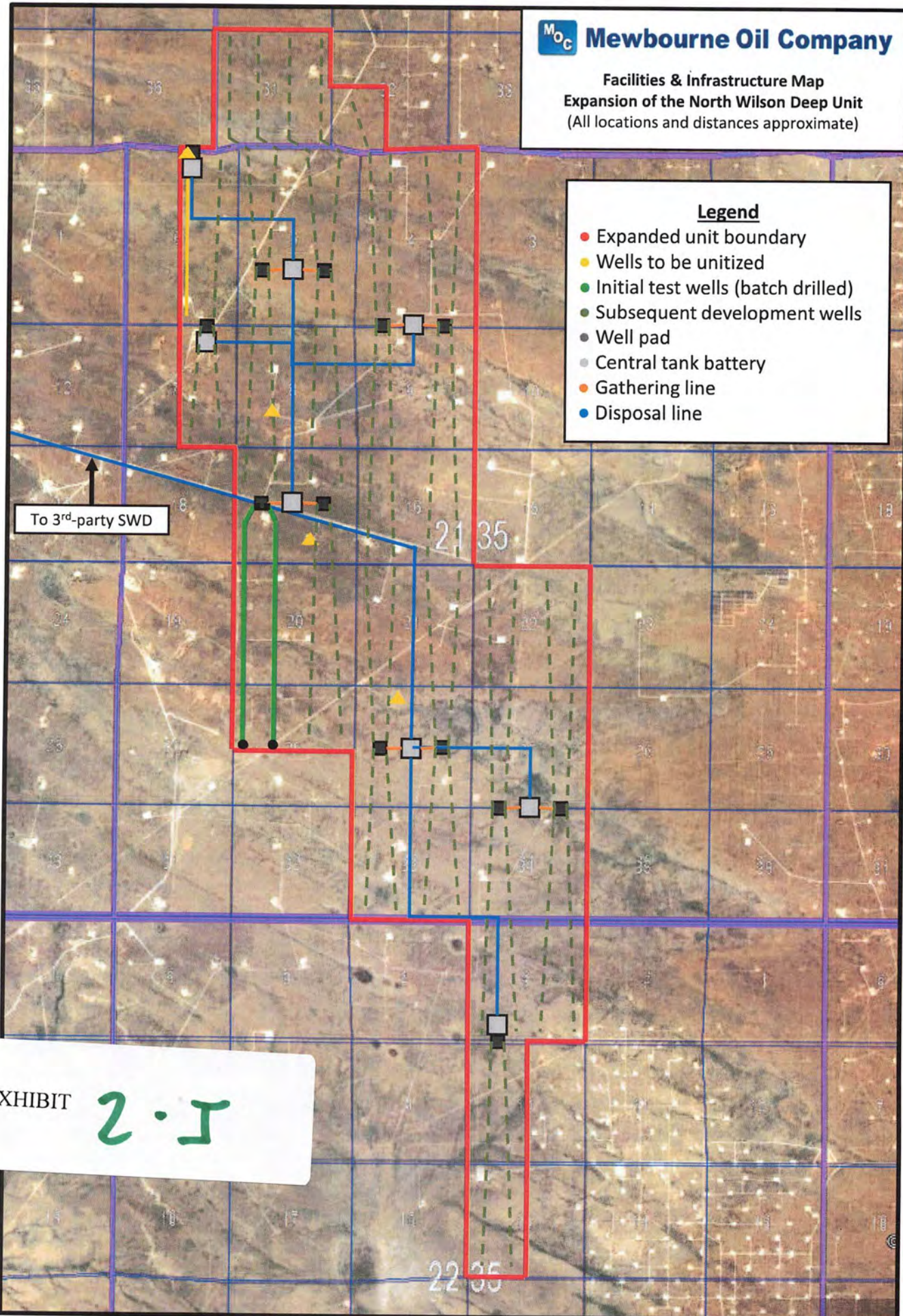
Facilities & Infrastructure Map  
Expansion of the North Wilson Deep Unit  
(All locations and distances approximate)

**Legend**

- Expanded unit boundary
- Wells to be unitized
- Initial test wells (batch drilled)
- Subsequent development wells
- Well pad
- Central tank battery
- Gathering line
- Disposal line

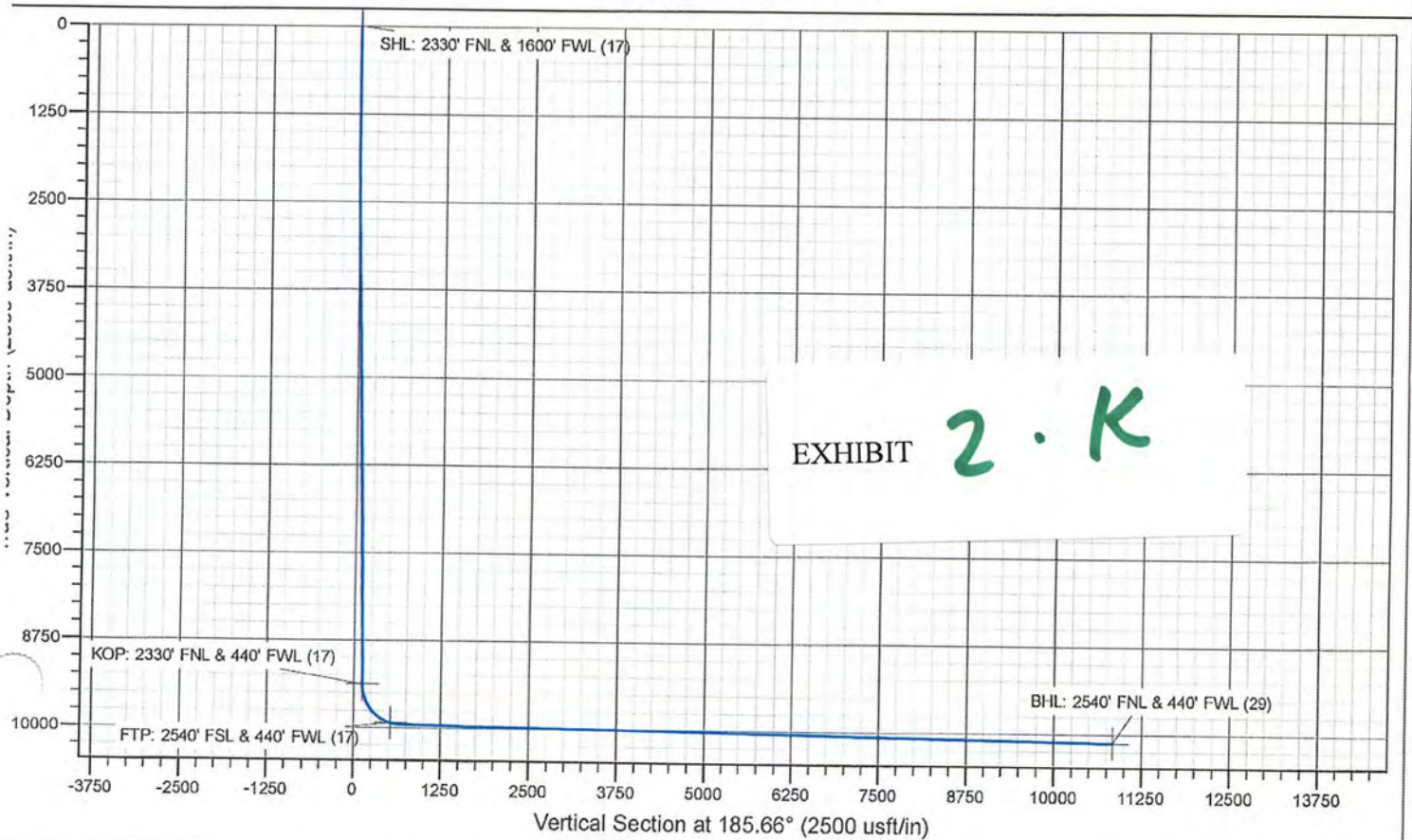
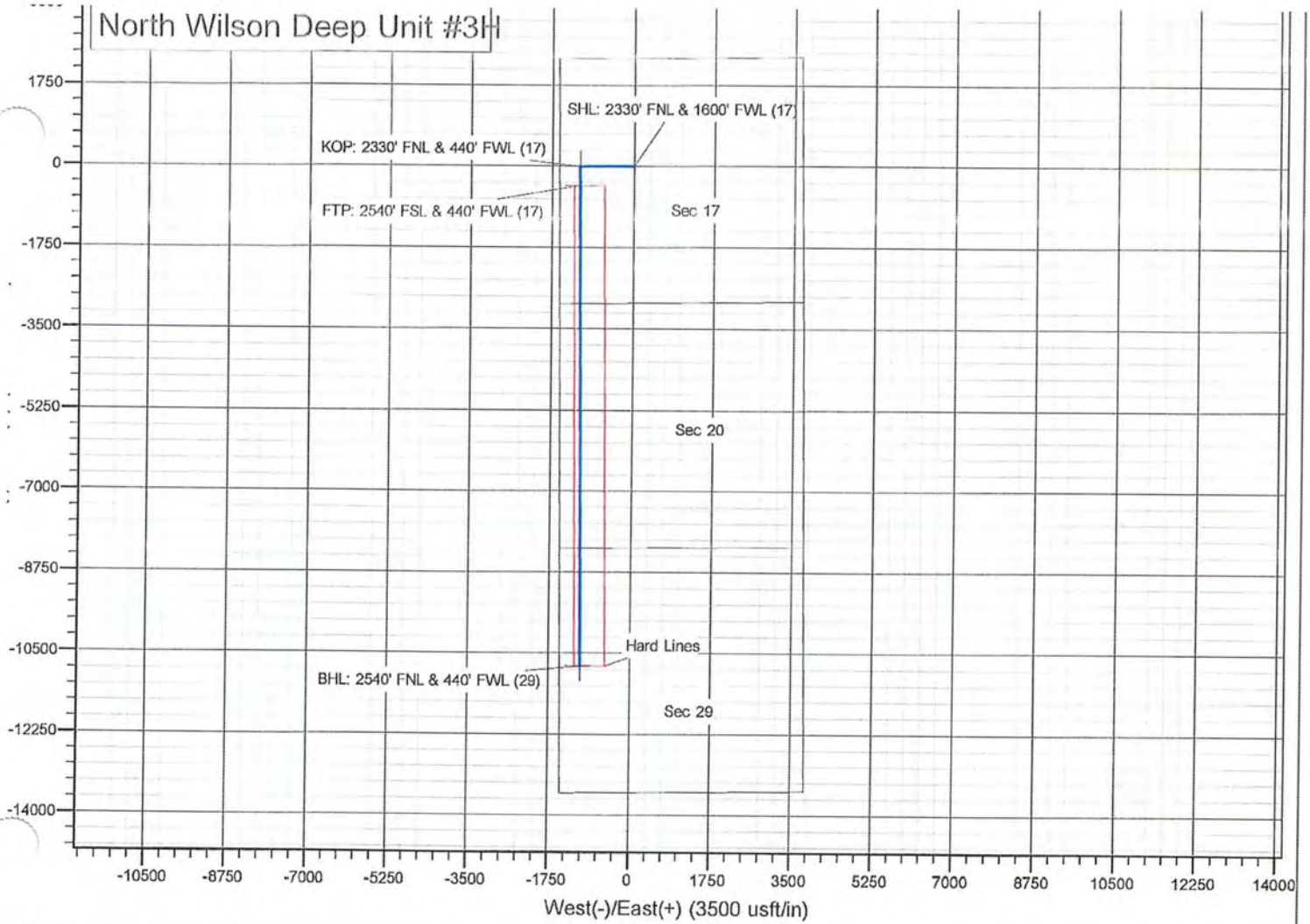
To 3<sup>rd</sup>-party SWD

EXHIBIT 2-J

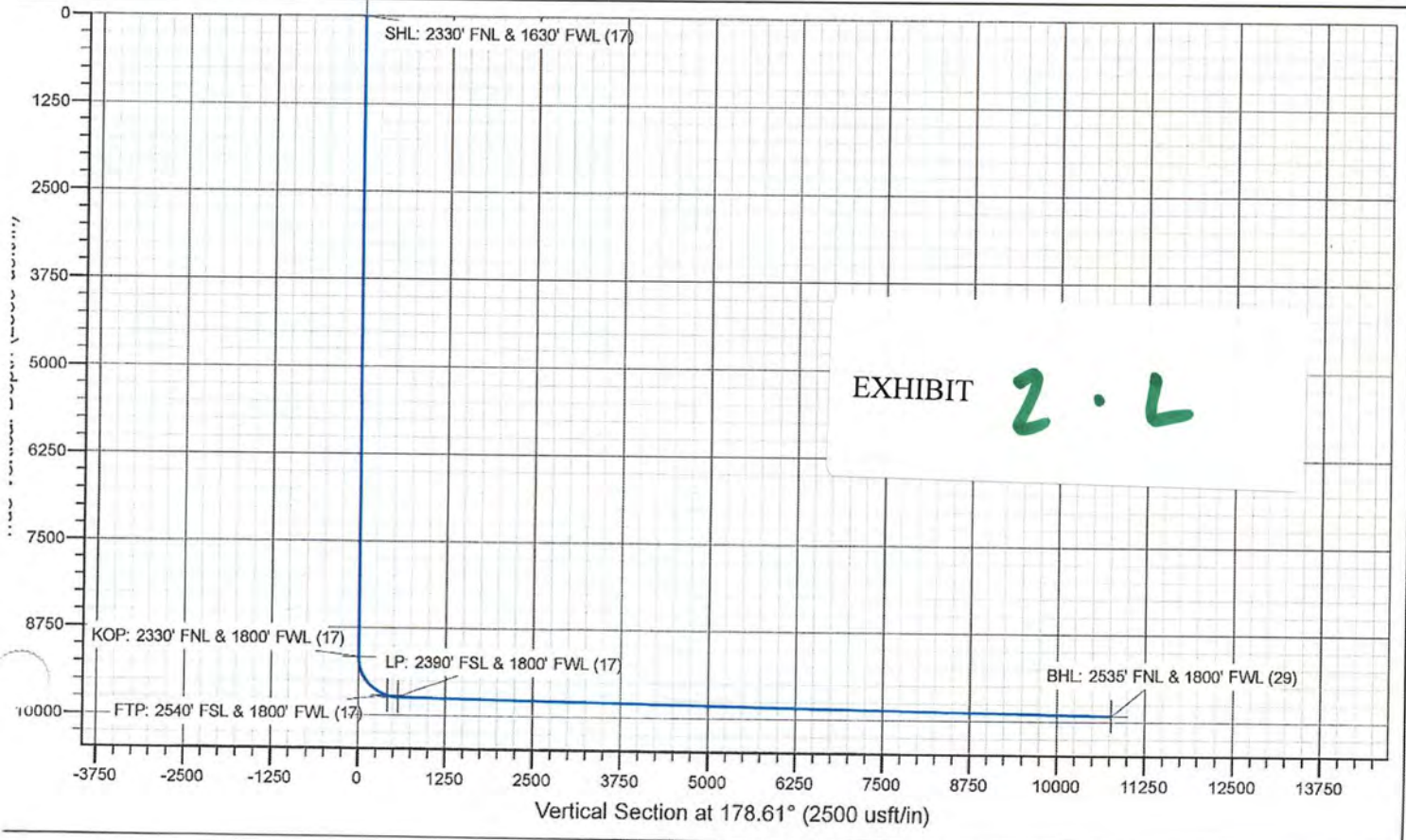
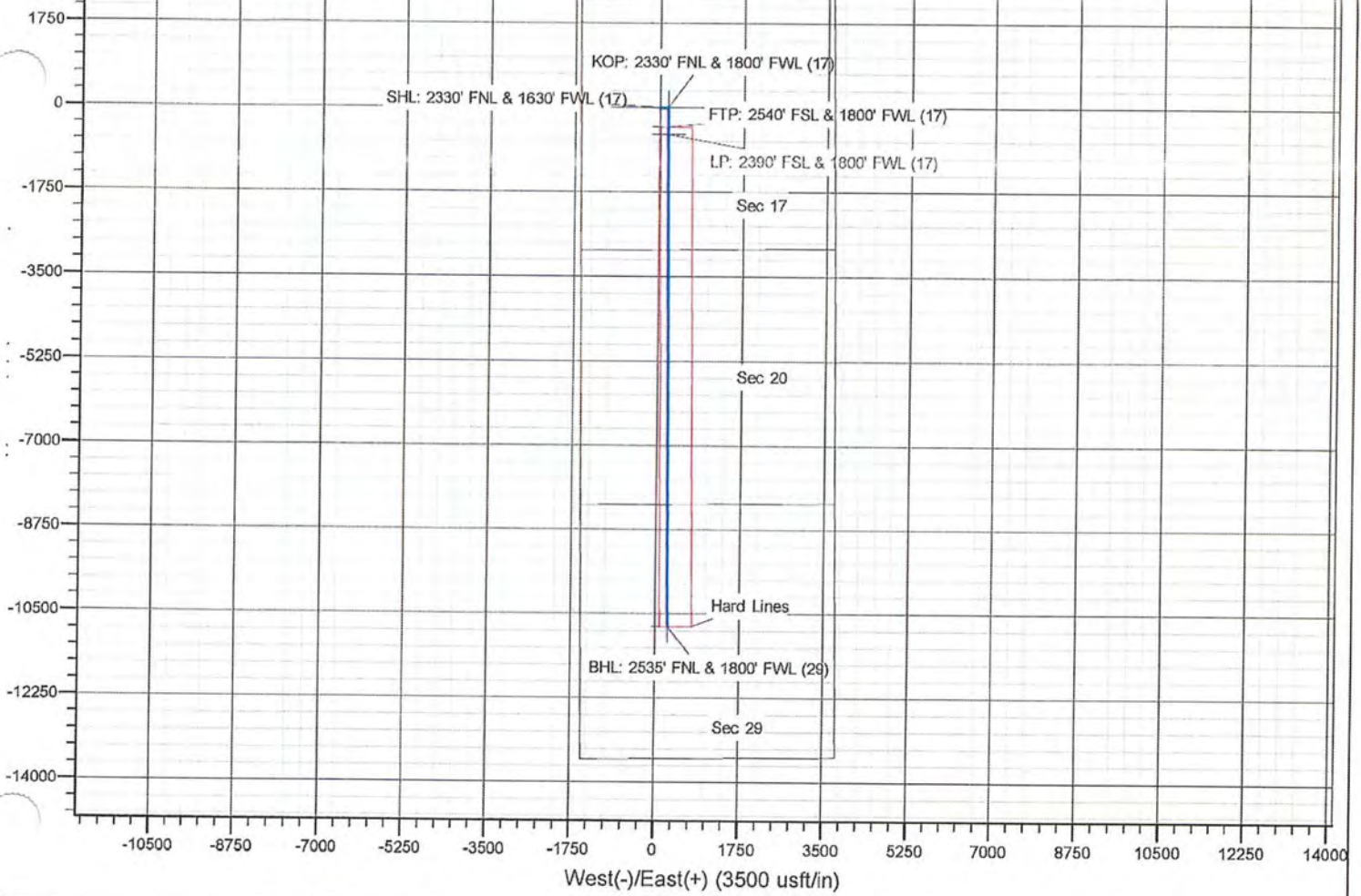




# North Wilson Deep Unit #3H



# North Wilson Deep Unit #4H





BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF MEWBOURNE OIL COMPANY  
FOR APPROVAL OF EXPANSION OF A UNIT AREA,  
LEA COUNTY, NEW MEXICO.

Case No. 21418

APPLICATION

Mewbourne Oil Company applies for an order approving the Unit Agreement for the proposed expansion of the North Wilson Deep Unit Area, and in support thereof, states:

1. Applicant is a working interest owner in the North Wilson Deep Unit Area, an exploratory unit originally comprising 2,145.95 acres of state land in Lea County, New Mexico, described as follows:

Township 20 South, Range 36 East, NMPM

Section 31: All  
Section 32: S/2

Township 21 South, Range 35 East, NMPM

Section 5: Lots 1-8, SW/4, and W/2SE/4  
Section 6: Lots 1, 2, 7-10, 15, 16, and SE/4  
Section 7: NE/4

Commission Order No. R-2621, approving the Unit Area, is attached hereto as Exhibit A.

2. Applicant requests the Division's approval to expand the Unit Area to cover the following state lands in Lea County, New Mexico:

Township 20 South, Range 36 East, NMPM

Section 31: Lots 1-4, E/2W/2, and E/2 (All)  
Section 32: S/2

Township 21 South, Range 35 East, NMPM

Section 4: Lots 1-16 and S/2 (All)  
Section 5: Lots 1-16 and S/2 (All)  
Section 6: Lots 1, 2, 7-10, 15, 16, and SE/4 (E/2)  
Section 7: E/2  
Section 8: All  
Section 9: All

EXHIBIT 3

Section 16: All  
Section 17: All  
Section 18: E/2  
Sections 20-22: All  
Section 27: All  
Section 28: All  
Section 29: N/2  
Section 33: All  
Section 34: All

Township 22 South, Range 35 East, NMPM

Section 3: Lots 1-4, S/2N/2, and S/2 (All)  
Section 4: Lots 1-4, S/2N/2, and S/2 (All)  
Section 10: W/2  
Section 15: W/2

Containing 13,272.13 acres. A plat of the expanded Unit Area is attached hereto as Exhibit B.

3. The primary development objectives in the expanded Unit Area are the Bone Spring and Wolfcamp formations.
4. The Commissioner of Public Lands has preliminarily approved the expansion of the Unit Area.
5. Applicant requests that it be named operator of the Unit Area.
6. Approval of this application will prevent waste, protect correlative rights, and conserve natural resources.

**WHEREFORE**, applicant requests that, after hearing, the Division enter its order approving the relief requested herein.

Respectfully submitted,



James Bruce  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043  
*jamesbruc@aol.com*

Attorney for Mewbourne Oil Company



*Entered February 14, 1964  
C. L. B.*

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE No. 2960  
Order No. R-2621

APPLICATION OF THE BRITISH AMERICAN  
OIL PRODUCING COMPANY FOR APPROVAL  
OF THE NORTH WILSON DEEP UNIT AGREE-  
MENT, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on December 16, 1963, at Santa Fe, New Mexico, before Elvis A. Utz, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 17th day of December, 1963, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Elvis A. Utz, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, The British American Oil Producing Company, seeks approval of the North Wilson Deep Unit Agreement covering 2,145.95 acres, more or less, of State land in Township 20 South, Range 36 East, and Township 21 South, Range 35 East, NMPM, Lea County, New Mexico.

(3) That approval of the proposed North Wilson Deep Unit Agreement will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

(1) That the North Wilson Deep Unit Agreement is hereby approved.

(2) That the plan under which the unit area shall be operated shall be embraced in the form of a unit agreement for the

EXHIBIT

A

-2-  
CASE No. 2960  
Order No. R-2621

development and operation of the North Wilson Deep Unit Area, and such plan shall be known as the North Wilson Deep Unit Agreement Plan.

(3) That the North Wilson Deep Unit Agreement Plan is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Oil Conservation Commission of New Mexico by law relative to the supervision and control of operations for the exploration and development of any lands committed to the North Wilson Deep Unit, or relative to the production of oil or gas therefrom.

(4) (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

LEA COUNTY, NEW MEXICO  
TOWNSHIP 20 SOUTH, RANGE 36 EAST  
Section 31: E/2  
Section 32: W/2

TOWNSHIP 21 SOUTH, RANGE 35 EAST  
Section 5: Lots 1 through 8; N/2,  
SW/4, and W/2 SE/4  
Section 6: Lots 1, 2, 7, and 8;  
E/2  
Section 7: NE/4

containing 2,145.95 acres, more or less.

(b) That the unit area may be enlarged or contracted as provided in said plan; provided, however, that administrative approval for expansion or contraction of the unit area must also be obtained from the Secretary-Director of the Commission.

(5) That the unit operator shall file with the Commission an executed original or executed counterpart of the North Wilson Deep Unit Agreement within 30 days after the effective date thereof. In the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(6) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico, and shall terminate ipso facto upon the



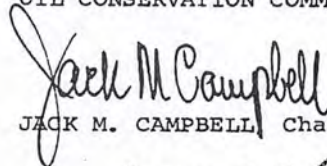
-3-  
CASE No. 2960  
Order No. R-2621

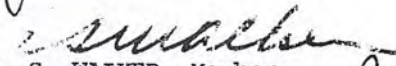
termination of said unit agreement. The last unit operator shall notify the Commission immediately in writing of such termination.

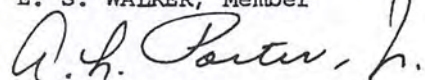
(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
JACK M. CAMPBELL, Chairman

  
E. S. WALKER, Member

  
A. L. PORTER, Jr., Member & Secretary

S E A L

esr/

EXHIBIT "A"  
MAP OF UNIT AREA

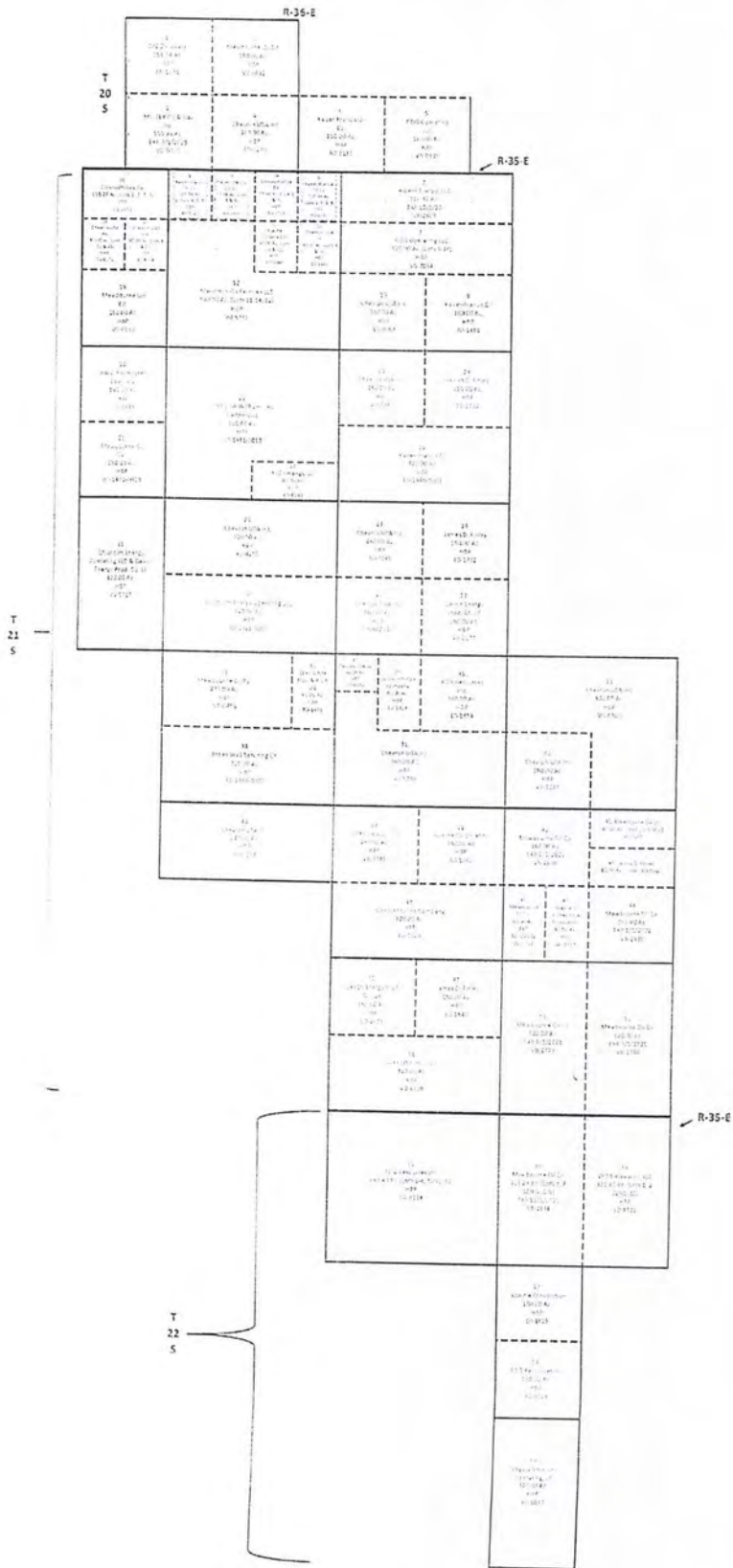


EXHIBIT **B**



PROPOSED ADVERTISEMENT

Case No. \_\_\_\_\_:

*Application of Mewbourne Oil Company for approval of expansion of a unit area, Lea County, New Mexico:* Applicant seeks approval to expand the North Wilson Deep Unit, which originally covered 2,145.95 acres of state land, to cover all or part of the following state land: Sections 31 and 32, Township 20 South, Range 36 East, NMPM; Sections 4-9, 16-18, 20-22, 27-29, 33, and 34, Township 21 South, Range 35 East, NMPM; and Sections 3, 4, 10, and 15, Township 22 South, Range 35 East, NMPM, comprising 13,272.13 acres. The proposed unit area is centered approximately 7 miles west-southwest of Oil Center, New Mexico.

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

APPLICATION OF MEWBOURNE OIL COMPANY  
FOR APPROVAL OF EXPANSION OF A UNIT AREA,  
LEA COUNTY, NEW MEXICO.

Case No. 21418

SELF-AFFIRMED STATEMENT OF NOTICE

COUNTY OF SANTA FE    )  
                                          ) ss.  
STATE OF NEW MEXICO )

James Bruce deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters stated herein.
2. I am an attorney for Mewbourne Oil Company.
3. Mewbourne Oil Company has conducted a good faith, diligent effort to find the names and correct addresses of the interest owners in the unit area
4. Notice of the applications was provided to the interest owners, at their last known addresses, by certified mail. Copies of the notice letter and certified return receipts are attached hereto as Attachment A. The published notice is attached hereto as Attachment B.
5. Applicant has complied with the notice provisions of Division Rules.
6. I understand that this Self-Affirmed Statement will be used as written testimony in this case. I affirm that my testimony in paragraphs 1 through 5 above is true and correct and is made under penalty of perjury under the laws of the State of New Mexico. My testimony is made as of the date handwritten next to my signature below.

Date: 1/13/2021

  
\_\_\_\_\_  
James Bruce

EXHIBIT 4



**JAMES BRUCE**  
ATTORNEY AT LAW

POST OFFICE BOX 1056  
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213  
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)  
(505) 660-6612 (Cell)  
(505) 982-2151 (Fax)

[jamesbruc@aol.com](mailto:jamesbruc@aol.com)

August 28, 2020

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

To: Persons on Exhibit A

Ladies and gentlemen:

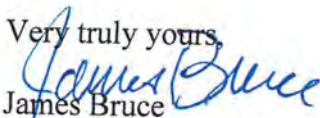
Enclosed is an application seeking approval of expansion of the North Wilson Deep Unit Area, filed with the New Mexico Oil Conservation Division by Mewbourne Oil Company (Case No. 21418).

This case is scheduled for hearing at 8:15 a.m. on Thursday, September 24, 2020. During the COVID-19 Public Health Emergency, state buildings are closed to the public and the hearing will be conducted remotely. To determine the location of the hearing or to participate in an electronic hearing, go to [emnrd.state.nm.us/OCD/hearings](http://emnrd.state.nm.us/OCD/hearings) or see the instructions posted on the Division's website, <http://emnrd.state.nm.us/OCD/announcements.html>.

You are not required to attend this hearing, but as an owner of an interest who may be affected by the application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from contesting this matter at a later date. **This is a voluntary unit, and you cannot be forced to join in the expansion of the unit.**

A party appearing in a Division case is required by Division Rules to file a Pre-Hearing Statement no later than Thursday, September 17, 2020. This statement must be filed with the Division's Santa Fe office at [ocd.hearings@state.nm.us](mailto:ocd.hearings@state.nm.us). It should include: The names of the party and its attorney; a concise statement of the case; the names of the witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that need to be resolved prior to the hearing. The Pre-Hearing Statement must also be provided to the undersigned.

Very truly yours,

  
James Bruce

Attorney for Mewbourne Oil Company

ATTACHMENT

**A**

EXHIBIT A

Chevron U.S.A. Inc.  
6301 Deauville Boulevard  
Midland, TX 79706

Attention: Permitting Team

Forty Acres Energy LLC  
11757 Katy Freeway, Suite 1000  
Houston, TX 77079

Devon Energy Production Company, L.P.  
333 West Sheridan Avenue  
Oklahoma City, OK 73102

Kaiser-Francis Oil Company  
6733 South Yale Ave.  
Tulsa, OK 74136

Marathon Oil Permian LLC  
5555 San Felipe Street  
Houston, TX 77056

OXY USA WTP Limited Partnership  
OXY Y-1 Company  
5 Greenway Plaza, Suite 110  
Houston, TX 77046

ZPZ Delaware I LLC  
Apache Corporation  
Leaco New Mexico Exploration & Production LLC  
2000 Post Oak Blvd., Suite 100  
Houston, TX 77056

Legacy Reserves Operating LP  
303 W. Wall St., Suite 1800  
Midland, TX 79701

Ascent Energy, LLC  
1125 17th St., Suite 410  
Denver, CO 80202

EOG Resources, Inc.  
5509 Champions Dr.  
Midland, TX 79706



COG Exchange Properties II, LLC  
COG Operating LLC  
600 W. Illinois Ave.  
Midland, TX 79701

Range Resources, Inc.  
100 Throckmorton Street, Suite 1200  
Forth Worth, TX 76102

Southwestern Energy Production Company  
10000 Energy Drive  
Spring, TX 77389

Cimarex Energy Company  
Magnum Hunter Production, Inc.  
600 N. Marienfeld St., Suite 600  
Midland, TX 79701

ConocoPhillips Company  
925 N. Eldridge Parkway  
Houston, Texas 77079

Me-Tex Oil & Gas Inc.  
119 E. Bender Blvd.  
Hobbs, NM 88240

McCombs Energy, Ltd.  
750 E. Mulberry Ave., Suite 403  
San Antonio, TX 78212

Samson Resources Company  
15 East 5th Street, Suite 1000  
Tulsa, OK 74103

Chisholm Energy Operating, LLC  
Chisholm Energy Holdings, LLC  
801 Cherry St., Suite 1200-Unit 20  
Fort Worth, TX 76102

BWB Partners I  
500 West Texas, Suite 1425  
Midland, TX 79701

Crescent Porter Hale Foundation  
1660 Bush Street, Suite 300  
San Francisco, CA 90109

Partnership Properties Company  
717 17th St.  
Denver, CO 80201

H&L Exploration & Production Co, LLC  
Veritas MOC Resources LLC  
P.O. Box 10850  
Fort Worth, TX 76114

TLW Investments, Inc.  
1001 Fannin, Suite 2020  
Houston, TX 77002

James D. Finley  
1308 Lake St.  
Fort Worth, TX 76102

King Resources Company  
201 South Cherokee  
P.O. Box 9698  
South Denver Station  
Denver, CO 80209

Penroc Oil Corporation  
1515 W. Calle Sur., Suite 174  
Hobbs, NM 77046

Petro-Quest Exploration  
P.O. Box 10016  
Midland, TX 79702

Javelina Partners  
Zorro Partners  
616 Texas St.  
Fort Worth, TX 76102

Chesapeake Investments  
P.O. Box 18756  
Oklahoma City, OK 73154

Steven D. Wentworth  
1111 Bagby Sky, Lobby 2  
Houston, TX 77002



S.E.S Oil & Gas  
214 W. Texas, Suite 900  
Midland, TX 79701

Fimley Resources  
PO Box 2200  
Fort Worth, TX 76113

Manta Oil & Gas  
190 E. Stacy Rd. Box 306-373  
Allen, TX 75002

Petraities Oil & Gas  
P.O. Box 10886  
Midland, TX 79702

Campbell Investment Company  
P.O. Box 3854  
Roswell, NM 88202

John R. Bryant  
6624 Whispering Woods Ct.  
Plano, TX 75024-7440

Joe R. Wright  
393 Calle Colina  
Santa Fe, NM 87501

Tim McDonald  
P.O. Box 823085  
Dallas, TX 75283

Maverick Oil & Gas Corporation  
1001 W. Wall St.  
Midland, TX 79701

Commissioner of Public Lands  
Oil, Gas & Minerals Division  
310 Old Santa Fe Trail  
Santa Fe, NM 87501

## NOTICE

To: Devon Energy Production Company, L.P., Legacy Reserves Operating LP, Ascent Energy, LLC, EOG Resources, Inc., COG Exchange Properties II, LLC, COG Operating LLC, Range Resources, Inc., Southwestern Energy Production Company, Cimarex Energy Company, Magnum Hunter Production, Inc., ConocoPhillips Company, McCombs Energy, Ltd., Samson Resources Company, Chisholm Energy Operating, LLC, Chisholm Energy Holdings, LLC, BWB Partners I, Partnership Properties Company, TLW Investments, Inc., King Resources Company, Petro-Quest Exploration, Javelina Partners, Zorro Partners, Chesapeake Investments. Steven D. Wentworth. S.E.S Oil & Gas, Finley Resources, Petraities Oil & Gas, John R. Bryant, Joe R. Wright, Tim McDonald, and Maverick Oil & Gas Corporation, or your heirs, devisees, successors, or assigns: Mewbourne Oil Company has filed an application with the New Mexico Oil Conservation Division seeking approval to expand the North Wilson Deep Unit, which originally covered 2,145.95 acres of state land, to cover all or part of the following state land: Sections 31 and 32, Township 20 South, Range 36 East, NMPM; Sections 4-9, 16-18, 20-22, 27-29, 33, and 34, Township 21 South, Range 35 East, NMPM; and Sections 3, 4, 10, and 15, Township 22 South, Range 35 East, NMPM, Lea County, New Mexico, comprising 13,272.13 acres. The application is scheduled to be heard at 8:15 a.m. on September 24, 2020. During the COVID-19 Public Health Emergency, state buildings are closed to the public and the hearing will be conducted remotely. To determine the location of the hearing or to participate in an electronic hearing, go to [emnrd.state.nm.us/OCD/hearings](http://emnrd.state.nm.us/OCD/hearings) or see the instructions posted on the Division's website, <http://emnrd.state.nm.us/OCD/announcements.html>. You are not required to attend this hearing, and cannot be forced into the unit area, but as an owner of an interest in the unit area, you may appear and present testimony. A party appearing in a Division case is required by Division Rules to file a Pre-Hearing Statement no later than Thursday, September 17, 2020. This statement may be filed online with the Division at [ocd.hearings@state.nm.us](mailto:ocd.hearings@state.nm.us), and should include: The name of the party and his or her attorney; a concise statement of the case; the name(s) of the witness(es) the party will call to testify at the hearing; the approximate time the party will need to present his or her case; and identification of any procedural matters that need to be resolved prior to the hearing. The Pre-Hearing Statement must also be provided to the undersigned. The attorney for applicant is James Bruce, P.O. Box 1056, Santa Fe, New Mexico 87504, (505) 982-2043, [jamesbruc@aol.com](mailto:jamesbruc@aol.com). The proposed unit area is centered approximately 7 miles west-southwest of Oil Center, New Mexico.

ATTACHMENT

**B**



# Advertising Invoice

## Hobbs Daily News-Sun

201 N Thorp  
P. O. Box 850  
Hobbs, NM 88241  
Phone: 575-393-2123  
Fax: 575-397-0610  
URL: www.hobbsnews.com

1

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

Cust#: 01101711  
Ad #: 00246210  
Phone: (505)982-2043  
Date: 09/8/2020  
Salesperson: HA Ad Taker: Kayla

Sort Line: 35804 Section 31 and 32

Class: 672

Description	Start	Stop	Ins.	Cost/Day	Amount
AFF2 Affidavits (Legals)					6.25
BOLD bold					1.00
07 07 Daily News-Sun	09/9/2020	09/9/2020	1	103.46	103.46

Ad Text:

LEGAL NOTICE  
September 9, 2020

Payment Reference:

To: Devon Energy Production Company, L.P., Legacy Reserves Operating LP, Ascent Energy, LLC, EOG Resources, Inc., COG Exchange Properties II, LLC, COG Operating LLC, Range Resources, Inc., Southwestern Energy Production Company, Cimarex Energy Company, Magnum Hunter Production, Inc., ConocoPhillips Company, McCombs Energy, Ltd., Samson Resources Company, Chisholm Energy Operating, LLC, Chisholm Energy Holdings, LLC, BWB Partners I, Partnership Properties Company, TLW Investments, Inc., King Resources Company, Petro-Quest Exploration, Javelina

Total: 110.71  
Tax: 7.54  
Net: 118.25  
Prepaid: 0.00

**Total Due 118.25**