CASE NO.

7563

APPLICATION,

TRANSCRIPTS,

SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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SANTA FE, NEW MEXICO 87501
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May 13, 1982

William F. Carr
Campbell, Byrd & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Re: CASE NO. 7563
ORDER NO. R-6973

Applicant:

Marathon Oil Company

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Robert J. Pickens

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7563
Order No. R-6973

APPLICATION OF MARATHON OIL COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 28, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 12th day of May, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Marathon Oil Company, seeks an order pooling all mineral interests in all Permian formations underlying the NE/4 NE/4 of Section 26, Township 16 South, Range 38 East, NMPM, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil and gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $4890.00 per month while drilling and $489.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before August 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in all Permian formations underlying the NE/4 NE/4 of Section 26, Township 16 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of August, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Permian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of August, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Marathon Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall

be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $4890.00 per month while drilling and $489.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a

one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

S E

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
28 April 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Marathon Oil Company for compulsory pooling, Lea County, New Mexico. CASE 7563

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William F. Carr, Esq.
CAMPBELL, BYRD, & BLACK p. a.
Jefferson Place
Santa Fe, New Mexico 87501
and
Robert J. Pickens, Esq.
Marathon Oil Company
Houston, Texas

I N D E X

E X H I B I T S

MR. NUTTER: We'll call next Case Number 7563.

MR. PEARCE: That is the application of Marathon Oil Company for compulsory pooling, Lea County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr, with the law firm Campbell, Byrd, and Black, P. A., of Santa Fe, appearing on behalf of the applicant.

I'm appearing in association with Robert J. Pickens, Attorney for Marathon Oil Company.

We have two witnesses who need to be sworn.

(Witnesses sworn.)

MR. CARR: We'll first call Randy Wheeler.

RANDY WHEELER

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your name and place of residence?

A. My name is Randy Wheeler. I live in Midland, Texas.

Q. By whom are you employed?

A. Marathon Oil Company.

Q. And in what capacity?

A. As a landman.

Q. Have you previously testified before this Commission or one of its examiners?

A. No, I haven't.

Q. Would you briefly summarize your educational background and your work experience?

A. I received a BS in business administration, majoring in accounting, from Illinois College in Jacksonville, Illinois, in 1975.

I commenced work with Marathon in October of 1975 as a roustabout-roughneck.

I was made a production foreman a year and a half later and in November of 1978 I was transferred into the Land Department.

I was transferred to Midland effective April 1, 1981.

Q. Mr. Wheeler, are you familiar with the

application filed on behalf of Marachon in this case?

A. Yes, I am.

Q. Are you familiar with the subject area?

A. Yes, I am.

Q. And the wells in this area?

A. Yes, I am.

MR. CARR: Mr. Nutter, are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

Q. Mr. Wheeler, will you briefly state what Marathon seeks with this application?

A. Marathon is -- we are seeking compulsory pooling order pooling the Permian formations in the northeast quarter of the northeast quarter, Section 26, Township 16 South, Range 38 East, for the drilling of a Drinkard wildcat.

Marathon also asks to be named operator of the proposed well and that supervisory costs and risk factor be set.

Q. Will you please refer to what has been marked for identification as Marathon Exhibit Number One, identify this, and explain what it shows to Mr. Nutter?

A. This is a land plat prepared by Marathon, showing Marathon's East Garrett Working Interest Unit, of which Marathon is the operator. This is shown by the yellow

within the green outline.

The blue shown on the map is the interest owned by J. L. Hooper within the working interest unit.

Q. Now what acreage are you proposing to pool with this application?

A. We're proposing to pool the northeast quarter of the northeast quarter of Section 26, a 40-acre basis for the only other Drinkard wildcat.

Q. And is this a standard spacing unit for the Drinkard in this area?

A. Yes, sir, it is.

Q. And is the proposed well at an orthodox or standard location?

A. Yes, it is.

Q. What is the present status of this well?

A. The present status of this well is it is currently drilling at a depth of 4283, I believe, as of 8:00 a. m. this morning.

Q. Why did Marathon proceed with the spudding of the well prior to the hearing?

A. We had early lease expirations as of yesterday. We had leases beginning to expire in this tract.

Q. And is Marathon the operator of the East Garrett Unit?

A. Yes, we are.

Q. And you are bringing this application as the unit operator, is that correct?

A. As the unit operator, yes.

Q. What percentage of the ownership in the unit do you represent at this hearing?

A. What percentage? Restate that, please.

Q. What percent of the working interest in the proposed unit, the unit you're proposing to pool?

MR. NUTTER: Just the proration unit.

Q. Yes. What percentage of the proration unit do you represent?

A. We have 23/24ths of the interest.

Q. This is Marathon acreage and the acreage of other interests in the unit?

A. It was acreage of Marathon and Amoco Oil Company leased and it's committed to the unit.

Q. And is the other 1/24th the interest of Mr. Hooper?

A. Yes, it is.

Q. How was this interest originally brought into the unit?

A. This interest is not in the unit.

Q. Was the --

A. The 1/24th.

Q. Was the lease contributed by anyone?

A. This is a 1/24th undivided, unleased mineral interest.

Q. Will you now refer to Exhibit Number Two, and using this exhibit summarize for Mr. Nutter the efforts made by Marathon to obtain the voluntary joinder of Mr. Hooper?

A. In October of 1981, Marathon began renewing certain early expiring leases within the unit area.

Mr. Hooper was contacted at this time in regards to his unleased interest and a leased interest of his mother, brother, and sister. At that time they would not renew these leases and Mr. Hooper would not lease his unleased interest.

On March the 3rd or the 4th of '82 Mr. Hooper was informed that we were proposing a well to be drilled in this 40-acre spacing, being the northeast northeast, and he declined to join at that time.

On March the 26th I made a personal contact in Mr. Hooper's office to try to persuade him to either join the unit, farm out his acreage, or lease his interest. Again he declined to do this.

On April the 20th I again went to Mr. Hooper's office, hand delivered the letter dated April 20th,

1982, addressed to Mr. Hooper, and again attempted to either farm out his acreage or get him to join this well, or lease his minerals to us. Lease terms are stated within the -- within the letter.

Again Mr. Hooper declined to join the unit in any capacity; stated that we could force pool him if we wished, and that -- I think if Mr. Hooper was asked he would say that we had made a diligent good faith effort to lease his property.

Q. Has notice of this hearing been given to Mr. Hooper?

A. The same day, April the 20th, I hand delivered a copy of Marathon's application for compulsory pooling to Mr. Hooper and he was sent the back sheet on this letter by our attorney, Mr. Carr, by certified mail informing him of this hearing.

Q. On March the 26th, your meeting with Mr. Hooper on that date, was the possibility of a pooling hearing discussed with Mr. Hooper on that date?

A. Yes, it was.

Q. Have you previously had to pool -- force pool Mr. Hooper's interest in this area?

A. Yes, we have. We force pooled Mr. Hooper's interest in the northwest quarter of Section 25 for drilling

the Aetna Eaves No. 1. The date on this hearing was --

Q. That was in Case 6269, July 6th, 1978.

Mr. Wheeler, will you now refer to the AFE which has been marked as Marathon Exhibit Number Three, and review the data contained on this AFE for Mr. Nutter?

A. Okay. The AFE shows working interest of parties subject to the working interest unit. Shown in the bottom of page one, Participants projected cost of project. This AFE was prepared with -- using the assumption that Amoco would go nonconsent under our subject operating agreement and that Mr. Hooper would be force pooled. These interests were used because this is the most Marathon can expect to pay, and we AFE'd it for the highest percentages that expect to get into.

On page number three is a itemization of the drilling costs, completion costs, et cetera, for the drilling of the Aetna Eaves No. 2 Well.

Page number four is again detailed well costs. Mr. Hooper's portion of the total AFE'd drilling cost would come to a total of $25,916.87. Mr. Hooper's share if joining the well, a completed well would be $40,541.99.

MR. NUTTER: Read that number again.

A. $40,541.99.

MR. NUTTER: Thank you.

A. This is using these figures as a base, realizing that these are only approximations.

Q. And the billing would be on the actual cost of the well.

A. Billing our well would be on actual costs.

Q. All right. Does that exhibit set out a dry hole cost?

A. Yes, it does.

Q. What does that total?

A. Dry hole cost total of $622,000.

Q. And what would be the completed well cost?

A. Completed well cost would be $973,000.

Q. Have all the parties to the working interest unit executed a joint operating agreement?

A. Yes, they have.

Q. And does this joint operating agreement contain an estimate of overhead and administrative costs to apply while drilling and producing this or other wells on the unit?

A. Yes, it does. When this operating agreement was signed March the 16th, 1981, the overhead rate on a producing well was listed at $326; overhead rate on a drilling well was listed at $3260. This figure will have -- has gone through two contractual escalations, being April 1,

1981, and April 1, 1982. Current figures are $489 for a producing well rate and $4890 for drilling well rates. These figures were agreed to by all working interest owners in the unit.

Q. And the escalation provisions were also spelled out in this agreement?

A. They were spelled out as per COPAS accounting procedure attached to APL Form 610, 1977 operating agreement.

Q. Now are these figures in line with what is being charged by other operators in the area?

A. Yes. We have been -- had units proposed to us in 1982 which contain a higher supervisory cost than what this is showing.

Q. Do you recommend that these costs be incorporated into any order which results from this hearing?

A. Yes, I do.

Q. And does Marathon request to be designated operator of the proposed well?

A. Yes, we do.

Q. Were Exhibits One through Three prepared by you or compiled under your supervision and direction?

A. Yes, they were.

MR. CARR: At this time, Mr. Nutter, we

would offer Marathon Exhibits One through Three.

MR. NUTTER: Marathon Exhibits One through Three will be admitted in evidence.

MR. CARR: I have nothing further of this witness on direct.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Wheeler, now as I understand it, you've got a unit here called the Garrett Unit, huh?

A. East Garrett Working Interest Unit, yes.

Q. It's a working interest unit.

A. Yes, it is.

Q. Okay, now, the yellow coloring on Exhibit Number One indicates what?

A. The yellow coloring indicates the working interest owners to the working interest, their interest. The yellow indicates interest that are committed to the unit.

Q. Okay, this represents the -- the yellow represents all of the working interests that are committed to the unit.

A. That's correct.

Q. And in the northwest quarter of Section 5 and the northeast quarter of Section 6 --

A. 25 and 26.

Q. -- Mr. Hooper -- right, 25 and 26, Mr. Hooper has a 1/24th interest in those two quarter sections.

A. That's correct.

Q. And his interest, as a working interest owner, is not committed to the unit.

A. That's correct.

Q. So --

A. Mr. Hooper was offered the opportunity to join in this unit and --

Q. And he didn't join the unit.

A. -- he rejected this.

Q. So in reality, if you were going to color these codes in proportion, 1/24th --

A. Is a very, very --

Q. -- of each of those quarter sections would be colored blue and the rest would be yellow.

A. That's correct. It was done this way, Marathon's standard practice, any part interest that we own is only a narrow band.

Q. Okay, now Amoco is an interest owner in the unit also.

A. Yes, they are.

Q. And they're an interest owner in these

leases here in 25 and 26.

A. Yes, they are.

Q. Well, have they finally gone nonconsent or they going to consent to the drilling?

A. They have till the first of the month to make their election.

Q. And all the other working interest owners have signed up and are going to participate in the well.

A. They have verbally agreed that they will participate in the well.

Q. So you've got two outstanding owners, Amoco --

A. No.

Q. -- and they're going to participate or what are they going to do?

A. Okay. Amoco is committed to this working interest unit.

Q. Right.

A. They have the choice of joining in the well or standing out under a 300 percent nonconsent penalty.

Q. I see.

A. So their interest is committed to the well in one form or another.

Q. Okay, under the terms of the unit.

A. Yes.

Q. So the forced pooling has no effect on them.

A. Has no effect on them.

Q. Because they're pooled whether they consent or not; they're pooled under the unit agreement.

A. That's absolutely correct.

Q. And Hooper, having not signed the unit agreement, is the only outstanding interest that you have here.

A. That's correct.

Q. And it's 1/24th undivided interest in the 40-acre tract.

A. Yes. Mr. Hooper would own -- okay, Mr. Hooper owns 1.67 acres in the 40-acre tract. This is rounded to two places for each of speaking.

Q. That's net acres.

A. That's net acres, yes.

Q. That's 1/24th.

A. That's 1/24th, correct.

Q. Okay. Now, on that operating agreement that these wells are being drilled under --

A. Uh-huh.

Q. The COPAS accounting procedure is attached to that operating agreement and calls for $4890 drilling well

costs.

A. The operating --

Q. And $489 producing well costs -- not actually, but as the escalation occurred it calls for that.

A. Yes, that's correct. This is Exhibit C to the operating agreement.

Q. And you don't have that here today, do you?

A. I have a copy I can give you, yes.

Q. We'd like to have a copy of the operating agreement as an exhibit, I think.

MR. CARR: Mr. Nutter, we would move the admission of Exhibit Number Six, which is a copy of the joint operating agreement with accounting procedures attached.

MR. NUTTER: Okay. Okay, and that calls for $3260 a month drilling well and $326 per month producing well.

A. That's correct.

Q. But it also is subject to the price index escalation.

A. Yes, paragraph 3 on page number 3.

Q. Okay, and as a result of two escalations since this operating agreement was signed, it's now equal to $489 and $4890.

A. That's correct. This is the figure that Marathon will either pay or be paid in the operating agreement.

Q. And the other participating working interest owners will pay that also.

A. That's correct.

Q. And you're requesting that in the order pooling Mr. Hooper.

A. Yes, we are.

Q. Now I notice in all of this correspondence that you have attached to your Exhibit Number Two, there's no correspondence from Mr. Hooper. Has he ever given you any written response to your offers to lease, farm in, or --

A. No, he hasn't. It has always been done verbally. Mr. Hooper's office is about two and a half blocks away from mine in Midland and again, as an opinion, I feel that Mr. Hooper knew he would be force pooled, and as such did not want to give written responses.

MR. NUTTER: And, Mr. Carr, you sent him a notice on April the 20th.

MR. CARR: Yes, sir.

MR. NUTTER: Attaching a docket.

MR. CARR: Yes, sir.

MR. NUTTER: -- to your -- to your letter. And sent it by certified mail.

MR. CARR: That's correct, and on that same day, Mr. Nutter, a copy of Marathon's application was hand-delivered to Mr. Hooper.

MR. NUTTER: Okay. Are there any further questions of Mr. Wheeler? He may be excused.

MR. CARR: We call Mr. Brimberry.

ELMER LEE BRIMBERRY, JR.

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your full name and place of residence?

A. My name is Elmer Lee Brimberry, Junior, and I live in Midland, Texas.

Q. By whom are you employed?

A. Marathon Oil Company.

Q. In what capacity?

A. I'm an exploration geologist.

Q. Have you previously testified before this Commission or one of its examiners?

A. I have not.

Q. Will you review for Mr. Nutter your educational background and your work experience?

A. I graduated from the University of Houston with a BS degree in geology in 1951. Also in 1951 I went to work for Marathon as an exploration geologist in the Rocky Mountains.

In 1955 I moved to Roswell, New Mexico, working southeastern New Mexico as an exploration geologist.

In 1962 I moved to Midland, Texas, as an exploration geologist. I am currently Area Exploration Supervisor for the Permian Basin of southeastern New Mexico and Texas.

Q. Are you familiar with the application filed for Marathon in this case?

A. Yes, sir, I am.

Q. Are you familiar with the subject area and the proposed well?

A. Yes.

MR. CARR: Are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

Q. Have you prepared certain exhibits for introduction in this case?

A. Yes.

Q. Will you please refer to Exhibits Four and Five, being your structure map and your cross section, and working with these two exhibits review for Mr. Nutter the risk involved in drilling this well?

A. This is a very high risk venture; the Marathon No. 2 Eaves, located in the northeast quarter of the northeast quarter of Section 26, 16, 38 is shown by the arrow on the structure map and the orange dot.

The structure map is contoured on the objective horizon, the Permian Drinkard dolomite.

The cross section, the line of which is shown on the structure map, A-A', Well No. 1 and Well No. 2 at A'. The subject well is located -- has an orange dot showing its location on the cross section.

Marathon has drilled three wells the last two and a half years in prospecting for the Drinkard dolomite oil production. They are located in the northwest quarter of the southeast quarter of Section 23; in the southeast quarter of the southeast quarter of Section 23; and in the northwest quarter of Section 25. These wells were either tight in the Drinkard dolomite or recovered a small amount of oil and water in a down dip well in the northwest quarter of Section 25.

Wells No. 1 and 2, Well No. 1 shows the

Drinkard as being tight in its lower part by core. There was a show of oil and some fracture porosity in the core but core analysis indicated the well to be tight in this zone.

Well No. 2 is the down dip well which I recently referred to in Section 25 and we production tested this well and recovered a small amount of oil and water.

Refer back to your structure map, if you would, and the structure map shows Drinkard production to the west of the subject well. This production is in Section 28 and 21 and 20 and 29. As can be observed from the structure map, there is no structural closure, so therefor we must have a stratigraphic trap. This is one of the problems in exploring for Drinkard carbonate production in this area.

And I might again say that this is a very difficult exploration target.

I'll again refer to the subject well in the northeast quarter of Section 26. We were currently drilling this morning at 42 -- excuse me, we're going to test a new bit at 4283 feet, and we propose drilling this well to a total depth of 8500 feet or to such a lesser depth at which we have properly evaluated the Drinkard horizon.

Q Mr. Brimberry, is it fair to say that looking at your structure map, you are hoping to encounter a similar structural configuration at the proposed location

as you did in the successful Drinkard completions shown on the western portion of the structure map?

A. Yes.

Q. Now the Drinkard is your primary objective, is that correct?

A. Yes.

Q. You're also asking to pool other zones in the Permian formation, is that also correct?

A. At such a lesser depth as the Drinkard.

Q. So it would be San Andres through Abo?

A. Yes.

Q. Do you anticipate commercial production in any other zone in the Permian formation?

A. No, we do not. We have found that most of the shallower production where it does produce is non-commercial.

Q. But you are asking that they be pooled just on the chance that something might show up.

A. That's correct.

Q. Are you prepared to make a recommendation to the Examiner as to the penalty that should be assessed against Mr. Hooper, should he not participate in the drilling of the well?

A. The maximum penalty.

Q You're requesting 200 percent?

A Yes.

Q Thatis less -- you're aware that that is less than what's in the (inaudible.)

A Yes, that's correct.

Q In your opinion will granting this application be in the best interest of conservation, the prevention of waste, and the protection of correlative rights?

A Yes.

Q Were Exhibits Four and Five prepared by you?

A Under my supervision.

Q And can you testify as to their accuracy?

A Yes.

MR. CARR: At this time, Mr. Nutter, we would offer Marathon Exhibits Four and Five.

MR. NUTTER: Marathon Exhibits Four and Five will be entered in evidence.

MR. CARR: And we also -- Exhibit Six, I believe, was admitted, which is the model operating agreement.

MR. NUTTER: Exhibit Six is admitted.

MR: CARR: We have nothing further. I've completed my direct.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Brimberry, apparently you've got a very delicate situation here. You have to get onto the Drinkard Reef, or dolomite --

A. Yes.

Q. -- and just before it drops off so rapidly to the south; get right on the edge before it breaks over.

A. That's correct.

Q. And apparently the well in Section 25 was just a little bit too low for that, it got water in the Drinkard.

A. Yes, sir.

Q. And the wells up-structure, being the purple wells over in 22 and 23, were tight in the -- the one well was tight. What about the well in the southeast southeast of 23? It doesn't have any color code.

A. We are currently trying to complete that from the Abo and it is tight in the Drinkard. It is Well No. 1 on the cross section, which we cored the lower part and it was tight by core.

Q. Now is there any chance that this projected well here is going to go to the Abo or if you get to the

Drinkard and find it nonproductive you'd abandon it?

A. We -- our total depth will probably go into the top of the Abo but we have found that the probability is that the Abo will be wet at this location.

We're drilling into the Abo so that we will have completely penetrated the Drinkard section.

Q. So while you're projecting it as a Drinkard, the application for the compulsory pooling of all mineral interests in the Permian formations, which would include the Abo if you took it down to the Abo.

A. Yes, sir.

Q. So you've got everything covered as far as the shallower depths and the Drinkard and the Abo.

A. Yes, sir.

MR. NUTTER: Are there any further questions of Mr. Brimberry? He may be excused.

Do you have anything further, Mr. Carr?

MR. CARR: Nothing further, Mr. Nutter.

MR. NUTTER: Does anyone have anything they wish to offer in Case 7563?

We'll take the case under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8573 heard by me on 4/28 19 87.

Oil Conservation Division, Examiner

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

Robert J. Pickens
Attorney
Houston Division
Production, U.S. & Canada

P.O. Box 3128
Houston, Texas 77001
Telephone 713/629-6600

Marathon Oil Company

March 30, 1982

Case 7563

Oil Conservation Division
Energy and Minerals Department
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Application of Marathon Oil Company for Compulsory Pooling, Lea County, New Mexico

Gentlemen:

Marathon Oil Company, by its undersigned attorney, hereby makes application for an order pooling all mineral interest in the Permian Formation underlying the Northeast quarter (NE/4) of the Northeast quarter (NE/4), Section 26, Township 16 South, Range 38 East, N.M.P.M., Lea County, New Mexico, and in support thereof would show the following:

1. Applicant is the owner of oil and gas leasehold interests in the NE/4 of the NE/4 of Section 26, T-16-S, R-38-E, N.M.P.M., and Amoco Production Company, Roy G. Barton, Jr. and Opal Barton, Neva L. Harris, Blanco Company, and Jerry L. Hooper are the owners of the remaining oil and gas leasehold and mineral interests in the NE/4 of the NE/4 of Section 26, T-16-S, R-28-E, N.M.P.M..

2. Applicant proposes to drill a well in the NE/4 of the NE/4 of Section 26, being 330 feet from the North line and 990 feet from the East line of Section 26, to a sufficient depth to test the Permian Formation, including the San Andres, the Paddock, the Glorieta, the Clear Fork, the Tubb, the Drinkard, and the Abo intervals therein, and seeks to dedicate the NE/4 of the NE/4 of said Section 26 to the well. Applicant has requested owners of the other oil and gas interests to join in the drilling of the well, but some have so far refused to do so.

3. The pooling of all mineral interests in the Permian Formation, in the NE/4 of the NE/4 of said Section 26 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

4. Applicant requests that the Oil Conservation Division consider the costs of drilling and completing said well, the proper allocation of said costs, as well as actual operating costs, charges for supervision and charges for the risk involved in drilling a well. Applicant also requests that it be designated as Operator of said well.

5. A list of all interested persons known to applicant is attached hereto.

Applicant respectively requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on April 28, 1982, or at the earliest possible date.

Respectfully submitted,

MARATHON OIL COMPANY

By: Robert J. Pickens

Robert J. Pickens
P. O. Box 3128
Houston, Texas 77001
Attorney for
Marathon Oil Company

LIST OF INTERESTED PARTIES
EAST GARRETT AREA
LEA COUNTY, NEW MEXICO

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001
Attention: Mr. Scott Summers

Roy G. Barton, Jr. and
Opal Barton
P. O. Box 978
Hobbs, New Mexico 88240

Neva L. Harris
P. O. Box 20707
Oklahoma City, Oklahoma 73120

Blanco Company
P. O. Box 1150
Roswell, New Mexico 88201
Attention: Emmett O. White

Jerry L. Hooper
P. O. Drawer 2086
Midland, Texas 79702

Robert J. Pickens
Attorney
Houston Division
Production, U.S. & Canada

P.O. Box 3128
Houston, Texas 77001
Telephone 713/629-6600

Marathon Oil Company

March 30, 1982

Case 7563

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P. O. Box 3128
Houston, Texas 77001
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Marathon Oil Company

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LEA COUNTY, NEW MEXICO

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P. O. Box 3092
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P. O. Box 20767
Oklahoma City, Oklahoma 73120

Blanco Company
P. O. Box 1150
Roswell, New Mexico 88201
Attention: Emmett O. White

Jerry L. Hooper
P. O. Drawer 2086
Midland, Texas 79702

Midland District
Houston Division
Production Exploration, U.S. & Canada

Marathon Oil Company

P.O. Box 552
Midland, Texas 79702
Telephone 915/682-1626

April 20, 1982

Mr. Jerry L. Hooper
P. O. Drawer 2086
Blanks Building
Midland, Texas 79702

Dear Mr. Hooper:

Re: East Garrett WI Unit
Your unleased 1/24 interest in
E/2 Section 26 and W/2 Section 25,
T-16-S, R-38-E, N.M.P.M.,
Lea County, New Mexico

This letter will serve to confirm our verbal conversation concerning the captioned unleased mineral interest owned by you.

As you realize, Marathon drilled an Abo Discovery in the NW/4-SE/4 of Section 23, which potentialed for over 300 barrels of oil per day. We have since drilled and are awaiting completion of a second well located in the SE/4-SE/4 Section 23; while this well is still classified as a "tight hole", no information is currently available.

Marathon has proposed a Drinkard Wildcat well to be drilled on the NE/4-NE/4 Section 26, T-16-S, R-28-E, under which you own 1-2/3 acres of unleased minerals.

Marathon has in the past offered you the option to (a) join in the drilling of this well, (b) lease your minerals for this well, (c) farmout these minerals to the drilling of this well, or (d) when the East Garrett Unit was formed you were given the opportunity to join on a unit-wide basis.

I am again offering you the opportunity to (a) join in this well, or (b) lease or (c) farmout your minerals to the unit. This would save Marathon, as Unit Oporator, and yourself, the necesssity of a force pooling hearing.

Marathon is again (a) offering $150.00 per acre, 1/4 royalty, and a 3 year lease to cover your 13.333 acres of unleased minerals in the E/2 of Section 26 and the W/2 of Section 25, or (b) you could join as to your 4.16667%

interest in the well. If you should elect to join, dry hole cost would be approximately $700,000.00 of which your share would be approximately $29,166.00.

Please advise as to your decision prior to April 27, 1982.

Yours very truly,

MARATHON OIL COMPANY

Randall L. Wheeler
Area Landman

RLW:mmc

Robert J. .ens
Attorney
Houston Division
Production, U.S. & Canada

Marathon
Oil Company

P.O. Box 3128
Houston, Texas 77001
Telephone 713/629-6600

March 30, 1982

Oil Conservation Division
Energy and Minerals Department
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

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Respectfully submitted,

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By: Robt J Pickens

Robert J. Pickens
P. O. Box 3128
Houston, Texas 77001
Attorney for
Marathon Oil Company

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LEA COUNTY, NEW MEXICO

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Attention: Emmett O. White

Jerry L. Hooper
P. O. Drawer 2086
Midland, Texas 79702

April 20, 1982

Mr. Jerry Hooper
Post Office Drawer 2086
Midland, Texas 79702

Re: New Mexico Oil Conservation Division Case 7563

Dear Mr. Hooper:

Enclosed is a copy of the docket for the April 28, 1982 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

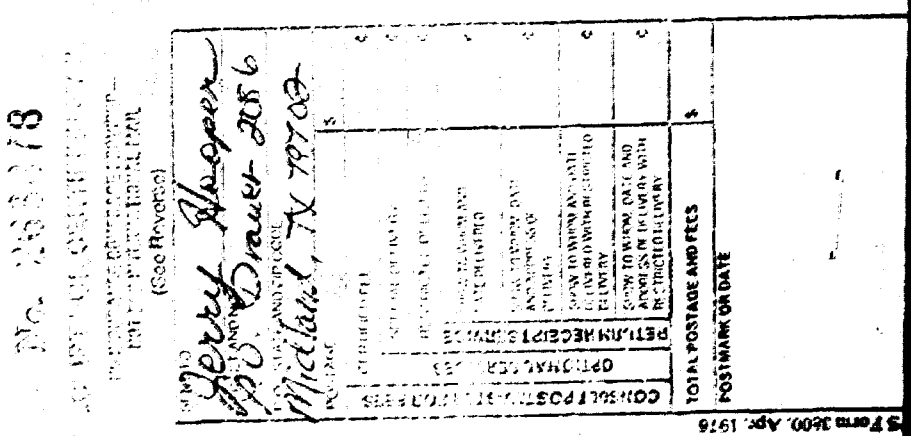
Very truly yours,

William F. Carr

WFC:jn

w/enc.

CERTIFIED MAIL
RETURN RECEIPT REQUESTED



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Post Office Drawer 2086
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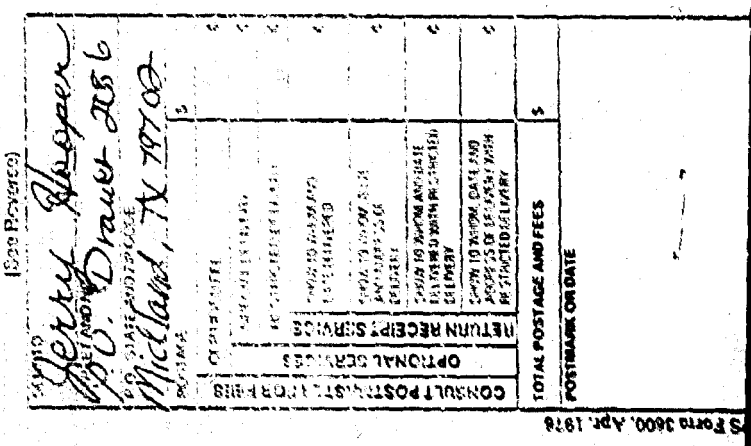
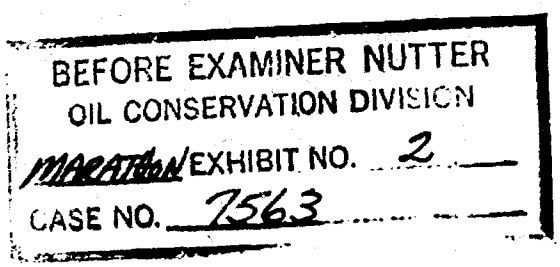



BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MARATHON EXHIBIT NO. 2
CASE NO. 7563

AFE NO. ______

Marathon Oil Company
PRODUCTION OPERATIONS, UNITED STATES AND CANADA
AUTHORITY FOR EXPENDITURE

☒ WILDCAT ☐ WORKOVER
☐ DEVELOPMENT ☐ FACILITY
☐ DEVELOPMENT EXPL ☐ OTHER ______
☐ RECOMPLETION

Sheet 1 of 4 Sheets Division Houston District Midland Date April 1, 19

Lease or Facility Aetna Eaves #2
Field or Prospect East Garrett Drinkard Location 330' FNL & 990' FEL, Sec. 26, T-16-S, R-38-E
State New Mexico County/Parish Lea
Operator Marathon Oil Starting Date ASAP Estimated Completion Date 30 days after commencement
Marathon Net Interest in Expenditures 98.7393 % Marathon Net Interest in Revenue 79.9519 %
Is Joint Interest Owners Approval Required? *

*Assumed Amoco will go non-consent. J. Hooper will not join but pooled and others will join.

Gross Cost This AFE . . . . $ 973,000 Marathon Share This AFE . . . . $ 960,733

Budget Reference: Category ______
☐ Included in Budget Amount Included in Budget $ ______
☒ Not Included in Budget. Are Funds Available? ☐ Yes ☐ No

Description of Project & Reason for Expenditure:

Marathon proposes drilling an 8500' Drinkard (Permian) carbonate wildcat at the above captioned location. This proposed location is in an area of fields producing oil from stratigraphic traps in Drinkard carbonates, i.e. lateral and up-dip termination of porosity. Up-dip tight rock with shows of oil and down-dip porous and permeable rock with shows of oil and water occur in the vicinity of proposed well.

PARTICIPANTS' PRORATED COST OF PROJECT

	W.I. (%)	Amount
Marathon Oil Company	98.7393	$ 960,733
Neva Harris	0.9605	$ 9,346
The Bianco Co.	0.1801	$ 1,753
Roy Barton	0.1201	$ 1,168
		$
		$
		$
TOTAL	100.	$ 973,000

CONTROLLER

Marathon's Share—Total Cost—Investment $ ______
Marathon's Share—Total Cost—Expense $ ______
Investment—Applicable to Current Budget $ ______
Expense—Applicable to Current Budget $ ______
Accounting Charge ______

Signature ______ Date ______

DATE	DISTRICT APPROVAL	DATE	DIVISION APPROVAL	DATE	GENERAL OFFICE APPROVAL
4/1	J. K. Simon				
4/2	R. L. Wheeler				
4/2	Clifford A. Miller				
4/5/82	[illegible signature]				
4/5/82	MGR. [illegible signature]		MGR.		

PARTICIPANT'S APPROVAL

Name of Company ______
Representative's Signature ______ Date ______
Title ______

Authorization
VICE PRESIDENT ______
DATE ______

Authorization
VICE PRESIDENT ______
DATE ______

AUTHORITY FOR EXPENDITURE

DETAIL OF COSTS

SECTION A: PROSPECT INFORMATION (WILDCATS) AFE No. _____

1. Est. Net Marathon Acreage In Prospect Area . . . . . 2420 Acres
2. Size of Prospect . . . . . 290 Acres
3. Est. Net Marathon Acreage on Prospect . . . . . 240 Acres
4. Est. Net Marathon Acreage Probably Productive . . 240 Acres
5. Geological & Geophysical Project Expenditure . . . . . $ _____
6. Prior Wells and/or Contribution Costs . . . . $ _____
7. Accrued Rentals for Current Leases in Prospect Area . . . . . $ _____
8. Cost of Current Leases in Prospect Area . . . . $ 238,970.11

SECTION B: ESTIMATED RESERVES FOR PROSPECT (WILDCATS)

Marathon total net reserves in Prospect . . . . . 499 M. Bbls. 299 MMCF

SECTION C: GEOLOGIC INFORMATION

DATA ON WELL TO BE OFFSET:

Operator and Well Name _____ Completion date _____

Pay Zone	Depth	Initial Production	Present Production	Cum. Production
None Wildcat Well				

GEOLOGIC MERIT & RELATIVE CHANCE FOR ECONOMIC SUCCESS:

Should have reservoir rock in Drinkard and should be high based on seis to well which tested oil and water in top of Drinkard. Relative chance for ecomonic success is good.

OBJECTIVES (Shallowest to ~~deepest~~):

Name of Pay	Prop. Comp.	Geologic Age	Depth	Est. Net Pay Thick	Recoverable Reserves per Acre			
					Gross		Marathon Net	
					Bbls.	MCF	Bbls.	MCF
Drinkard	Oil	Permian	7900'	25'	2600	1560	2079	1247

SECTION D: ECONOMIC ANALYSIS — AFTER FEDERAL INCOME TAX

A. Operator Marathon Oil Marathon Net Interest: Expenditures 98.7393 % Revenue 79.9519 %

B. Total Gross Reserves . . . . . Oil (Bbls) 104,025 NGL (Bbls) _____ Gas (MCF) 62,415

C. Total Net Reserves. . . . . Oil (Bbls) 83,170 NGL (Bbls) _____ Gas (MCF) 49,902

D. Value Per Unit (Initial Yr. Average) . . . . . Oil ($/Bbl) 31.00 NGL ($/Bbl) _____ GAS ($/MCF) 3.20

E. Marathon's Total Revenue from Net Reserves. . . . . $ 3,136,000

F. Marathon's Net Investment:

Prior Year(s) $ _____ Budget Year $ 961,000 Future $ 33,000 Total $ 994,000

G. Marathon's Net Operating Expense & Taxes

Oper. Exp. $ 101,000 Sev. & Adv. Taxes $ 78,000 Windfall Pr. Tax $ 167,000 Total $ 346,000

H. Total Investment & Expense . . . . . $/Equiv. Bbl. or MCF $ 14.96 / equiv. Bbl. Total $ 1,340,000

I. Federal Income Tax. . . . . $ 833,000

J. Profit from Net Reserves — (AFIT). . . . $/Equiv. Bbl. or MCF $ 10.78 / equiv. Bbl. Total $ 964,000

K. Profit to Investment Ratio (AFIT) . . . . 0.97 M. Economic Life (Years) 10

L. Payout Time — Years (AFIT). . . . . 1.45 N. Annual Rate of Return — DCF — (%) (AFIT) 100

M. Initial Net Production . . . . . Oil-BPD 80 NGL-BPD _____ GAS-MCFPD 48

Marathon Oil Company

AUTHORITY FOR EXPENDITURE

DETAIL OF WELL COSTS

SHEET 3 OF 4 SHEETS

AFE NO.

DATE April 1, 1982

Lease or Facility Aetna Evas #2

Field or Prospect East Garrett Drinkard

Location: 330' FNL & 990' FEL Section 26, T-16-S, R-38-E

Wildcat ☒ Development ☐ Development Exploratory ☐ Recompletion ☐ Workover ☐

Est. Total Depth 8500' Est. Drilling Days 30 Est. Completion Days 10

SOURCE	QUANTITY	DESCRIPTION	FEATURE NO.	COND	COST
		DRILLING COSTS – TANGIBLE			
		Drive Pipe	1		
		Conductor 46'	2		2,500
		Surface 375'	3		11,250
		Intermediate–Casing, Liner, or Tieback 4800'±	4		96,000
		Liner Hanger and Tieback Equipment	5		
		Casinghead	6		18,000
		Miscellaneous	7		5,250
		TOTAL DRILLING COSTS – TANGIBLE			133,000
		DRILLING COSTS – INTANGIBLE			
		Location and Access	9		30,000
		Daywork Drilling 30 days @ $6,500/day	10		195,000
		Footage Basis Drilling	11		
		Direct Supervision 30 days @ $400/day	14		12,000
		Bits, Hole Openers, Stabilizers, etc.	15		30,000
		Mud and Mud Services	16		20,000
		Rig Fuel 30 days @ $750/day	17		22,500
		Water 30 days @ $200/day	18		6,000
		Rental Equipment and Tools	19		17,500
		Casing/Drive Pipe Tools, Services and Accessories	20		10,000
		Cement and Cementing Service	21		30,000
		Well Logging and Services	22		20,000
		Mud Logging	23		
		Pipe Inspection	24		7,000
		Directional Services	25		
		Coring	26		
		Formation Testing	27		20,000
		Diving Services	28		
		Mobilization/Demobilization	29		30,000
		Air Transportation	30		
		Marine Transportation	31		
		Land Transportation	32		20,000
		Shore Base Services	33		
		Communications	34		3,500
		Fishing Tools and Services	35		2,000
		Abandoning Tools and Services	36		
		Miscellaneous Material and Services	37		10,000
		Dry Hole Contributions	38		
		Overhead	39		
		Indirect Expense	40		3,500
		TOTAL DRILLING COSTS – INTANGIBLE			489,000
				TOTAL DRILLING COSTS	$ 622,000
		COMPLETION COSTS – TANGIBLE			
		Production Casing 5½ 8500	42		85,000
		Liners	43		
		Tubing 2 3/8	44		46,000
		Liner Hanger and Tieback Equipment	45		
		Christmas Tree	46		15,000
		Subsurface Safety Shut-In Devices	47		
		Packers	48		10,000
		Subsurface Artificial Lift Equipment	49		
		TOTAL COMPLETION COSTS – TANGIBLE			156,000

Marathon Oil Company
AUTHORITY FOR EXPENDITURE
DETAIL OF WELL COSTS

SHEET 4 OF 4 SHEETS

AFE NO.

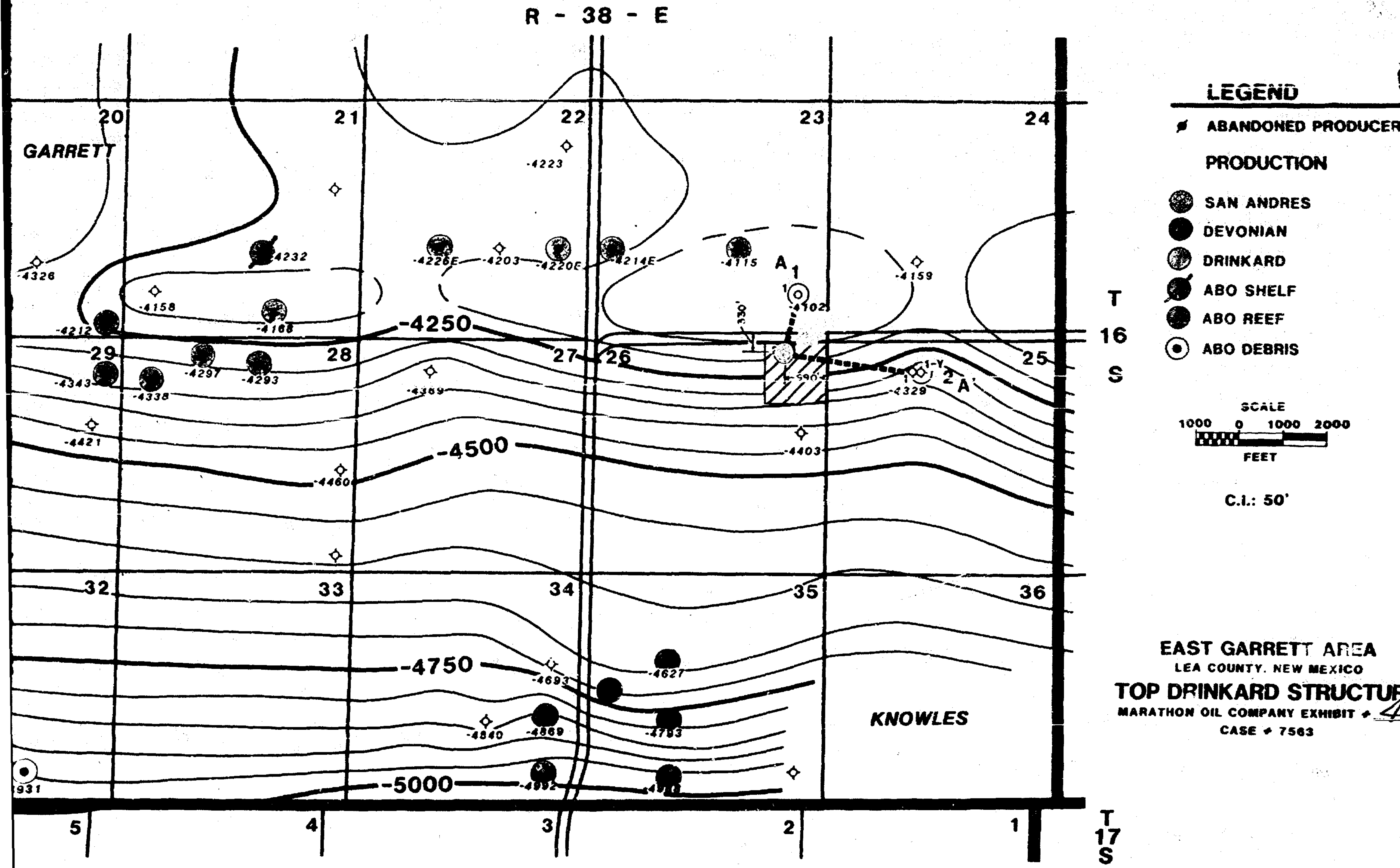
DATE April 1, 1982

Lease or Facility Aetna Eaves #2

SOURCE	QUANTITY	DESCRIPTION	FEATURE NO.	COND	COST
		COMPLETION COSTS – INTANGIBLE			
		Location and Access	51		
		Completion Rig 10 days @ $2500/day	52		25,000
		Contract Service Units	53		
		Direct Supervision	54		
		Company Labor	55		4,000
		Contract Labor	56		
		Rig Fuel	57		
		Completion and Packer Fluids	58		
		Rental Equipment and Tools	59		
		Casing Tools, Services and Accessories	60		13,000
		Cement and Cementing Service	61		30,000
		Logging Services	62		15,000
		Perforating	63		10,000
		Wireline Services	64		
		Formation Treating	65		20,000
		Sand Control Equipment and Services	66		
		Formation Testing	67		
		Tubular Testing and Cleaning	68		8,000
		Mobilization and Demobilization of Completion Rig	69		5,000
		Air Transportation	70		
		Marine Transportation	71		
		Land Transportation	72		10,000
		Shore Base Services	73		
		Communications	74		1,000
		Fishing Tools and Services	75		
		Wireline Cased-hole Plugbacks	76		
		Miscellaneous Material and Services	77		10,000
		Sidetrack or Milling Sections	78		
		Overhead	79		
		Indirect Expense	80		1,000
		TOTAL COMPLETION COSTS – INTANGIBLE			152,000
		TOTAL COMPLETION COSTS			$ 308,000
		SURFACE EQUIPMENT – TANGIBLE			
		Pumping Equipment	83		
		Tanks and Related Equipment	84		15,000
		Company Labor and Non-Hauling Units	85		2,000
		Contract Labor and Non-Hauling Units	86		3,000
		Water Injection Equipment	87		
		Heater-Treater	88		7,000
		Miscellaneous Supplies	89		7,000
		Dehydrating Equipment	90		1,000
		Separator-Trap	91		3,000
		Transportation	92		2,000
		Metering Equipment	93		
		Line Pipe	94		3,000
		Electrical Equipment	95		
		Compressors	96		
		TOTAL SURFACE EQUIPMENT – TANGIBLE			$ 43,000

SUMMARY OF ESTIMATED DRILLING WELL COSTS	TOTAL COST	MARATHON'S SHARE (98.7393 %)
Total Drilling Cost	$ 622,000	$614,158
Total Completion Cost	308,000	304,117
Total Surface Equipment	43,000	42,457
Grand Total Cost	$ 973,000	$960,733
Marathon's Share of Grand Total Cost to be Booked This Year		960,733
If Wildcat Well, Give Marathon's Share of Dry Hole Cost		614,158

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MARATHON EXHIBIT NO. 3
CASE NO. 7563


R - 38 - E
GARRETT
KNOWLES
T 16 S
T 17 S
-4250
-4500
-4750
-5000
LEGEND
ABANDONED PRODUCER
PRODUCTION
SAN ANDRES
DEVONIAN
DRINKARD
ABO SHELF
ABO REEF
ABO DEBRIS
SCALE
1000 0 1000 2000
FEET
C.I.: 50'
EAST GARRETT AREA
LEA COUNTY, NEW MEXICO
TOP DRINKARD STRUCTURE
MARATHON OIL COMPANY EXHIBIT # 4
CASE # 7563

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
EXHIBIT NO. 4
CASE NO. 7563

NW

A

SE

A'

① MARATHON OIL CO. #1 ANDERSON CARTER ELEV. 3706 T.D. 8434

MARATHON OIL CO. #2 EAVES P.T.D. 8500

② MARATHON OIL CO. #1-Y AETNA EAVES ELEV. 3697 T.D. 8505

ATUM
3500

DATUM
-3500

PERMIAN

UPPER AND MIDDLE CLEARFORK

TUBB

DRINKARD

ABO

LEGEND

◑ SHOW OF OIL

300'
200'
100'
0'

HORIZONTAL NOT TO SCALE
SCALE

EAST GARRETT AREA
LEA COUNTY, NEW MEXICO
CROSS SECTION A-A'
MARATHON OIL COMPANY EXHIBIT # 5
CASE # 7563

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
MARATHON EXHIBIT NO. 5
CASE NO. 7563

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

MODEL FORM OPERATING AGREEMENT

EAST GARRETT UNIT

OPERATING AGREEMENT

DATED

March 16, 1981,

OPERATOR MARATHON OIL COMPANY

CONTRACT AREA All of Section 23, save and except NW¼SW¼; SW¼ of Section 24; NW¼ of Section 25; and N½ of Section 26; T-16-S, R-38-E, N.M.P.M., Containing 1,240 acres, more or less.

COUNTY OR PARISH OF LEA STATE OF NEW MEXICO

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
Marathon EXHIBIT NO. 6
CASE NO. 7563

TABLE OF CONTENTS

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

OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

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

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

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

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

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

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

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

ARTICLE II.
EXHIBITS

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

[X] A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

[X] B. Exhibit "B", Form of Lease.

[X] C. Exhibit "C", Accounting Procedure.

[X] D. Exhibit "D", Insurance.

[ ] ~~E. Exhibit "E", Gas Balancing Agreement.~~

[X] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

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

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

C. **Employees:**

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

D. **Drilling Contracts:**

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. **Initial Well:**

On or before the 1st day of October, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

The approximate center of the NW¼SE¼ of Section 23,
T-16-S, R-38-E, N.M.P.M., Lea County, New Mexico,

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

8,500 feet, or such lesser depth at which the Abo formation has been tested,

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

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have ~~thirty (30)~~ sixty (60) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of ~~thirty (30)~~ sixty (60) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 100% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

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

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above within such 60 day period or within 30 days thereafter, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period. The Non-Consenting Party shall exercise the election by giving to the Consenting Party written notice of its election to sell gas under its own contract.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, including excise taxes and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines 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 total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled 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 or legal holidays) after receipt 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 of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein 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. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. 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 interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

vals of the formation or formations 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 percentages 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 interest in the remaining portion 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 interval or intervals 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.

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. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator 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 Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) 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. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the 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 within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

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

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of one-sixth (1/6)* due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the 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 contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on 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 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment 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 Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes: (See Article XV.D. for additional provisions.)

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint 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 provided in Exhibit "C".

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

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases. The provisions of this Paragraph VIII-B. shall only apply to leases, or portions of leases, located within the Contract Area.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the 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. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

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

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

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

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

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, 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 interests 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 hereof.

F. Waiver of Right 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.

G. Preferential Right to Purchase:

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby 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 1954, 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 Federal Regulations 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

*The provisions of this Article IX. shall apply to all parties to this Agreement. The election in this Article is exercised by the Tax Partnership described in Article XV. G. as an entity, and not by the members of the Tax Partnership in their individual capacities.

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 Internal Revenue Code of 1954, 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 damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars ($ 5,000.00) 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 expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. 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, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

A. SALE OF ROYALTY GAS

It is recognized by the parties hereto that in addition to each party's share of working interest production, such party shall have the right, subject to existing contracts, to market the royalty gas, to the extent of 1/6 of production, attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interests and to hold all other parties hereto harmless for its failure to do so.

B. NO DISCRIMINATION

In performance of its duties and obligations under this agreement, Operator agrees to comply with all provisions of Executive Order 11246, as amended, and in particular, Section 202 (1) to (7), inclusive, of said Executive Order 11246. The Equal Opportunity Clause as required by Executive Order 11246 is attached hereto as Exhibit "F" and is a part of this agreement the same as if written into the body hereof.

C. BILLING ADDITIONAL INTERESTS

Notwithstanding the provisions of this agreement and of the accounting procedure attached as Exhibit "C", the Parties to this agreement specifically agree that in no event during the term of this contract shall Operator be required to make more than one billing for the entire interest credited to each Party on Exhibit"A." It is further agreed that if any Party to this agreement (hereafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A," the Selling Party will be solely responsible for billing its assignee or assignees, and shall remain primarily liable to the other parties for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it. It is further understood and agreed that if Selling Party disposes of all its interest as set out on Exhibit "A," whether to

one or several assignees, Operator shall continue to issue statements and billings to the Selling Party for the interest conveyed until such time as Selling Party has designated and qualified one assignee to receive the billing for the entire interest. In order to qualify one assignee to receive the billing for the entire interest credited to Selling Party on Exhibit "A," Selling Party shall furnish to Operator the following:

(1) Written notice of the conveyance and photostatic or certified copies of the assignments by which the transfer was made.

(2) The name of the assignee to be billed and written statement signed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof; and, further, consents to handle any necessary sub-billings in the event it does not own the entire interest credited to Selling Party on Exhibit "A."

D. ARTICLE VII.G., ADDITION

If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's working interest.

E. METERING OF PRODUCTION (operations by Less than All Parties)

If a diversity of working interest ownership in production from a lease subject to this agreement occurs as a result of operations by less than all parties under Article VI.B.2. herein, it is agreed that the oil and other liquid hydrocarbons produced from the well or wells completed by Consenting Parties shall be separately measured by standard metering equipment to be properly tested periodically for accuracy, and the setting of a separate tank battery will be required only when the purchaser of production from the lease, or a governmental or other regulatory body having proper jurisdiction, will not approve metering as the method for separately measuring the production.

F. No other well shall be proposed until the test well provided for herein in Article VI.A. has been drilled and completed. Notwithstanding anything to the contrary herein, but subject in all things to Paragraph XV.H., except by the mutual consent of all parties, after a well has been approved in accordance with terms of this agreement, none of the parties hereto may propose another well until such approved well has been drilled and completed unless the Contract Area must be protected from offset production.

G. INTERNAL REVENUE CODE ELECTION *

1. This agreement is not intended to create, and shall not be construed to create, a relationship of partnership, a mining partnership or other relationship of a joint and several nature between or among the parties hereto, and neither this Agreement nor the authorization hereunder shall ever be construed as creating such relationship. Furthermore, nothing in this Agreement shall ever be construed as providing directly or indirectly for any joint cooperative refining or marketing or sale of oil or gas or the products therefrom.

2. For purposes of Federal Income Tax the parties to this agreement agree, with respect to the joint development of their interests under this Operating Agreement, not to elect to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, as amended, or any similar statutes and that United States partnership returns of income shall be filed covering operations for each calendar year hereunder, and that the cost of preparation of the partnership return of income each year shall be charged as an expense of operation hereunder. The cost of preparation of the partnership return is an overhead item and not an additional cost.

3. The parties further agree that for the purpose of the Federal Income Tax Returns to be filed pursuant hereto, all classes of income, gain, loss, cost, expense, deduction and credit, including depreciation and depletion, shall be shared and accounted for as follows:

(a) Income from the subject property shall be allocated to each party in accordance with his Participation Percentage in each property, as set out in Exhibit "A" hereof.

(b) Exploration costs, intangible drilling and development costs and production costs shall be allocated as deductions to each party in accordance

*The provisions of this Article XV. G. shall apply only as to Amoco Production Company and the Blanco Company, hereinafter called "Farmout Parties", and Marathon Oil Company.

with their respective contributions to such costs.

(c) Depreciation on tangible equipment shall be allocated among the parties in accordance with their respective contributions to the adjusted basis of such equipment as such adjusted basis is defined in the Internal Revenue Code of 1954, as amended, and in any similar state statute.

(d) The deduction for depletion under appropriate Sections of the Internal Revenue Code of 1954, as amended, with respect to each separate property (or aggregation of properties under Section 614 of the Internal Revenue Code of 1954, as amended) shall be allocated among the parties in accordance with their respective contributions to the adjusted basis for depletion until each party's unrecovered adjusted basis is reduced to zero and thereafter shall be allocated in the same ratio as the respective parties realize gross income which is subject to the percentage depletion as defined in Section 614 of said Internal Revenue Code.

(e) Gains and losses from each sale, abandonment or other disposition of property (other than oil, gas or other hydrocarbon substances) shall be allocated among the parties in such manner as will reflect the gains and losses that would have been includable in their respective United States income tax returns if such property were held by the parties outside this Agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the parties' respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization or other deductions which have been allocated to each party with respect to such property as provided in this Operating Agreement.

(f) The investment credit allowed by Section 38 of the Internal Revenue Code of 1954 shall be allocated among the parties in accordance with their respective contributions to qualified investment as provided in said Section 38.

(g) All other items of income, deductions or credits for costs and expenses not falling within the above subparagraphs shall be allocated among the parties in accordance with their respective contributions to such costs and expenses.

The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the Internal Revenue Code of 1954.

4. The parties hereby authorize and direct Operator to file with the appropriate office of the Internal Revenue Service a partnership Income Tax Return (Form 1065) covering the joint development of the parties' interests under this Operating Agreement and in such return:

(a) To elect, in accordance with Section 263(c) of the Code and applicable regulations, to charge to expense all intangible drilling and development costs.

(b) To elect such other options available under appropriate section of the IRC which are mutually agreeable to the parties hereto.

(c) To elect to use the accrual method of accounting with respect to such joint development.

(d) To compute the allowance for depreciation in respect of all eligible property under this agreement subject to depreciation, using the maximum accelerated tax depreciation method and the shortest life permissible.

5. It is the intent of the parties that the foregoing provisions shall be limited in their applications to matters relating to Federal taxes based on income and shall not in any way change, amend, or affect the substantive rights or obligations of the parties otherwise contained herein.

6. Notwithstanding anything to the contrary, the parties agree that:

(a) The provision for taking production in kind under Article VI.C. herein is recognized as each party's right to determine the market for a proportionate share of the sales. Income from such markets shall be recognized by the partnership and allocated respectively to the party who designated the market.

(b) The liabilities of the parties shall be several, not joint or collective.

The prior sentence notwithstanding, the party designated as managing partner shall be liable for all debts incurred by the parties in developing and operating the Contract Area; provided that, if the party designated as managing partner satisified an indebtedness, it shall be entitled to a contribution from the parties in proportion to each such party's interest, determined in accordance with the other provisions of this Agreement.

H. PARTICIPATION IN COST OF INITIAL TEST WELL AND SUBSEQUENT TEST WELL

As to the respective interests of Amoco Production Company and The Blanco Company, hereinafter called "Farmout Parties," Marathon Oil Company shall bear and pay all costs and expenses (including costs and expenses of title examination) incurred and assume all risks in drilling, testing, and completing and equipping through the lease tanks or separator as applicable (if a well capable of producing oil and/or gas in paying quantities), or plugging and abandoning (if a dry hole), the initial test well required under Article VI.A. hereof. If said initial test well is drilled to the depth required in Article VI.A. hereof and the same is completed as well capable of producing oil and/or gas in paying quantities, Farmout Parties have agreed and do hereby agree that Marathon Oil Company shall earn the leasehold and/or oil and gas interests contributed hereto by Farmout Parties, insofar as they cover (1) the entire oil and gas leasehold and/or oil and gas interests in the proration unit for the initial test well, and (2) an undivided fifty percent (50%) of the oil and gas leasehold and/or oil and gas interests in and to the remaining tracts comprising the Contract Area, with rights earned limited from the surface down to the ~~stratigraphic equivalent~~ of the total depth drilled in the initial test well.

In the event the initial test well, after reaching the objective depth, is not completed as a well capable of producing in paying quantities, Marathon shall have the option and privilege to drill a subsequent test well on the Contract Area provided same be commenced within ninety (90) days from the date of the plugging and abandoning the initial test well and is drilled in the manner and to the depth required of the initial test well. In such eventuality, should such subsequent test well be drilled, it shall be treated in all respects and for all purposes as if it were the initial test well provided for herein, and the rights and obligations of Marathon and Farmout Parties in event such well is completed as a dry hole or is completed as a well capable of producing in paying quantities shall be the same as herein provided with respect to the initial test well.

If in the drilling of the Initial Test Well and/or Subsequent Test Well, Marathon Oil Company loses the hole or encounters mechanical difficulties rendering it impracticable to drill such well to the objective depth, Marathon may commence within thirty (30) days thereafter the actual drilling of a respective substitute well at substantially the same location at which the lost or junked well was commenced, and prosecute the drilling of such respective substitute well in the same manner and to the objective depth. In such a contingency, the drilling and completing of such respective substitute well shall be construed and deemed to be a completion of the original well for which such respective substitute well is drilled.

I. ASSIGNMENT OF LEASEHOLD INTERESTS, ETC. TO MARATHON OIL COMPANY

In the event the initial or subsequent test well is completed as a well capable of producing oil and/or gas in paying quantities, Farmout Parties shall upon request of Marathon Oil Company, promptly execute and deliver to Marathon Oil Company such instrument or instruments in recordable form as may be necessary to convey, transfer, or assign unto Marathon Oil Company the interests specified in "H." above in and to their respective leases and leasehold estates and/or oil and gas interests described in Exhibit "A" hereto. Such interests shall be transferred or assigned without warranty of title, either express or implied, and shall be subject to any and all overriding royalty interests or other interests payable out of production from such leases created prior to the effective date hereof, and such transfers or assignments shall further be subject to all terms and conditions of this agreement. The Blanco Company shall, upon request of Marathon Oil Company, grant Marathon an oil and gas lease covering the interest earned in its oil and gas interest committed hereto on the form attached hereto as Exhibit "B," except that the primary term shall be three (3) years.

J. PARTICIPATION IN THE INITIAL OR SUBSEQUENT TEST WELL

1. In the event the initial or subsequent test well is completed as a well capable of producing in paying quantities, all oil, gas, and other liquid or gaseous hydrocarbons produced, saved, and marketed therefrom, all casing, tubing, wellhead connections, tanks and other equipment installed in connection therewith and necessary to place same on production, shall be owned in accordance with the participation percentages reflected in Column 3 of Section II of Exhibit "A" hereto until payout of such productive well. Payout of such well shall be deemed to have occurred and been completed at 7:00 a.m. local time on the first day next following the day on which Marathon Oil Company shall have recouped all reasonable and actual expenses, as allowed and permitted in the attached Exhibit "C," attributable to the respective interests of said Farmout Parties, incurred by Marathon Oil Company in the drilling, completing, equipping, and operating (including workovers, if any) said productive well from the proceeds or market value of that share of production from such well attributable to the respective interests of said Farmout Parties had they participated in the cost of such well, after deducting royalty, overriding royalties, and other interests payable out of or measured by production from such well, including the overriding royalties credited to said Farmout Parties as reflected in Column 4 of Section II of Exhibit "A" attached hereto, as well as their respective proportionate parts of all severance, property, and production taxes. Within sixty (60) days after the completion of said initial or subsequent test well for production, Marathon Oil Company shall furnish the said Farmout Parties with an itemized statement of the total costs and expenses of drilling, testing, completing, and equipping said test well. Thereafter, and during the period prior to the payout, Marathon Oil Company shall furnish each of such parties with quarterly statements of the production and proceeds therefrom or market value thereof and of the costs and expenses reasonably incurred with respect to the operation of said well during the preceding calendar quarter.

2. During the period prior to payout of the initial or subsequent test well, as provided above, said Farmout Parties shall be entitled to receive, free of any cost or expense, except production and ad valorem taxes attributable thereto, the overriding royalty interests reflected in Column 4 of Section II of Exhibit "A" hereto, which overrides shall be borne entirely by Marathon Oil Company.

3. When payout of the initial or subsequent test well has occurred and been completed as provided above, then Farmout Parties shall each have the option, exercisable as hereinbelow provided, to convert the overriding royalty interests credited to them in Column 4 of Section II of Exhibit "A" to the working interests credited to them in Column 5 of Section II, Exhibit "A" hereto.

(a) The above option shall be exercised as follows: Within sixty (60) days after determination shall have been made that payout of the productive test well has occurred, Marathon Oil Company shall notify said Farmout Parties in writing of such fact, stating the date of such occurrence. Within sixty (60) days after receipt of such notice, Farmout Parties shall each advise Marathon Oil Company in writing whether such party elects, or does not elect, to exercise its option. If any such party elects not to exercise its option or fails [redacted]

(b) If all of said Farmout Parties timely elect to convert their respective overriding royalty interests to working interests, then effective as of 7:00 a.m. local time on the first day next following the day on which the above mentioned payout has occurred, all oil, gas, and other liquid or gaseous hydrocarbons produced, saved and marketed from such initial or subsequent test well (subject to the payment of lessor's royalty and any now existing overrides and subject to the other provisions of this agreement), and all casing, tubing, wellhead connections, tanks, and other equipment installed in connection therewith shall be owned by the parties hereto in accordance with the participation percentages set forth in Column 5 of Section II of Exhibit "A" hereto.

(c) If said Farmout Parties each elect to retain in such initial or subsequent test well the overriding royalty interests reflected in Column 4 of Section II of Exhibit "A" hereto, then all production from and equipment in and on such initial or subsequent test well shall continue to be owned as reflected in Column 3 of Section II of Exhibit "A" hereto.

(d) If said Farmout Parties do not exercise their options mentioned above in an identical manner, i.e., either all parties electing to convert their overriding royalty interests in the initial or subsequent test well to the working interest participation percentages reflected in Column 5 of Section II of Exhibit "A," then Operator shall promptly revise Exhibit "A" to this agreement to reflect the new participating interests of the parties in the initial or subsequent test well.

(e) Should any of said Farmout Parties elect to retain the overriding royalty interests in production form the initial or subsequent test well as set forth in Column 4 of Section II of Exhibit "A" hereto, then the rights and duties as between Marathon Oil Company and the Farmout Party or Parties retaining such overriding royalty interests shall be the same as before payout, except that no further quarterly statements as provided in Paragraph 1 of this Article XV.J. need to be furnished to such party or parties.

5. As to the leases, and oil and gas interests and lands included within the proration unit for the initial or subsequent test well, it is agreed as between Marathon Oil Company and Farmout Parties, that if one or more of such Farmout Parties elects to exercise its option to convert its overriding royalty into a working interest in the proration unit for the initial or subsequent test well, as hereinabove provided, Marathon Oil Company shall, upon request, promptly execute and deliver an instrument in recordable form, assigning or transferring such working interest in such lease and leasehold estate (or operating rights therein) free and clear of liens and other encumbrances created by Marathon Oil Company, and if necessary, shall revise Section II of Exhibit "A" hereto to reflect the new interests of the parties.

6. Notwithstanding any provisions to the contrary in this or any other agreement, the Farmout Parties shall have the right at all times and from time to time until two (2) years after the date on which said Farmout Parties have actually received all payout statements and other information required to be furnished to said Farmout Parties by Marathon Oil Company under terms hereof, to conduct a reasonable audit of any or all of Marathon's records relating to or connected with its operations on the initial producing proration unit, regardless of when such operations were conducted.

K. PARTICIPATION IN WELLS OTHER THAN INITIAL OR SUBSEQUENT TEST WELLS

Unless changed by the other provisions hereof, all costs, expenses, and liabilities incurred in operations under this agreement on the Contract Area, other than such costs, expenses and liabilities incurred in operations in connection with the initial or subsequent test well, shall be borne and paid and all equipment and material required in operations on the Contract Area shall be owned by the parties hereto in accordance with their respective participation percentages reflected in Column 5 of Section II of Exhibit "A" hereto. All oil, gas, and other liquid or gaseous hydrocarbons produced and saved from the Contract Area, other than that produced and saved from the initial or subsequent test well, subject to the provisions of Article III hereof, shall be owned by the parties hereto in accordance with the participation percentages set forth in Column 5 of Section II of Exhibit "A" hereto, unless changed by the other provisions hereof.

ARTICLE XVI
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16TH day of MARCH, 19 81.

OPERATOR

ATTEST:

MARATHON OIL COMPANY

By: E. W. Vind

E. W. VIND
DIVISION EXPLORATION MANAGER
HOUSTON DIVISION

NON-OPERATORS

ATTEST:

AMOCO PRODUCTION COMPANY

APPROVED

By: Attorney-in-Fact

ATTEST:

THE BLANCO COMPANY

By:

Roy G. Barton

Opal Barton

Neva L. Harris

ARTICLE XVI
MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16TH day of MARCH, 19 81.

OPERATOR

ATTEST:

MARATHON OIL COMPANY

By: E W Vind

E. W. VIND
DIVISION EXPLORATION MANAGER
HOUSTON DIVISION

NON-OPERATORS

ATTEST:

AMOCO PRODUCTION COMPANY

By:

ATTEST:

THE BLANCO COMPANY

Blanche V. White
SEC.

By: Emmett D White
V-Pres.

Roy G. Barton

Opal Barton

Neva L. Harris

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MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16TH day of MARCH 19 91.

OPERATOR

ATTEST:

MARATHON OIL COMPANY

By: _____

E. W. VINO
DIVISION EXPLORATION MANAGER
HOUSTON DIVISION

NON-OPERATORS

ATTEST:

AMOCO PRODUCTION COMPANY

By: _____

ATTEST:

THE BLANCO COMPANY

By: _____

Roy G. Barton

Opal Barton

Neva L. Harris

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MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16TH day of MARCH 19 81.

OPERATOR

ATTEST:

MARATHON OIL COMPANY

By: _____

E. W. VIND
DIVISION EXPLORATION MANAGER
HOUSTON DIVISION

NON-OPERATORS

ATTEST:

AMOCO PRODUCTION COMPANY

By: _____

ATTEST:

THE BLANCO COMPANY

By: _____

Roy G. Barton

Opal Barton

Neva L. Harris

Neva L. Harris

STATE OF TEXAS I
Midland I
COUNTY OF ~~HARRIS~~ I

The foregoing instrument was acknowledged before me this 2nd day of April, 1981, by E. W. Vind as Division Exploration Manager of Marathon Oil Company, an Ohio corporation, on behalf of said corporation.

My Commission Expires:

9-30-82

Notary Public in and for
~~Harris~~ County, Texas.
Midland

STATE OF TEXAS I
I
COUNTY OF HARRIS I

The foregoing instrument was acknowledged before me this 27th day of July, 1981, by WILLIAM T. HALE as Attorney in Fact of Amoco Production Company, a Delaware corporation, on behalf of said corporation.

My Commission Expires:

Notary Public in and for
Harris County, Texas
SHIRLEY B. BARNES
Notary Public in Harris County, Texas
My Commission Expires 11-2-82

STATE OF NEW MEXICO I
I
COUNTY OF CHAVES I

The foregoing instrument was acknowledged before this ____ day of ____, 1981, by ____ as ____ of The Blanco Company, a ____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public in and for
Chaves County, New Mexico

STATE OF NEW MEXICO I
I
COUNTY OF LEA I

The foregoing instrument was acknowledged before me this ____ day of ____, 1981, by Roy G. Barton, and his wife, Opal Barton.

My Commission Expires:

Notary Public in and for
Lea County, New Mexico

STATE OF OKLAHOMA I
I
COUNTY OF OKLAHOMA I

The foregoing instrument was acknowledged before me this ____ day of ____, 1981, by Neva L. Harris.

My Commission Expires:

Notary Public in and for
Oklahoma County, Oklahoma

STATE OF TEXAS I
Midland I
COUNTY OF ~~HARRIS~~ I

The foregoing instrument was acknowledged before me this 30th day of April, 1981, by E. W. Vind as Division Exploration Manager of Marathon Oil Company, an Ohio corporation, on behalf of said corporation.

My Commission Expires:

9-30-84

Tom Faulkner
Notary Public in and for
~~Harris~~ Midland County, Texas.

STATE OF TEXAS I
I
COUNTY OF HARRIS I

The foregoing instrument was acknowledged before me this ____ day of _____, 1981, by _____ as _____ of Amoco Production Company, a Delaware corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public in and for
Harris County, Texas

STATE OF NEW MEXICO I
I
COUNTY OF CHAVES I

The foregoing instrument was acknowledged before this 4th day of May, 1981, by EMMETT D. WHITE as VICE PRESIDENT of The Blanco Company, a N. Mex corporation, on behalf of said corporation.

My Commission Expires:

May 25, 1982

Notary Public in and for
Chaves County, New Mexico

SIGNATURE
NOTARY PUBLIC—NEW MEXICO
NOTARY BOND FILED WITH SECRETARY OF STATE
MY COMMISSION EXPIRES MAY 25, 1982

STATE OF NEW MEXICO I
I
COUNTY OF LEA I

The foregoing instrument was acknowledged before me this ____ day of _____, 1981, by Roy G. Barton, and his wife, Opal Barton.

My Commission Expires:

_____

_____
Notary Public in and for
Lea County, New Mexico

STATE OF OKLAHOMA I
I
COUNTY OF OKLAHOMA I

The foregoing instrument was acknowledged before me this ____ day of _____, 1981, by Neva L. Harris.

My Commission Expires:

_____

_____
Notary Public in and for
Oklahoma County, Oklahoma

STATE OF TEXAS I
Midland I
COUNTY OF ~~Harris~~ I

The foregoing instrument was acknowledged before me this 30th day of April, 1981, by E. F. Vind as Division Exploration Manager of Marathon Oil Company, an Ohio corporation, on behalf of said corporation.

My Commission Expires:

9-30-84

Notary Public in and for
~~Harris~~ County, Texas.
Midland

STATE OF TEXAS I
I
COUNTY OF HARRIS I

The foregoing instrument was acknowledged before me this ____ day of _____, 1981, by _____ as _____ of Amoco Production Company, a Delaware corporation, on behalf of said corporation.

My Commission Expires:

_____

Notary Public in and for
Harris County, Texas

STATE OF NEW MEXICO I
I
COUNTY OF CHAVES I

The foregoing instrument was acknowledged before this ____ day of _____, 1981, by _____ as _____ of The Blanco Company, a _____ corporation, on behalf of said corporation.

My Commission Expires:

_____

Notary Public in and for
Chaves County, New Mexico

STATE OF NEW MEXICO I
I
COUNTY OF LEA I

The foregoing instrument was acknowledged before me this 13 day of May, 1981, by Roy G. Barton, and his wife, Opal Barton.

My Commission Expires:
MY COMMISSION
EXPIRES NOVEMBER 8, 1983

Notary Public in and for
Lea County, New Mexico

STATE OF OKLAHOMA I
I
COUNTY OF OKLAHOMA I

The foregoing instrument was acknowledged before me this ____ day of _____, 1981, by Neva L. Harris.

My Commission Expires:

_____

Notary Public in and for
Oklahoma County, Oklahoma

STATE OF TEXAS I
Midland I
COUNTY OF ~~Harris~~ I

The foregoing instrument was acknowledged before me this 2nd day of April, 1981, by E. W. Vind as Division Exploration Manager of Marathon Oil Company, an Ohio corporation, on behalf of said corporation.

My Commission Expires:

9-30-84

Notary Public in and for
~~Harris~~ County, Texas.
Midland

STATE OF TEXAS I
I
COUNTY OF HARRIS I

The foregoing instrument was acknowledged before me this ____ day of _____, 1981, by _____ as _____ of Amoco Production Company, a Delaware corporation, on behalf of said corporation.

My Commission Expires:

_____

Notary Public in and for
Harris County, Texas

STATE OF NEW MEXICO I
I
COUNTY OF CHAVES I

The foregoing instrument was acknowledged before this ____ day of _____, 1981, by _____ as _____ of The Blanco Company, a _____ corporation, on behalf of said corporation.

My Commission Expires:

_____

Notary Public in and for
Chaves County, New Mexico

STATE OF NEW MEXICO I
I
COUNTY OF LEA I

The foregoing instrument was acknowledged before me this ____ day of _____, 1981, by Roy G. Barton, and his wife, Opal Barton.

My Commission Expires:

_____

Notary Public in and for
Lea County, New Mexico

STATE OF OKLAHOMA I
I
COUNTY OF OKLAHOMA I

The foregoing instrument was acknowledged before me this 19 day of June, 1981, by Neva L. Harris.

My Commission Expires:

19 January 1985

Notary Public in and for
Oklahoma County, Oklahoma

EXHIBIT "A"

Attached to and made a part of the Operating Agreement dated March 16, 1981, between Marathon Oil Company, Operator, and Amoco Production Company et al, Non-Operators.

I. CONTRACT AREA

A. The Contract Area shall include the following described lands in Lea County, New Mexico, and the leasehold estates and oil and gas interests thereunder, from the surface down to the base of the Abo formation:

Section	Subdivision	Township	Range	Acres
23	N½, SE¼, E½SW¼, SW¼SW¼	16-S	38-E, NMPM	600.00
24	SW¼	16-S	38-E, NMPM	160.00
25	NW¼	16-S	38-E, NMPM	160.00
26	N½	16-S	38-E, NMPM	320.00
			TOTAL	1,240.00

B. The following respective total of net acres in the Contract Area are contributed by the parties hereto covered by the Oil and Gas Leases and te- Oil and Gas Interests made subject to this Agreement listed in Part III of this Exhibit "A":

Township 16-South, Range 38-East, N.M.P.M.

Section 23: N½, SE¼, E½SW¼, SW¼SW¼ - 600.000000 net acres

Section 24: SW¼ - 160.000000 net acres

Section 25: NW¼ - 153.333333 net acres

Section 26: N½ - 160.000000 net acres
NE¼ - 153.333333 net acres

TOTALLING 1,226.666667 net acres, more or less.

As to any Unit operation on the NW¼ ofSection 25 or the NE¼ of Section 26, each party's respective interests in Columns 3, 4, and 5 of Section II of this Exhibit "A" shall be reduced by the ratio of the total net acres committed hereto by all parties in the respective poriton of each Section as such committed acreage bears to the total acres in such portion of such Section of land.

EXHIBIT "A" (Cont'd)

INTERESTS OF PARTIES

PARTY	COLUMN 1 NET ACRES COMMITTED TO CONTRACT AREA	COLUMN 2 COMMITTED ACREAGE PERCENTAGE	COLUMN 3 PARTICIPATION PERCENTAGE IN INITIAL OR SUBSEQUENT TEST WELL UNTIL PAYOUT**	COLUMN 4 OVERRIDING ROYALTY IN INITIAL OR SUBSEQUENT TEST WELL UNTIL PAYOUT*	COLUMN 5 PARTICIPATION PERCENTAGE IN ALL WELLS AND OPERATIONS EXCEPT INITIAL OR SUBSEQUENT TEST WELL***
hon Oil Company	840.500000	68.519022%	99.082781%	-0-	83.800951%
Production Company	371.166667	30.258152%	-0-	1.891135%	15.129076%
L. Harris	10.000000	.815217%	.815217%	-0-	.815217%
lanco Company	3.750000	.305707%	-0-	.019067%	.152854%
and Opal Barton	1.250000	.101902%	.101902%	-0-	.101902%
TOTALS	1,226.666667	100.000000%	100.000000%	1.910202%	100.000000%

The above participation percentages in Columns 3, 4, and 5 shall be reduced to the actual Unit interest in the respective wells.

These overriding royalty interests shall be reduced to the actual Unit interest in the respective well, and shall be borne entirely by Marathon Oil Company.

These participation percentages shall also apply to the initial or subsequent well after payout should Amoco Production Company and The Blanco Company each elect to retain their overriding royalty interests in production from the initial or subsequent test well.

These participation percentages shall also apply to the initial or subsequent test well after payout should Amoco Production Company and The Blanco Company each elect to convert their overriding royalty intersts in the initial or subsequent test well to working interests.

III. LEASES MADE SUBJECT TO THIS AGREEMENT*

Leases Contributed by Marathon Oil Company

1. NM-2984-A

Oil and Gas Lease dated March 16, 1977, from Violet Elizabeth Roddy, a widow, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 314, and

2. NM-2984-B

Oil and Gas Lease dated April 1, 1977, from F. M. Dyer and Sue M. Dyer, his wife, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 407, and

3. NM-2984-C

Oil and Gas Lease dated April 18, 1977, from Effie Lee Beaver, a widow, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 640, and

4. NM-2984-D

Oil and Gas Lease dated April 18, 1977, from J. W. Talley, a single man, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 643, and

5. NM-2984-E

Oil and Gas Lease dated April 18, 1977, from John L. McCraw and wife, Jeanette C. McCraw, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 550, and

6. NM-2984-F

Oil and Gas Lease dated May 2, 1977, from Ann Hooper Stacy, a married woman dealing in her sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 527, and

7. NM-2984-G

Oil and Gas Lease dated May 2, 1977, from Linda Carol Hooper, a single woman, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 553, and

8. NM-2984-H

Oil and Gas Lease dated May 2, 1977, from Vesta Brown Hooper, a widow, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 556, and

9. NM-2984-I

Oil and Gas Lease dated March 24, 1981, from Dallas E. Hawkins, II, a married man dealing in his sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book ____, page ____, and

10. NM-2984-J

Oil and Gas Lease dated March 24, 1981, from Lorena Elizabeth Hawkins Thompson, a married woman dealing in her sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book ____, page ____,

10-A. NM-2984-K

Oil and Gas Lease dated April 3, 1981, from William L. Godwin, Jr., a married man dealing in his sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book _____, page _____ and

10-B. NM-2984-L

Oil and Gas Lease dated April 3, 1981, from Charles R. Godwin, a married man dealing in his sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book _____, page _____; and

EXHIBIT "A" (Cont'd)

10-C. NM-2984-M

Oil and Gas Lease dated April 3, 1981, from Robert L. Godwin, a married man dealing in his sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book ___, page ___,

covering the NE¼ of Section 23, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 160.00 acres, more or less.

11. NM-2992

Oil and Gas Lease dated April 21, 1977, from Peoples Security Company, Lessor, to Marathon Oil Company, Lessee, recorded in Book 303, page 559, covering the NW¼ of Section 23, Township 16-South, Range 38-East, N.M.P.M., containing 160.00 acres, more or less.

12. NM-2993-A

Oil and Gas Lease dated June 1, 1977, from Aetna Eaves, a widow, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 642, and

13. NM-2993-B

Oil and Gas Lease dated June 1, 1977, from Aetna Eaves, Trustee of the Bessie Eaves Yearwood Estate, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 598, and

14. NM-2993-F

Oil and Gas Lease dated August 19, 1977, from Howell Spear, a married man dealing in his sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book 305, page 291, and

15. NM-2993-K

Oil and Gas Lease dated March 6, 1981, from Roy G. Barton, Jr., a married man dealing in his sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book _____, page ___, and

(There is no Lease 16.)

insofar and only insofar as such leases cover, affect, and apply to the NW¼ of Section 25 and the NE¼ of Section 26, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 320.00 acres, more or less.

17. NM-2993-D

Oil and Gas Lease dated June 8, 1977, from Walter V. Lawrence and wife, Emma G. Lawrence, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 283, and

18. NM-2993-G

Oil and Gas Lease dated August 25, 1977, from Ellie Spear, a single woman, Lessor, to Marathon Oil Company, Lessee, recorded in Book 305, page 294, and

19. NM-2993-J

Oil and Gas Lease dated August 25, 1977, from Rebel Oil Company, by Ellie Spear, Trustee and sole stockholder, Lessor, to Marathon Oil Company, Lessee, recorded in Book 305, page 303, and

19-A. Oil and Gas Lease dated April 1, 1981, from Richard Lyons Moore, a married man dealing in his sole and separate property; Michael Harrison Moore, a single man; and Stephen Scott Moore, a single man, acting by and through his Agent and Attorney-in-Fact, Richard L. Moore, Lessor, to Marathon Oil Company, Lessee, recorded in Book ___, page ___,

covering the NW¼ of Section 25, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 160.00 acres, more or less.

EXHIBIT "A" (Cont'd)

20. NM-2993-C

Oil and Gas Lease dated June 1, 1977, from William Stephen Eaves and Aetna Bess Eaves, each dealing in their sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 645, and

21. NM-2993-E

Oil and Gas Lease dated June 8, 1977, from Walter V. Lawrence and wife, Emma G. Lawrence, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 286, and

22. NM-2993-H

Oil and Gas Lease dated August 25, 1977, from Ellie Spear, a single woman, Lessor, to Marathon Oil Company, Lessee, recorded in Book 305, page 297, and

23. NM-2993-I

Oil and Gas Lease dated August 25, 1977, from Rebel Oil Company, by Ellie Spear, Trustee and sole stockholder, Lessor, to Marathon Oil Company, Lessee, recorded in Book 305, page 300,

23-A. NM-2993-M

Oil and Gas Lease dated April 1, 1981, from Richard Lyons Moore, a married man dealing in his sole and separate property; Michael Harrison Moore, a single man; and Stephen Scott Moore, a single man, acting by and through his Agent and Attorney-in-Fact, Richard L. Moore, Lessor, to Marathon Oil Company, Lessee, recorded in Book ___, page ___,

insofar and only insofar as such leases cover, affect, and apply to the NE¼ of Section 26, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 160.00 acres, more or less.

24. NM-2994-A

Oil and Gas Lease dated May 20, 1977, from J. C. Barnes, Jr., Jane B. Ramsland, and Shirley B. Wynn, Independent Executors of the Estate of R. C. Barnes (Sole & Separate); Russell J. Ramsland and wife, Jane B. Ramsland; J. C. Barnes, Jr., Jane B. Ramsland, and Shirley B. Wynn, Independent Executors of the Estates of J. C. Barnes and wife, R. C. Barnes; and J. C. Barnes, Jr., Jane B. Ramsland, and Shirley B. Wynn, Individually, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 181, and

25. NM-2994-B

Oil and Gas Lease dated June 1, 1977, from Alice Marbach, a married woman dealing in her sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 289, and

26. NM-2994-D

Oil and Gas Lease dated June 1, 1977, from Alice M. Carter, a widow, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 295, and

27. Oil and Gas Lease dated June 1, 1977, from A. J. Carter, a married man dealing in his sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 304, and

28. NM-2994-H

Oil and Gas Lease dated June 28, 1977, from Beryl Wellington White, Individually and as Independent Executrix Under the Will of Gordon H. White, Deceased, Lessor, to Marathon Oil Company, Lessee, recorded in Book 305, page 107, and

EXHIBIT "A" (Cont'd)

29. NM-2994-I

Oil and Gas Lease dated June 27, 1977, from E. K. Cargill and wife, Allie V. Cargill, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 607, and

30. NM-2994-J

Oil and Gas Lease dated February 20, 1981, from Clinton James Nelson and Lyle A. Nelson, his wife, Lessor, to Marathon Oil Company, Lessee, recorded in Book ____, page ____, and

31. NM-2994-K

Oil and Gas Lease dated February 20, 1981, from Claude L. Nelson and Irva Nelson, his wife, Lessor, to Marathon Oil Company, Lessee, recorded in Book ____, page ____, and

32. NM-2994-L

Oil and Gas Lease dated February 26, 1981, from Robert L. Wimer and Betty J. Wimer, his wife, Lessor, to Marathon Oil Company, Lessee, recorded in Book ____, page ____, and

33. NM-2994-M

Oil and Gas Lease dated March 5, 1981, from Wayne E. Nelson and Donna Nelson, husband and wife, Lessor, to Marathon Oil Company, Lessee, recorded in Book ____, page ____, and

34. NM-2994-N

Oil and Gas Lease dated February 26, 1981, from Norma J. Lakin, Lessor, to Marathon Oil Company, Lessee, recorded in Book ____, page ____, and

35. NM-2994-O

Oil and Gas Lease dated March 21, 1981, from Mabel L. Nelson, a widow, Lessor, to Marathon Oil Company, Lessee, recorded in Book ____, page ____,

insofar and only insofar as such leases cover, affect, and apply to the NW¼ of Section 26, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 160.00 acres, more or less.

36. NM-2995-A

Oil and Gas Lease dated June 10, 1977, from Delmont L. Hatfield and wife, Mary Hatfield, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 121, and

37. NM-2995-B

Oil and Gas Lease dated May 26, 1977, from Rupert G. Sneed and wife, Mary Sneed, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 124, and

38. NM-2995-C

Oil and Gas Lease dated June 10, 1977, from Donald H. Hatfield and wife, Rosalee M. Hatfield, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 307, and

39. NM-2995-D

Oil and Gas Lease dated June 27, 1977, from Mary Edith Fletcher, a married woman dealing in her sole and separate property, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 600, and

EXHIBIT "A" (Cont'd)

40. NM-2995-E

Oil and Gas Lease dated May 23, 1977, from Johnie Marchesoni and wife, Ethel Marchesoni, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 602, and

41. NM-2995-F

Oil and Gas Lease dated June 27, 1977, from Eunice M. Fluckey, a widow, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 609, and

42. NM-2995-G

Oil and Gas Lease dated July 18, 1977, from Bradley Resources Corporation, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 611, and

43. NM-2995-H

Oil and Gas Lease dated July 18, 1977, from Vinita M. Byars, a widow, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 614,

covering the N½SE¼ of Section 23, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 80.00 acres, more or less.

44. NM-2996

Oil and Gas Lease dated July 1, 1977, from Anderson Carter & Powhatan Carter, Jr., Co-Executors of Estate of Effie Carter, Deceased; Anderson Carter and wife, Gerldine Carter; Powhatan Carter, Jr., and wife, Beverly T. Carter, Lessor, to Marathon Oil Company, Lessee, recorded in Book 304, page 616, covering the S½SE¼ of Section 23, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 80.00 acres, more or less.

Continued on next page.

EXHIBIT "A" (Cont'd)

Leases Contributed by Marathon Oil Company (1/2) and Amoco Production Company (1/2)

1. NM-2995-I

Oil and Gas Lease dated March 15, 1978, from L. T. Dunlap, a single man, Lessor, to Marathon Oil Company, Lessee, recorded in Book 309, page 827, and

2. NM-2995-J

Oil and Gas Lease dated March 27, 1978, from Nettie Traylor, a widow, and Merri Jo Barrett and husband, T. J. Barrett, Lessor, to Marathon Oil Company, Lessee, recorded in Book 309, page 836,

covering the N½SE¼ of Section 23, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 80.00 acres, more or less.

Leases Contributed by Amoco Production Company

1. Oil and Gas Lease dated March 1, 1977, from C. W. Hardy, a single man, Lessor, to Wilderspin & House, Inc., Lessee, recorded in Book 303, page 768, and

2. Oil and Gas Lease dated March 3, 1977, from L. M. McAdoo, et ux, Martha McAdoo, Lessor, to Wilderspin & House, Inc., Lessee, recorded in Book 303, page 778,

covering the N½SE¼ of Section 23, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 80.00 acres, more or less.

3. Oil and Gas Lease dated March 7, 1977, from Peoples Security Company, Lessor, to Wilderspin & House, Inc., Lessee, recorded in Book 303, page 780, covering the SW¼ of Section 23 and the SW¼ of Section 24, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 320.00 acres, more or less.

4. Oil and Gas Lease dated April 27, 1977, from Mabel E. Hooper, a widow; Jimmie Joe Hooper; Jeannine Hooper Byron, each dealing in their sole and separate property, Lessor, to Wilderspin & House, Inc., Lessee, recorded in Book 303, page 826, insofar and only insofar as such lease covers, affects, and applies to the NW¼ of Section 25 and the NE¼ of Section 26, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 320.00 acres, more or less.

*Such leases being so contributed only insofar as they cover lands within the Contract Area. All of the above recording references are in the Oil and Gas Lease Records of Lea County, New Mexico.

IV. OIL AND GAS INTERESTS

1. Contributed by Neva L. Harris - Undivided .1250000 (1/8) unleased mineral interest in the N½SE¼ of Section 23, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 80.00 acres, more or less.

2. Contributed by The Blanco Company - Undivided .02343750 (3/128) unleased mineral interest in the NW¼ of Section 26, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 160.00 acres, more or less.

3. Contributed by Roy G. Barton and his wife, Opal Barton - Undivided .0078125 (1/128) unleased mineral interest in the NW¼ of Section 26, Township 16-South, Range 38-East, N.M.P.M., Lea County, New Mexico, containing 160.00 acres, more or less.

EXHIBIT "A" (Cont'd)

V. ADDRESSES OF PARTIES

Marathon Oil Company
P. O. Box 552
Midland, Texas 79702
Attention: Mr. W. H. Legg

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001
Attention: Mr. Scott Summers

Neva L. Harris
P. O. Box 20767
Oklahoma City, Oklahoma 73105

The Blanco Company
P. O. Box 1150
Roswell, New Mexico 88201
Attention: Mr. Emmett D. White

Roy G. and Opal Barton
P. O. Box 978
Hobbs, New Mexico 88240

EXHIBIT "B"

Producer's 88—(Producer's Revised 1965) (New Mexico) Form 342 Printed and for sale by Hall-Poorbaugh Press, Roswell, N. M.

OIL & GAS LEASE

THIS AGREEMENT made this _____ day of _____ 19____, between _____

_____

_____

_____ of _____
(Post Office Address)

herein called lessor (whether one or more) and _____, lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the

following described land in _____ County, New Mexico, to-wit:

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of one years from this date (called "primary term"), and as long thereafter as oil or gas, is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 1/6 of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of 1/6 of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/6 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate

as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of $ _____ which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment

or tender may be made to the lessor or to the credit of the lessor in the _____ Bank

at _____, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or (if it be within the primary term) commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, rental and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its/his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

_____ _____

_____ _____

_____ _____

601, POX 2906 TULSA OK 74101

EXHIBIT "C"

Attached to and made a part of the Operating Agreement dated March 16, 1981, between Marathon Oil Company, Operator, and Amoco Production Company et al, Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

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

2. **Labor**

   A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

   (2) Salaries of First Level Supervisors in the field.

   (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

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

   C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

   D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. **Employee Benefits**

   Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed ~~xxxxxxxxxxxxxxxxxx~~ twenty-six percent (26%), or percent most recently recommended by the Council of Petroleum Accountants Societies of North America.

4. **Material**

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

5. **Transportation**

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

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

   B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. **Services**

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

7. **Equipment and Facilities Furnished by Operator**

   A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

   B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. **Damages and Losses to Joint Property**

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

9. **Legal Expense**

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

(x) Fixed Rate Basis, Paragraph 1A, or

( ) Percentage Basis, Paragraph 1B.

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,260.00

Producing Well Rate $ 326.00

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

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

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

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

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

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

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

~~B. Overhead - Percentage Basis~~

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

(a) Development

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

(b) Operating

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

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

2. **Overhead - Major Construction**

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

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

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

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

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

3. ***Amendment of Rates***

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

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

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

1. **Purchases**

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

2. **Transfers and Dispositions**

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of the Operating Agreement dated March 16, 1981, between Marathon Oil Company, Operator, and Amoco Production Company et al, Non-Operators.

SCHEDULE OF INSURANCE

I. Unit Operator shall carry with respect to Unit operations subject to this agreement:

1. Workmen's Compensation Insurance and Employer's Liability Insurance to cover liability imposed by the laws of the State of New Mexico

2. Any other insurance of any kind will be carried by the Operator for the joint account of the parties only with the concurrence of all parties to this agreement.

II. Operator shall require all contractors and sub-contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation law of the State of New Mexico and to maintain such other insurance as Operator may require.

III. All contractors performing drilling work shall be required to carry insurance sufficient to cover all equipment supplied by contractors, including property of its sub-contractors, and used in connection with the drilling performed hereunder from all physical loss and/or damage from any cause whatsoever, including but not limited to blowout and cratering, such insurance to contain a provision for waiver of subrogation on the part of the insurance carrier against Operator. Where equipment is such that "all risks" insurance is not available, it shall be insured under most comprehensive terms available.

IV. Any party may procure and maintain at its sole cost and expense such other insurance as it shall determine, and any such insurance provided, however, that each such insurance policy shall contain a waiver on the part of the insurance carrier of all rights, by subrogation or otherwise, against each party not named as an insured in such policy, or if such waiver is not secured, the insured shall indemnify and hold harmless each party not named as an insured in such policy against any claim of the insurance carrier arising against such party by subrogation or otherwise.

EXHIBIT "F"

Attached to and made a part of the Operating Agreement dated March 16, 1981, between Marathon Oil Company, Operator, and Amoco Production Company et al, Non-Operators.

A. DURING THE PERFORMANCE OF THIS CONTRACT, THE OPERATOR AGREES AS FOLLOWS:

1. The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training; including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.

2. The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

3. The Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representatives of the Operator's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Operator will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

5. The Operator will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

6. In the event of Operator's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

7. The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless excepted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event the Operator becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interest of the United States.

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

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

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

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

D. LISTING OF EMPLOYMENT OPENINGS

The Operator agrees that all employment openings of the Operator which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the Operator other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the state employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hirings as may be required: Provided, that this provision shall not apply to openings which the Operator fills from within the Operator's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders. The Operator agrees further to place this provision in any sub-contracts directly under this contract.

E. EQUAL OPPORTUNITY IN EMPLOYMENT CERTIFICATION OF NONSEGREGATED FACILITIES

Any contract entered into by Operator shall provide as follows:

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

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

F. NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES

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

Docket No. 11-82

Dockets Nos. 13-82 and 14-82 are tentatively set for May 12 and May 26, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - THURSDAY - APRIL 22, 1982

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 7509: (Continued and Readvertised)

Application of Supron Energy Corporation for a non-standard proration unit or compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard proration unit for the Dakota and Mesaverde formations comprising the SW/4 of Section 2, Township 31 North, Range 8 West, or in the alternative, an order pooling all mineral interests from the surface down through the Dakota formation underlying the S/2 of said Section 2, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7535: (Continued and Readvertised)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Abo formation underlying the SW/4 of Section 17, Township 6 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7553: (Continued from April 14, 1982, Examiner Hearing)

Application of Fred Pool Drilling Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Abo formation underlying the SW/4 of Section 17, Township 6 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

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Docket No. 12-82

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 28, 1982

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 7560: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Charles H. Heisen, Fidelity and Deposit Company of Maryland, Surety, and all other interested parties to appear and show cause why the Crownpoint Well No. 1, located in Unit F, Section 18, Township 18 North, Range 13 West, McKinley County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7469: (Continued from March 31, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit H. N. Bailey & Associates, Commercial Union Insurance Company, and all other interested parties to appear and show cause why the following wells on the H. M. Bailey Lease, Township 21 South, Range 1 West, Dona Ana County, should not be plugged and abandoned in accordance with a Division-approved plugging program: In Section 10: Nos. 9 in Unit A, 9, 11, 12, and 13 in Unit B, 10 and 14 in Unit C; and No. 15 in Unit C of Section 9.

CASE 7456: (Continued from March 3, 1982, Examiner Hearing)

Application of Marks & Garner Production Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of salt water into the Bough C formation in the perforated interval from 9596 feet to 9616 feet in its Batenbough Well No. 2, located in Unit M of Section 12, Township 9 South, Range 35 East.

CASE 7561: Application of Franks Petroleum, Inc. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the North line and 1980 feet from the West line of Section 9, Township 21 South, Range 32 East, Hat Mesa-Morrow Gas Pool, the W/2 of said Section 9 to be dedicated to the well.

CASE 7565: Application of Delta Drilling Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Mescalero Unit Area, comprising 719.77 acres, more or less, of State, Fee and Federal lands in Townships 9 and 10 South, Range 32 East.

CASE 7544: (Continued and Readvertised)

Application of Dinero Operating Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow-Ellenberger well to be drilled 660 feet from the North and East lines of Section 20, Township 22 South, Range 28 East, the N/2 of said Section 20 to be dedicated to the well.

CASE 7562: Application of Northwest Exploration Company for pool creation and special pool rules, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Gallup-Dakota oil pool for its Gavilan Well No. 1 located in Unit A of Section 26, Township 25 North, Range 2 West, with special rules therefor, including provisions for 160-acre spacing.

CASE 7519: (Continued from March 31, 1982, Examiner Hearing)

Application of S & J Oil Company for special pool rules, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Seven Lakes-Menafee Oil Pool to provide for well to be located not nearer than 25 feet to the quarter-quarter section line nor nearer than 165 feet to lands owned by an offset operator.

CASE 7563: Application of Marathon Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in all Permian formations underlying the NE/4 NE/4 of Section 26, Township 16 South, Range 38 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7457: (Continued from March 16, 1982, Examiner Hearing)

Application of E. T. Ross for nine non-standard gas proration units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval for nine 40-acre non-standard gas proration units in the Bravo Dome Carbon Dioxide Area. In Township 19 North, Range 30 East: Section 12, the NW/4 NW/4 and NE/4 NW/4; Section 14, the NW/4 NE/4, SW/4 NE/4, and SE/4 NE/4. In Township 20 North, Range 30 East: Section 11, the NE/4 SW/4, SW/4 SE/4, SE/4 SW/4, and NW/4 SE/4.

CASE 7564: Application of Mesa Petroleum Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Abo formation underlying the NW/4 of Section 30, Township 6 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7445: (Continued from March 16, 1982, Examiner Hearing - This Case will be continued to May 26, 1982)

Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the San Andres formation for its Fulton Collier Well No. 1 in Unit G of Section 1, Township 18 South, Range 28 East.

CASES 7524 THRU 7534: (Continued from March 31, 1982, Examiner Hearing)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following 11 cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered in each case will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7524: SE/4 Section 2, Township 5 South, Range 24 East

CASE 7525: SW/4 Section 3, Township 5 South, Range 24 East

CASE 7526: NW/4 Section 3, Township 5 South, Range 24 East

CASE 7527: SE/4 Section 3, Township 5 South, Range 24 East

CASE 7528: NW/4 Section 4, Township 5 South, Range 24 East

CASE 7529: NE/4 Section 4, Township 5 South, Range 24 East

CASE 7530: NW/4 Section 11, Township 6 South, Range 24 East

CASE 7531: SW/4 Section 11, Township 6 South, Range 24 East

CASE 7532: SE/4 Section 27, Township 6 South, Range 24 East

CASE 7533: SW/4 Section 27, Township 6 South, Range 24 East

CASE 7534: NW/4 Section 34, Township 6 South, Range 24 East

Robert J. Pickens
Attorney
Houston Division
Production, U.S. & Canada

Marathon Oil Company

P.O. Box 3128
Houston, Texas 77001
Telephone 713. 629-6600

March 30, 1982

Case 7563

Oil Conservation Division
Energy and Minerals Department
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

RECEIVED
APR 05 1982
OIL CONSERVATION DIVISION
SANTA FE

Attention: Mr. Joe D. Ramey, Secretary Director

Re: Application of Marathon Oil Company for Compulsory Pooling, Lea County, New Mexico

Dear Sir:

Enclosed herewith in triplicate, is the Application of Marathon Oil Company for Compulsory Pooling of the Northeast quarter (NE/4) of the Northeast quarter (NE/4) of Section 26, Township 16 South, Range 38 East, N.M.P.M., Lea County, New Mexico.

Marathon requests that this matter be set down for the Examiner's hearing scheduled for April 28, 1982.

Yours very truly,

Robert J. Pickens

ROBERT J. PICKENS
Attorney

RJP:sh
Encls.

Robert J. Pickens
Attorney
Houston Division
Production, U.S. & Canada

P.O. Box 3128
Houston, Texas 77001
Telephone 713/629-6600

Marathon Oil Company

March 30, 1982

Oil Conservation Division
Energy and Minerals Department
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Application of Marathon Oil Company for Compulsory Pooling, Lea County, New Mexico

Gentlemen:

Marathon Oil Company, by its undersigned attorney, hereby makes application for an order pooling all mineral interest in the Permian Formation underlying the Northeast quarter (NE/4) of the Northeast quarter (NE/4), Section 26, Township 16 South, Range 38 East, N.M.P.M., Lea County, New Mexico, and in support thereof would show the following:

1. Applicant is the owner of oil and gas leasehold interests in the NE/4 of the NE/4 of Section 26, T-16-S, R-38-E, N.M.P.M., and Amoco Production Company, Roy G. Barton, Jr. and Opal Barton, Neva L. Harris, Blanco Company, and Jerry L. Hooper are the owners of the remaining oil and gas leasehold and mineral interests in the NE/4 of the NE/4 of Section 26, T-16-S, R-28-E, N.M.P.M..

2. Applicant proposes to drill a well in the NE/4 of the NE/4 of Section 26, being 330 feet from the North line and 990 feet from the East line of Section 26, to a sufficient depth to test the Permian Formation, including the San Andres, the Paddock, the Glorieta, the Clear Fork, the Tubb, the Drinkard, and the Abo intervals therein, and seeks to dedicate the NE/4 of the NE/4 of said Section 26 to the well. Applicant has requested owners of the other oil and gas interests to join in the drilling of the well, but some have so far refused to do so.

3. The pooling of all mineral interests in the Permian Formation, in the NE/4 of the NE/4 of said Section 26 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

4. Applicant requests that the Oil Conservation Division consider the costs of drilling and completing said well, the proper allocation of said costs, as well as actual operating costs, charges for supervision and charges for the risk involved in drilling a well. Applicant also requests that it be designated as Operator of said well.

5. A list of all interested persons known to applicant is attached hereto.

Applicant respectively requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on April 28, 1982, or at the earliest possible date.

Respectfully submitted,

MARATHON OIL COMPANY

By: Robert J. Pickens

Robert J. Pickens
P. O. Box 3128
Houston, Texas 77001
Attorney for
Marathon Oil Company

LIST OF INTERESTED PARTIES
EAST GARRETT AREA
LEA COUNTY, NEW MEXICO

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001
Attention: Mr. Scott Summers

Roy G. Barton, Jr. and
Opal Barton
P. O. Box 978
Hobbs, New Mexico 88240

Neva L. Harris
P. O. Box 20767
Oklahoma City, Oklahoma 73120

Blanco Company
P. O. Box 1150
Roswell, New Mexico 88201
Attention: Emmett O. White

Jerry L. Hooper
P. O. Drawer 2086
Midland, Texas 79702

STATE OF NEW MEXICO

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION

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

CASE NO. 7563

Order No. R-6973

APPLICATION OF MARATHON OIL COMPANY
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on April 28, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of May, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Marathon Oil Company, seeks an order pooling all mineral interests in all Permian formations underlying the NE/4 NE/4 of Section 26, Township 16 South, Range 38 East, NMPM, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil and gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $ 4890.00 per month while drilling and $ 489.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in

escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before August 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in all Permian formations underlying the NE/4 NE/4 of Section 26, Township 16 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil ~~gas~~ spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the First day of August, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Permian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the First day of August, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement

thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Marathon Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $ 4890.00 per month while drilling and $ 489.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director

S E A L

Court 4a
5/26

need names and addresses of posters

CASE 7564: MESA PETROLEUM COMPANY FOR COMPULSORY POOLING, CHAVES COUNTY, NEW MEXICO

Cancel 4/2
5/26

need names and addresses of parties

Brine Effluents:

370 l/mo Coal
3700 l/mo Oil Shale
200 l/a Nahcolite