

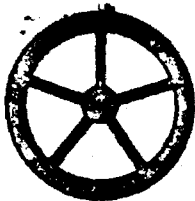
CASE 6827: CONSOLIDATED OIL & GAS, INC.
FOR COMPULSORY POOLING, SAN JUAN COUNTY,
NEW MEXICO

CASE NO.

6827

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.



Consolidated Oil & Gas, Inc.

LINCOLN TOWER BUILDING
1860 LINCOLN STREET
DENVER, COLORADO 80295
(303) 861-5252

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

COG EXHIBIT NO. 7

CASE NO. 4827

Working Interest Owners
(see attached list)

Re: Operating Agreement Dated
August 27, 1979, Clayton
Unit, S/2 Section 2, T30N,
R12W, San Juan County,
New Mexico

Gentlemen:

Under cover letter dated September 14, 1979, you were sent an operating agreement for the above-referenced unit. That agreement should be amended as follows: Exhibit "C", page 3, paragraph 1A, should include a provision for a producing well rate for a triple zone of \$280.00.

If you concur in the amendment described, please sign in the space provided below.

Very truly yours,

CONSOLIDATED OIL & GAS, INC.

Floyd E. Ellison, Jr.

Floyd E. Ellison, Jr.
Vice President - Operations

FEE:ccs

I agree to the above-described
amendment to the Clayton Unit
Operating Agreement dated
August 27, 1979.

Date: _____

Clayton No. 1-2
Operating Agreement
Working Interest Owners

Brooks Exploration, Inc.
2110 Western Federal Savings
718 Seventeenth Street
Denver, Colorado 80202

Eugene P. Mathias
12027 Venice Boulevard
Los Angeles, California 90066

Boatmen's National Bank of St. Louis
as Trustee for the Alma E. Griasedieck
Estate

Attn: M. Cryts
P. O. Box 7363, Main Post Office
St. Louis, Missouri 63166

Moulton B. Goff
28500 Bradley Road, Apt #255
Sun City, California 92381

Mary Stauffer
7813 East Second Street
Coney, California 90241

Western Distributing Company
Employees Trust
1800 Bassett Street
Denver, Colorado 80217

Malcolm C. Todd
2840 Long Beach Boulevard
Long Beach, CA 90806

Helena Karagozian, Executrix of
the Estate of Louise Kohn, Dec'd.
23713 Kivik Street
Woodland Hills, California 91367

Harold J. Blackley
2800 South University Boulevard #135
Denver, Colorado 80210

Georgia Lee Kalton Bright
6535 Pelham Court
San Jose, California 95123

Candace Kalton Cox
324 Sudbury Road
Concord, Massachusetts 01742

Anchony Zarlengo
595 Capitol Life Center
Denver, Colorado 80203

Margery M. Krieger & People's Bank
& Trust Co.
Co-Trustees for the Estate of L. G.
Krieger
476 Oswego Court
Aurora, Colorado 80010

Wayne E. Oftedahl
218 Glenview
Elmhurst, Illinois 60125

John Bianchetti, Jr.
1300 West Victoria #7
Montbello, California 80640

Bruce Howard Lindsay
P. O. Box 1575
Newport Beach, California 92663

Benjamin M. Taylor
c/o Fred W. Caesar, Agent
3656 Mira Pacific Drive
Oceanside, California 92054

Roger K. Stewart
4782 E. Quail Creek Drive
Tucson, Arizona 85718

Harry R. Sherman
11806-C Moorpark Street
Studio City, California 91604

Betty L. Spellman, Att'y in Fact
for Gladys A. Murphy
2716 Daisy Avenue
Long Beach, California 90806

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

COG EXHIBIT NO. 1

CASE NO. 6827

CLAYTON #1-E WELL

875' from the South Line and 945' from the East Line of
Section 2, Township 30 North, Range 12 West, N.M.P.M.
San Juan County, New Mexico

	S/2 SW/4	N/2 SW/4	E/2 SE/4, W/2 SE/4	Communitized SE/4 - Gallup	Communitized S/2 - Mesaverde	Already Communitized S/2 - Dakota
✓ John Blanchetti	----	1.587300%	1.587300%	✓ 1.587300%	1.190475%	1.190475%
Moulton Goff	1.428570%	---	---	---	.357142%	.357142%
✓ Helen Karagorian, Executrix for the Louise Kohn Estate	1.428570%	---	---	---	.357142%	.347142%
Eugene P. Mathias	11.428580%	1.428570%	1.428570%	1.428570%	3.928573%	3.928573%
Betty Spellman, Attorney-in-Fact for Gladys Murphy	3.888890%	3.174610%	3.174610%	3.174610%	3.353180%	3.353180%
✓ H. D. Oliver	---	3.015870%	3.015870%	3.015870%	2.261902%	2.261902%
Benjamin M. Taylor	1.428570%	1.428570%	1.428570%	1.428570%	1.428570%	1.428570%
Mary K. Stauffer	7.142850%	7.142850%	7.142850%	7.142850%	7.142850%	7.142850%
Malcolm C. Todd	7.142860%	6.031750%	6.031750%	6.031750%	6.309528%	6.309528%
Harry R. Sherman	1.587300%	---	---	---	.396825%	.396825%
✓ Nellie Trowel	---	3.015870%	3.015870%	3.015870%	2.261902%	2.261902%
Bruce Howard Lindsay	1.587300%	3.174610%	3.174610%	3.174610%	2.777783%	2.777783%
Western Distributing Company Employees Trust	1.171875%	2.148440%	2.148440%	2.148440%	1.904258%	1.904298%
Harold J. Bleakley	2.107748%	3.760038%	3.760038%	3.760038%	3.346965%	3.346965%
Candace Kelton Cox	1.053875%	1.880018%	1.880018%	✓ 1.880018%	1.673483%	1.673483%
Georgia Lee Kelton Bright	1.053874%	1.880019%	1.880019%	✓ 1.880019%	1.673483%	1.673483%
L. G. Krieger	.843099%	1.504015%	1.504015%	1.504015%	1.338786%	1.338786%
Anthony F. Zarlengo	1.686199%	3.008030%	3.008030%	3.008030%	2.677572%	2.677572%
Brooks Exploration, Inc.	31.250000%	31.250000%	31.250000%	31.250000%	31.250000%	31.250000%
Consolidated Oil & Gas, Inc.	23.769840%	24.569440%	24.569440%	24.569440%	24.369541%	24.369541%
	100.000000%	100.000000%	100.000000%	100.000000%	100.000000%	100.000000%

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
12 March 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Consolidated Oil & Gas) CASE
Inc., for compulsory pooling, San Juan) 6827
County, New Mexico.)

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:	Ernest L. Padilla, Esq. Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501
For the Applicant:	Lynn Teschendorf, Esq. Consolidated Oil and Gas, Inc. Denver, Colorado

SALLY W. BOYD, C.S.J.

Et. 1 Bot 193-8

Santa Fe, New Mexico 87501

Phone (505) 435-7409

I N D E X

SHIRLEY REEDER

Direct Examination by Ms. Teschendorf 4

MERLE SAVAGE

Direct Examination by Ms. Teschendorf 14

Cross Examination by Mr. Nutter 21

E X H I B I T S

Applicant Exhibit One, List 5

Applicant Exhibit Two, Structure Map 15

Applicant Exhibit Three, Structure Map 16

Applicant Exhibit Four, Cross Sections 16

Applicant Exhibit Five, AFE 17

Applicant Exhibit Six, Operating Agreement 19

Applicant Exhibit Seven, Letter 20

SALLY W. BOYD, C.S.R.

Rt. 1 Box 194-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 MR. NUTTER: We'll call next Case 6827.

2 MR. PADILLA: Application of Consolidated
3 Oil and Gas, Inc., for compulsory pooling, San Juan County,
4 New Mexico.

5 MS. REEDER: She isn't here right now.
6 Can you go on with the next one? I'll go find her.

7
8 (Hearing continued.)

9
10 MR. NUTTER: We're back on Case 6827 now.

11 MR. PADILLA: Application of Consolidated
12 Oil and Gas, Inc., for compulsory pooling, San Juan County,
13 New Mexico.

14 MR. NUTTER: Is there anyone to represent
15 Consolidated in this case?

16 MS. TESCHENDORF: For better or worse,
17 yes. Lynn Teschendorf, appearing on behalf of Consolidated,
18 and I'll have two witnesses.

19
20 (Witnesses sworn.)

21
22 SHIRLEY REEDER
23 being called as a witness and having been duly sworn upon
24 her oath, testified as follows, to-wit:
25

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

DIRECT EXAMINATION

BY MS. TESCHENDORF:

Q Would you please state your name and by whom you're employed?

A I am Shirley Reeder. I'm employed by Consolidated Oil and Gas, Denver, Colorado.

Q And in what capacity are you employed?

A I'm Title Account Analyst.

Q Okay. Have you ever testified before the Division before, or one of its examiners?

A No.

Q Would you please review your experience background for the Examiner?

A I've had over twenty-five years experience in oil and gas industry, and I've worked in the Land and Legal Departments for Magnolia Petroleum, Gulf Oil, and Sun Oil.

I was officer manager and bookkeeper for an independent oil operator in Dallas, Texas.

In Billings, Montana, I operated a petroleum secretarial service.

I've worked for Consolidated Oil and Gas since 1962 in Land, Legal, Accounting, Division Order Departments, and matter of fact, in 1962 I calculated and

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-13

Santa Fe, New Mexico 87501

Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

BL 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7401

1 processed the Division Order on the original well, Clayton
2 Well, in this south half of Section 2, 30 North, 12 West.

3 Q And are you familiar with the facts con-
4 cerning this case?

5 A Yes.

6 MS. TESCHENDORF: Is the witness consid-
7 ered qualified to testify as to the interests in this matter.

8 MR. NUTTER: Yes, she is. How do you
9 spell your name, Ms. Reeder?

10 A R-E-E-D-E-R.

11 MR. NUTTER: There's three ways to spell
12 it. I didn't know which one. Thank you. Go ahead.

13 Q Would you please tell the Examiner what
14 Consolidated is seeking with this application?

15 A We're seeking an order pooling all
16 mineral interests in the Gallup formation underlying the
17 southeast quarter of Section 2, and the Mesaverde formation
18 underlying the south half of Section 2, Township 30 North,
19 12 West, San Juan County, New Mexico.

20 Q Okay, would you please refer to Exhibit
21 One and tell the Examiner what that shows?

22 A These are the working interest owners
23 in this -- in this well. It shows which ones would be in
24 the Gallup formation. They're working -- they're operating
25 interests, and also the Mesaverde formation, and naturally,

1 the Dakota is identical to Mesaverde.

2 There are nineteen other people in this
3 besides Consolidated, and these people are mostly on the
4 west coast that are -- they have been very difficult to find.

5 Q Would you please describe the current
6 situation as to the existing well on this south half of
7 Section 2?

8 A The existing current situation, you mean
9 what?

10 Q Well, is there currently a well on the
11 south half?

12 A Oh, there is a well in the southwest
13 quarter that produces from the Gallup and the Dakota forma-
14 tion.

15 Q Okay, and have those formations been
16 communitized?

17 A Yes, they were communitized before
18 drilling the well. I think in 1962 the original well was
19 drilled.

20 Q So the Dakota is communitized in the
21 south half and the Gallup is communitized in the southwest
22 quarter?

23 A In the southwest quarter, that's right.

24 Q Okay. And what are Consolidated's plans
25 for the new well that is currently being drilled in the

SALLY W. BOYD, C.S.R.

P.O. Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 southeast quarter?

2 A Well, we are getting the Gallup commun-
3 itized. The Mesaverde, we do have all the signatures in on
4 the Mesaverde formation. There are -- except for a few
5 people that we cannot locate.

6 In the Mesaverde formation we have signed
7 95.476 percent.

8 MR. NUTTER: Are you talking about working
9 interest owners?

10 A That's right.

11 MR. NUTTER: Okay. Can you identify the
12 ones on Exhibit One who haven't signed, please?

13 A In the Mesaverde formation it's H. D.
14 Oliver and Nellie Troxel.

15 MS. TESCHENDORF: Can I interrupt to ex-
16 plain one thing?

17 Now, we've had a problem, have we not,
18 with getting people to sign the communitization agreements
19 versus the operating agreement?

20 A Yes.

21 Q And some people have signed the communi-
22 tizations but have refused to sign the operating agreement,
23 is that correct?

24 A That's right.

25 Q So that we're in the position of in some

SALLY W. BOYD, C.S.R.

El. 1 Box 195-B
Santa Fe, New Mexico 87501
Phone (505) 435-7409

SALLY W. BOYD, C.S.R.

RE. 1 Box 131-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 cases we've got 100 -- well, except for the two people we
2 can't find, we've got everyone who has agreed to communitize
3 but they have not agreed to sign the operating agreement, --

4 A That's true.

5 Q -- is that correct?

6 A That's true.

7 MR. NUTTER: Do you consider the land
8 communitized if they sign the communitization agreement but
9 not the operating agreement?

10 A Yes, wouldn't we? I would.

11 MR. NUTTER: I'm asking you.

12 A Okay, yes, we would consider it commun-
13 itized. The operating agreement would bear on the operations.

14 Q But without signature -- without the
15 signatures on the operating agreement, we have no provision
16 for risk charges, operating expenses, et cetera, so we would
17 like to ask the Examiner to pool those people who have not
18 signed the operating agreement also, so that we will have
19 provisions for operating costs, risk charges, et cetera.

20 MR. NUTTER: Well, of course, the order
21 is directed to the land and not the individuals, anyway, so
22 it would take in all those people.

23 But back to the original question, now,
24 is Nellie Troxel, is she one that you can't --

25 A We cannot locate her.

1 MR. NUTTER: And who was the other one?

2 A H. D. Oliver.

3 MR. NUTTER: And Oliver would have a
4 3.015+ percent interest in the Gallup Unit?

5 A That's right. Yes.

6 MR. NUTTER: And a 2.26 percent interest
7 in the Mesaverde Unit.

8 A Yes, and Nellie --

9 MR. NUTTER: And Troxel would have the
10 identical interest in the two units?

11 A Yes.

12 MR. NUTTER: Okay.

13 Q Could you tell the Examiner which of the
14 interest owners have not -- let me rephrase that.

15 A Okay.

16 Q Have all interest owners except for H.
17 D. Oliver and Nellie Troxel signed the Mesaverde communiti-
18 zation?

19 A Yes.

20 Q Which working interest owners have not
21 signed the Gallup communitization?

22 A There is one John Bianchetti, Candice
23 Cox, however -- and Georgia Lee Bright.

24 MR. NUTTER: Okay, now who was that
25 again?

SALLY W. BOYD, C.S.R.

Rt. Box 199-B
Santa Fe, New Mexico 87501
Phone (505) 435-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 192-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 A It was John Bianchetti, he does not have
2 a phone. I tried to contact him and he does not have a
3 listing.

4 And Candice Cox and Georgia Bright.

5 MR. NUTTER: And those are the three
6 who have signed the communitization but not the operating
7 agreement?

8 A No, they have not signed the Gallup com-
9 munitization.

10 MR. NUTTER: Oh.

11 A They signed the Mesaverde but not the
12 Gallup. They went out separately.

13 Q Okay, and would you please tell the
14 Examiner which interest owners have not signed the operating
15 agreement?

16 A All right. John Bianchetti, the Louise
17 Kohn estate, H. D. Oliver, and Nellie Troxel, Bruce Howard
18 Lindsay, and Mary Kay Stauffer.

19 MR. NUTTER: Okay, now I'm not going down
20 the list as fast as you are.

21 A Oh, I'm sorry.

22 MR. NUTTER: So Bianchetti was the
23 first one you mentioned.

24 A Yes. And then Louise Kohn estate. Now
25 that's Helen Karagozian, executrix for the Louise Kohn --

1 it's the third one down.

2 MR. NUTTER: Okay.

3 A Okay, and of course, Oliver and Troxel,
4 and then Bruce Howard Lindsay.

5 MR. NUTTER: Now, those people --

6 A And also Mary Kay Stauffer. They have
7 not signed operating agreements.

8 MR. NUTTER: For either formation?

9 A Yes, that's right.

10 MR. NUTTER: Ms. Reeder, now you mentioned
11 that you're not able to locate Oliver and Troxel, but you
12 did mention that this south half has been pooled for the
13 old well that's in the southwest quarter.

14 Where is their share going now?

15 A For -- it's actually being held in the
16 suspense account. What we do is apply their operating ex-
17 pense against their runs and they have over \$4000 apiece.

18 MR. NUTTER: Have they ever participated
19 and then you just lost track of them?

20 A Troxel and Oliver, you mean?

21 See, they came in by way of a reversionary
22 interest, which -- it paid out in 1971, and they were sold
23 these interests in 1962, and they just got lost between '62
24 and '71 by the time a Division Order got to them.

25 MR. NUTTER: Uh-huh.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 A And then I sent out, with all the other
2 working interest people, the other -- all this group, I sent
3 out just a little slip when we sent out their checks one
4 month, and said do you know their whereabouts. I thought
5 since they came in at the same time they might know each
6 other.

7 Well, I got no response to that. I mean
8 I got a couple people say they did not.

9 Then I've gotten on the telephone and
10 called -- called the person who sold these interests and
11 tried to get hold of him and I couldn't do that. Then I
12 even got on the telephone and tried to call the neighbors,
13 and for instance, Nellie Troxel's house has been torn down
14 and there's an apartment building there.

15 MR. NUTTER: Where did she live?

16 A Let's see, she was in Los Angeles, Cal-
17 ifornia, and H. D. Oliver was in Anaheim.

18 MR. NUTTER: Anaheim?

19 A Anaheim, yeah. And H. D. Oliver, as I
20 understand, is divorced and just skipped the country.

21 Q Let me clarify one point here. The
22 Dakota communitization and the Gallup communitization in the
23 southwest quarter both took place before any of these
24 people had interests.

25 A Yes, that's right.

SALLY W. BOYD, C.S.R.
Rt. 1 Box 153-B
Santa Fe, New Mexico 87501
Phone (505) 433-7409

1 Q Had working interests.

2 A That's right.

3 MR. NUTTER: And then their interest
4 developed after the well was --

5 A Yes, after it paid out a certain amount
6 of money. Uh-huh.

7 MR. NUTTER: And so their share is being
8 held in trust now.

9 A Yes.

10 MR. NUTTER: Okay, go ahead.

11 Q I wanted to backtrack to catch one point.

12 A Okay.

13 Q The new Clayton well is proposed as a
14 triple completion, is that correct?

15 A Yes.

16 Q Has certified notice of this hearing been
17 sent to those who have not agreed to sign the Gallup commun-
18 itization and have not signed the operating agreement?

19 A Yes, it was mailed out on March the 6th,
20 1980.

21 Q Do you recommend that all proceeds from
22 production for those who are going to fall under the forced
23 pooling order be placed in escrow in Denver rather than in
24 San Juan County, New Mexico?

25 A I would.

SALLY W. BOYD, C.S.J.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 Q Was Exhibit One prepared by you or under
2 your supervision?

3 A Yes, it was.

4 MS. TESCHENDORF: At this time I'll offer
5 Exhibit One in evidence.

6 MR. NUTTER: If it were placed in escrow
7 in Denver, Ms. Teschendorf, and then escheated, would it
8 escheat to the State of Colorado or New Mexico?

9 MS. TESCHENDORF: Colorado.

10 MR. NUTTER: We'll put it in the order
11 it will be in Rio Arriba -- or San Juan County.

12 MS. TESCHENDORF: I was afraid of that.
13 Good try.

14 Is Exhibit One accepted in evidence?

15 MR. NUTTER: Exhibit One will be admitted
16 in evidence.

17 MS. TESCHENDORF: That's all the questions
18 I have of this witness.

19 MR. NUTTER: Does anyone have any ques-
20 tions of Ms. Reeder? She may be excused.

21
22 MERLE SAVAGE
23 being called as a witness and having been duly sworn upon
24 his oath, testified as follows, to-wit:

26

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

DIRECT EXAMINATION

BY MS. TESCHENDORF:

Q Would you please state your name and by whom you're employed?

A Merle Savage, and I'm a petroleum engineer with Consolidated Oil and Gas.

Q Have you testified before the Division or one of its Examiners before?

A Yes, ma'am.

Q Are you familiar with the facts concerning this case?

A Yes.

MS. TESCHENDORF: Is the witness considered qualified?

MR. NUTTER: Yes, he is.

Q Would you please refer to Exhibit Number Two and explain to the Examiner what that shows?

A This is a structure map of the 9-section area surrounding the Clayton lease. It purports to show a structure of top of the Mesaverde, as well as the Mesaverde completions within the 9-section area, which are marked by operator, the initial potential, and cumulative production through January 1st, '79.

Q And would you locate the well we are

1 presently drilling on this map, please?

2 A It's the 1-M Clayton, which would be in
3 the southeast quarter of Section 2.

4 Q And the original Clayton Well is in the
5 southwest?

6 A Southwest.

7 Q Would you refer to Exhibit Three, please,
8 and identify that?

9 A Exhibit Three is a structure map of the
10 top of the Gallup through the same area. It shows the two
11 Gallup completions within that 9-section area, and it shows
12 both of the Clayton Wells, the new one and the old one again.

13 Q In your opinion does the presence of
14 producing wells from the Mesaverde and Gallup in this area
15 indicate that there's the likelihood of finding recoverable
16 reserves in the Gallup and Mesaverde in this new well?

17 A Yes.

18 Q Okay. Would you please refer to Exhibit
19 Four. Would you please describe that exhibit to the Examiner?

20 A This is a general east/west cross section
21 through the same area as the maps. It shows the Gallup and
22 the Mesaverde formations. We feel that it does show commer-
23 cial gas quantities, or commercial gas potential, especially
24 in our new well, which is the center well in the cross section,
25 the well in the southeast quarter, the 1-M Clayton, moreso

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 for the Gallup than the Mesaverde. We can see that the form-
2 ation begins to lose some characteristics that we would look
3 for in a producing well as you go east to west. It indicates
4 that the better Gallup is going to be through the area of
5 our lease in the center of the maps.

6 The Mesaverde, primarily the Point Lookout,
7 is going to be productive in the whole area.

8 Q Would you please refer to what has been
9 marked as Exhibit Four-A and describe what that shows?

10 A This is a north/south cross section
11 through the same area and it includes the old well, not the
12 new well. Again, especially in the Gallup begins to show
13 production in the area of the lease and the loss of zone as
14 you go both north and south. And again in the Point Lookout
15 and the Mesaverde, we feel there's going to be gas in all
16 the wells in that area, producable gas.

17 Q It is your opinion that Exhibits Two
18 through Four-A indicate the presence of recoverable reserves
19 in the Mesaverde and the Gallup?

20 A Yes, ma'am.

21 Q Would you please refer to what has been
22 marked as Exhibit Five and describe that?

23 A Exhibit Five is the AFE which we sent to
24 all participants showing the drilling and completion costs
25 for the --- it's marked 1-A -- it's the 1-M Clayton Well, the

SALLY W. BOYD, C.S.R.

Rt. 1 Box 199-B
Santa Fe, New Mexico 87501
Phone (505) 453-7409

1 well we proposed and have drilled.

2 Q What are the total estimated costs for
3 a dry hole and a completed producer?

4 A \$177,500 for a dry hole and \$680,000 for
5 a potential triple completion.

6 Q Are these costs in line with those gen-
7 erally found in the area?

8 A Yes.

9 Q What is your recommendation as to a risk
10 factor for this well?

11 A We charge 200 percent, which we feel is
12 sufficient. We recover twice our money that we expend in
13 drilling the well before the non-participating partners back
14 in for their share.

15 Q And do you feel this well has sufficient
16 risk to justify the 200 percent?

17 A Yes.

18 Q In what ways is this a risky proposition?

19 A Well, any well you drill is a risky pro-
20 position. We feel like we have a lot of gas potential here
21 but until we complete the well we really don't know if we --
22 we have nothing marketable until we have it completed.

23 Q Was the Mesaverde marketable in the ori-
24 ginal well -- Clayton Well on this unit?

25 A No.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Q So you feel the Mesaverde is a risky
2 completion because of that?

3 A Yes.

4 Q And according to Exhibit Three there are
5 not many wells --

6 A There are only two Gallup wells in the
7 area, PanAmerican or Amoco has one of them and we have the
8 other one in the original Clayton.

9 Q So in your opinion the Gallup is also a
10 risky proposition?

11 A Yes.

12 Q Would you please refer to what has been
13 marked as Exhibit Six and explain what that is?

14 A Exhibit Six is our standard operating
15 agreement, which we would expect our participants to sign
16 on any well we drill.

17 Q Would you please refer to page three of
18 the COPAS section and state what Consolidated's recommenda-
19 tions are for charges while drilling and producing?

20 A Yeah. We charge \$1387.50 for drilling
21 well rate, the supervision and overhead during the drilling,
22 and \$182 for single, and \$231 for a dual on a monthly basis
23 for --

24 Q Has a -- go ahead.

25 A That's all.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 192-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 Q Has a letter been sent to the working
2 interest owners amending this operating agreement to provide
3 for a producing well rate for a triple zone?

4 A I believe so, yes.

5 Q Would you please refer to what has been
6 marked as Exhibit Seven and describe what that is?

7 A This is a letter from our Vice President
8 of Operations, which does amend the operating agreement,
9 to include a triple zone, which would be \$280 a month.

10 Q Are these costs in line with those found
11 in the area, in your opinion?

12 A Yes.

13 Q Does Consolidated wish to be designated
14 as operator of these units?

15 A Yes.

16 Q And in your opinion will the granting of
17 this application prevent waste and protect correlative rights?

18 A Yes.

19 Q Were Exhibits Two through Six prepared
20 by you or under your supervision and direction?

21 A Yes.

22 Q And Exhibit Seven was a letter sent by
23 a vice president of Consolidated?

24 A Yes.

25 MS. TESCHENDORF: At this time I'll offer

SALLY W. BOYD, C.S.R.

Rt. 1 Box 199-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Exhibits Two through Seven in evidence.
2

3 MR. NUTTER: Exhibits Two through Seven
4 will be admitted.

5 MS. TESCHENDORF: And I have no further
6 questions of this witness.
7

8 CROSS EXAMINATION

9 BY MR. NUTTER:

10 Q Mr. Savage, you mentioned that you charge
11 200 percent on voluntary com and I was looking at these
12 charges that are listed on page thirteen of the operating
13 agreement.

14 Is it 200 percent of the actual charges
15 that you take out of production?

16 A Yes, sir.

17 Q So what it amounts to is their share,
18 which is 100 percent, plus a 100 percent penalty, is that
19 it?

20 A Yes, sir.

21 Q Okay. And you have mentioned in your
22 exhibit -- or your vice president mentioned in Exhibit Seven
23 that the COPAS section on charges for supervision should in-
24 clude a provision for triple of an additional \$280. That's --
25 there wouldn't be any change on the drilling well rate.

A No, sir.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (303) 435-7409

SALLY W. BOYD, C.S.R.

El. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Q It would just be on the producing rate.

2 A Yes, sir.

3 Q So rather than -- it would be \$182 for
4 a dual, \$231 -- I mean \$182 for a single, \$231 for a dual,
5 and \$280 for a triple?

6 A Yes, sir.

7 Q Now you haven't asked for pooling of a
8 triple zone here today, so in the event you do complete in
9 the -- what is the third formation?

10 A It would be Mesaverde.

11 Q Or Dakota?

12 A Dakota, yes, Dakota.

13 Q And you haven't asked for anything here
14 on the Dakota, but it is already pooled on the Dakota, is
15 that it?

16 A Yes, sir. We have the Dakota pooled
17 originally.

18 Q I see. Now this well has been completed,
19 hasn't it?

20 A It's been drilled. It's not been com-
21 pleted.

22 Q It hasn't been potentialized yet?

23 A No, sir.

24 Q Completed or potentialized?

25 A No.

1 Q I see. Now, one of these exhibits under
2 here, your Exhibit Number Three, which shows the two Gallup
3 wells that are in the area, it shows the potential for the
4 one in Section 3 as being 554 Mcf, and what is the 1,200,050
5 that's shown there?

6 A That's cumulative production to 1-1-79.

7 Q And then on your well it shows 2-million,
8 so this well has made 2-billion cubic feet of gas, is that
9 it in the Gallup?

10 A Yes, sir, on the Gallup.

11 Q It's been a good well on the Gallup then,
12 hasn't it?

13 A Yes, it has.

14 Q What was its potential, do you recall?

15 A No, sir.

16 Q And then on Exhibit Number Two, some of
17 these wells in the -- the wells in the Mesaverde are shown
18 with a cumulative production, I guess, but we don't show any
19 cum for your Dakota well in the southwest quarter.

20 What's been the potential -- or the cum
21 on the Dakota zone here?

22 A I don't know. I don't have any informa-
23 tion on the Dakota in this area. We didn't prepare any, so

24 Q I see.

25 A Primarily because we already pooled in

SALLY W. BOYD, C.S.R.
Rt. 1 Box 199-B
Santa Fe, New Mexico 87501
Phone (505) 453-7409

1 the Dakota and didn't feel it was necessary.

2 Q And it's not a subject of this hearing,

3 actually, today.

4 A Yes, sir.

5 Q Okay.

6 MR. NUTTER: Are there any further ques-

7 tions of Mr. Savage? He may be excused.

8 Do you have anything further, Ms. Tes-

9 chendorf?

10 MS. TESCHENDORF: No, sir.

11 MR. NUTTER: Does anyone have anything

12 they wish to offer in Case Number 6827?

13 We'll take the case under advisement.

14 (Hearing concluded.)

SALLY W. BOYD, C.S.F.

Rt. 1 Box 195-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

15

16

17

18

19

20

21

22

23

24

25

REPORTER'S CERTIFICATE

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 C.S.R.

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

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6827 heard by me on 3/12 1980.
[Signature], Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
12 March 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Consolidated Oil & Gas) CASE
Inc., for compulsory pooling, San Juan) 6827
County, New Mexico.)

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Lynn Teschendorf, Esq.
Consolidated Oil and Gas, Inc.
Denver, Colorado

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-F
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I N D E X

SHIRLEY REEDER

Direct Examination by Ms. Teschendorf 4

MERLE SAVAGE

Direct Examination by Ms. Teschendorf 14

Cross Examination by Mr. Nutter 21

E X H I B I T S

Applicant Exhibit One, List	5
Applicant Exhibit Two, Structure Map	15
Applicant Exhibit Three, Structure Map	16
Applicant Exhibit Four, Cross Sections	16
Applicant Exhibit Five, AFE	17
Applicant Exhibit Six, Operating Agreement	19
Applicant Exhibit Seven, Letter	20

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 453-7409

1 MR. NUTTER: We'll call next Case 6827.

2 MR. PADILLA: Application of Consolidated
3 Oil and Gas, Inc., for compulsory pooling, San Juan County,
4 New Mexico.

5 MS. REEDER: She isn't here right now.
6 Can you go on with the next one? I'll go find her.

7
8 (Hearing continued.)

9
10 MR. NUTTER: We're back on Case 6827 now.

11 MR. PADILLA: Application of Consolidated
12 Oil and Gas, Inc., for compulsory pooling, San Juan County,
13 New Mexico.

14 MR. NUTTER: Is there anyone to represent
15 Consolidated in this case?

16 MS. TESCHENDORF: For better or worse,
17 yes. Lynn Teschendorf, appearing on behalf of Consolidated,
18 and I'll have two witnesses.

19
20 (Witnesses sworn.)

21
22 SHIRLEY REEDER
23 being called as a witness and having been duly sworn upon
24 her oath, testified as follows, to-wit:

25

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 433-7409

DIRECT EXAMINATION

BY MS. TESCHENDORF:

Q Would you please state your name and by whom you're employed?

A I am Shirley Reeder. I'm employed by Consolidated Oil and Gas, Denver, Colorado.

Q And in what capacity are you employed?

A I'm Title Account Analyst.

Q Okay. Have you ever testified before the Division before, or one of its examiners?

A No.

Q Would you please review your experience background for the Examiner?

A I've had over twenty-five years experience in oil and gas industry, and I've worked in the Land and Legal Departments for Magnolia Petroleum, Gulf Oil, and Sun Oil.

I was officer manager and bookkeeper for an independent oil operator in Dallas, Texas.

In Billings, Montana, I operated a petroleum secretarial service.

I've worked for Consolidated Oil and Gas since 1962 in Land, Legal, Accounting, Division Order Departments, and matter of fact, in 1962 I calculated and

SALLY W. BOYD, C.S.R.

Rt. 1 Box 195-B
Santa Fe, New Mexico 87501
Phone (505) 455-7109

1 processed the Division Order on the original well, Clayton
2 Well, in this south half of Section 2, 30 North, 12 West.

3 Q And are you familiar with the facts con-
4 cerning this case?

5 A Yes.

6 MS. TESCHENDORF: Is the witness consid-
7 ered qualified to testify as to the interests in this matter.

8 MR. NUTTER: Yes, she is. How do you
9 spell your name, Ms. Reeder?

10 A R-E-E-D-E-R.

11 MR. NUTTER: There's three ways to spell
12 it. I didn't know which one. Thank you. Go ahead.

13 Q Would you please tell the Examiner what
14 Consolidated is seeking with this application?

15 A We're seeking an order pooling all
16 mineral interests in the Gallup formation underlying the
17 southeast quarter of Section 2, and the Mesaverde formation
18 underlying the south half of Section 2, Township 30 North,
19 12 West, San Juan County, New Mexico.

20 Q Okay, would you please refer to Exhibit
21 One and tell the Examiner what that shows?

22 A These are the working interest owners
23 in this -- in this well. It shows which ones would be in
24 the Gallup formation. They're working -- they're operating
25 interests, and also the Mesaverde formation, and naturally,

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 the Dakota is identical to Mesaverde.

2 There are nineteen other people in this
3 besides Consolidated, and these people are mostly on the
4 west coast that are -- they have been very difficult to find.

5 Q Would you please describe the current
6 situation as to the existing well on this south half of
7 Section 27

8 A The existing current situation, you mean
9 what?

10 Q Well, is there currently a well on the
11 south half?

12 A Oh, there is a well in the southwest
13 quarter that produces from the Gallup and the Dakota forma-
14 tion.

15 Q Okay, and have those formations been
16 communitized?

17 A Yes, they were communitized before
18 drilling the well. I think in 1962 the original well was
19 drilled.

20 Q So the Dakota is communitized in the
21 south half and the Gallup is communitized in the southwest
22 quarter?

23 A In the southwest quarter, that's right.

24 Q Okay. And what are Consolidated's plans
25 for the new well that is currently being drilled in the

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7419

1 southeast quarter?

2 A Well, we are getting the Gallup commun-
3 itized. The Mesaverde, we do have all the signatures in on
4 the Mesaverde formation. There are -- except for a few
5 people that we cannot locate.

6 In the Mesaverde formation we have signed
7 95.476 percent.

8 MR. NUTTER: Are you talking about working
9 interest owners?

10 A That's right.

11 MR. NUTTER: Okay. Can you identify the
12 ones on Exhibit One who haven't signed, please?

13 A In the Mesaverde formation it's H. D.
14 Oliver and Nellie Troxel.

15 MS. TESCHENDORF: Can I interrupt to ex-
16 plain one thing?

17 Now, we've had a problem, have we not,
18 with getting people to sign the communitization agreements
19 versus the operating agreement?

20 A Yes.

21 Q And some people have signed the communi-
22 tizations but have refused to sign the operating agreement,
23 is that correct?

24 A That's right.

25 Q So that we're in the position of in some

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B
Santa Fe, New Mexico 87501
Phone (505) 453-7409

1 cases we've got 100 -- well, except for the two people we
2 can't find, we've got everyone who has agreed to communitize
3 but they have not agreed to sign the operating agreement, --

4 A That's true.

5 Q -- is that correct?

6 A That's true.

7 MR. NUTTER: Do you consider the land
8 communitized if they sign the communitization agreement but
9 not the operating agreement?

10 A Yes, wouldn't we? I would.

11 MR. NUTTER: I'm asking you.

12 A Okay, yes, we would consider it commun-
13 itized. The operating agreement would bear on the operations.

14 Q But without signature -- without the
15 signatures on the operating agreement, we have no provision
16 for risk charges, operating expenses, et cetera, so we would
17 like to ask the Examiner to pool those people who have not
18 signed the operating agreement also, so that we will have
19 provisions for operating costs, risk charges, et cetera.

20 MR. NUTTER: Well, of course, the order
21 is directed to the land and not the individuals, anyway, so
22 it would take in all those people.

23 But back to the original question, now,
24 is Nellie Troxel, is she one that you can't --

25 A We cannot locate her.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 MR. NUTTER: And who was the other one?

2 A H. D. Oliver.

3 MR. NUTTER: And Oliver would have a
4 3.015+ percent interest in the Gallup Unit?

5 A That's right. Yes.

6 MR. NUTTER: And a 2.26 percent interest
7 in the Mesaverde Unit.

8 A Yes, and Nellie --

9 MR. NUTTER: And Troxel would have the
10 identical interest in the two units?

11 A Yes.

12 MR. NUTTER: Okay.

13 Q Could you tell the Examiner which of the
14 interest owners have not -- let me rephrase that.

15 A Okay.

16 Q Have all interest owners except for H.
17 D. Oliver and Nellie Troxel signed the Mesaverde communiti-
18 zation?

19 A Yes.

20 Q Which working interest owners have not
21 signed the Gallup communitization?

22 A There is one John Blanchetti, Candice
23 Cox, however -- and Georgia Lee Bright.

24 MR. NUTTER: Okay, now who was that
25 again?

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 435-7409

1 A It was John Blanchetti, he does not have
2 a phone. I tried to contact him and he does not have a
3 listing.

4 And Candice Cox and Georgia Bright.

5 MR. NUTTER: And those are the three
6 who have signed the communitization but not the operating
7 agreement?

8 A No, they have not signed the Gallup com-
9 munitization.

10 MR. NUTTER: Oh.

11 A They signed the Mesaverde but not the
12 Gallup. They went out separately.

13 Q Okay, and would you please tell the
14 Examiner which interest owners have not signed the operating
15 agreement?

16 A All right. John Blanchetti, the Louise
17 Kohn estate, H. D. Oliver, and Nellie Troxel, Bruce Howard
18 Lindsay, and Mary Kay Stauffer.

19 MR. NUTTER: Okay, now I'm not going down
20 the list as fast as you are.

21 A Oh, I'm sorry.

22 MR. NUTTER: So Blanchetti was the
23 first one you mentioned.

24 A Yes. And then Louise Kohn estate. Now
25 that's Helen Karagozian, executrix for the Louise Kohn --

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7469

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 it's the third one down.

2 MR. NUTTER: Okay.

3 A Okay, and of course, Oliver and Troxel,
4 and then Bruce Howard Lindsay.

5 MR. NUTTER: Now, those people --

6 A And also Mary Kay Stauffer. They have
7 not signed operating agreements.

8 MR. NUTTER: For either formation?

9 A Yes, that's right.

10 MR. NUTTER: Ms. Reeder, now you mentioned
11 that you're not able to locate Oliver and Troxel, but you
12 did mention that this south half has been pooled for the
13 old well that's in the southwest quarter.

14 Where is their share going now?

15 A For -- it's actually being held in the
16 suspense account. What we do is apply their operating ex-
17 pense against their runs and they have over \$4000 apiece.

18 MR. NUTTER: Have they ever participated
19 and then you just lost track of them?

20 A Troxel and Oliver, you mean?

21 See, they came in by way of a reversionary
22 interest, which -- it paid out in 1971, and they were sold
23 these interests in 1962, and they just got lost between '62
24 and '71 by the time a Division Order got to them.

25 MR. NUTTER: Uh-huh.

1

7

2

15

16

18

19

21

26

Box 1 Box 153-B

Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Q Had working interests.

2 A That's right.

3 MR. NUTTER: And then their interest
4 developed after the well was --

5 A Yes, after it paid out a certain amount
6 of money. Uh-huh.

7 MR. NUTTER: And so their share is being
8 held in trust now.

9 A Yes.

10 MR. NUTTER: Okay, go ahead.

11 Q I wanted to backtrack to catch one point.

12 A Okay.

13 Q The new Clayton well is proposed as a
14 triple completion, is that correct?

15 A Yes.

16 Q Has certified notice of this hearing been
17 sent to those who have not agreed to sign the Gallup commun-
18 itization and have not signed the operating agreement?

19 A Yes, it was mailed out on March the 6th,
20 1980.

21 Q Do you recommend that all proceeds from
22 production for those who are going to fall under the forced
23 pooling order be placed in escrow in Denver rather than in
24 San Juan County, New Mexico?

25 A I would.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7405

1 Q Was Exhibit One prepared by you or under
2 your supervision?

3 A Yes, it was.

4 MS. TESCHENDORF: At this time I'll offer
5 Exhibit One in evidence.

6 MR. NUTTER: If it were placed in escrow
7 in Denver, Ms. Teschendorf, and then escheated, would it
8 escheat to the State of Colorado or New Mexico?

9 MS. TESCHENDORF: Colorado.

10 MR. NUTTER: We'll put it in the order
11 it will be in Rio Arriba -- or San Juan County.

12 MS. TESCHENDORF: I was afraid of that.
13 Good try.

14 Is Exhibit One accepted in evidence?

15 MR. NUTTER: Exhibit One will be admitted
16 in evidence.

17 MS. TESCHENDORF: That's all the questions
18 I have of this witness.

19 MR. NUTTER: Does anyone have any ques-
20 tions of Ms. Reeder? She may be excused.

21
22 MERLE SAVAGE

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

25
26

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B

Santa Fe, New Mexico 87101

Phone (505) 455-7409

DIRECT EXAMINATION

BY MS. TESCHENDORF:

Q Would you please state your name and by whom you're employed?

A Merle Savage, and I'm a petroleum engineer with Consolidated Oil and Gas.

Q Have you testified before the Division or one of its Examiners before?

A Yes, ma'am.

Q Are you familiar with the facts concerning this case?

A Yes.

MS. TESCHENDORF: Is the witness considered qualified?

MR. NUTTER: Yes, he is.

Q Would you please refer to Exhibit Number Two and explain to the Examiner what that shows?

A This is a structure map of the 9-section area surrounding the Clayton lease. It purports to show a structure of top of the Mesaverde, as well as the Mesaverde completions within the 9-section area, which are marked by operator, the initial potential, and cumulative production through January 1st, '79.

Q And would you locate the well we are

SALLY W. BOYD, C.S.R.

Rt. 1 Box 153-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 presently drilling on this map, please?

2 A It's the 1-M Clayton, which would be in
3 the southeast quarter of Section 2.

4 Q And the original Clayton Well is in the
5 southwest?

6 A Southwest.

7 Q Would you refer to Exhibit Three, please,
8 and identify that?

9 A Exhibit Three is a structure map of the
10 top of the Gallup through the same area. It shows the two
11 Gallup completions within that 9-section area, and it shows
12 both of the Clayton Wells, the new one and the old one again.

13 Q In your opinion does the presence of
14 producing wells from the Mesaverde and Gallup in this area
15 indicate that there's the likelihood of finding recoverable
16 reserves in the Gallup and Mesaverde in this new well?

17 A Yes.

18 Q Okay. Would you please refer to Exhibit
19 Four. Would you please describe that exhibit to the Examiner?

20 A This is a general east/west cross section
21 through the same area as the maps. It shows the Gallup and
22 the Mesaverde formations. We feel that it does show commer-
23 cial gas quantities, or commercial gas potential, especially
24 in our new well, which is the center well in the cross section,
25 the well in the southeast quarter, the 1-M Clayton, more so

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 435-7405

1 for the Gallup than the Mesaverde. We can see that the form-
2 ation begins to lose some characteristics that we would look
3 for in a producing well as you go east to west. It indicates
4 that the better Gallup is going to be through the area of
5 our lease in the center of the maps.

6 The Mesaverde, primarily the Point Lookout,
7 is going to be productive in the whole area.

8 Q Would you please refer to what has been
9 marked as Exhibit Four-A and describe what that shows?

10 A This is a north/south cross section
11 through the same area and it includes the old well, not the
12 new well. Again, especially in the Gallup begins to show
13 production in the area of the lease and the loss of zone as
14 you go both north and south. And again in the Point Lookout
15 and the Mesaverde, we feel there's going to be gas in all
16 the wells in that area, producable gas.

17 Q It is your opinion that Exhibits Two
18 through Four-A indicate the presence of recoverable reserves
19 in the Mesaverde and the Gallup?

20 A Yes, ma'am.

21 Q Would you please refer to what has been
22 marked as Exhibit Five and describe that?

23 A Exhibit Five is the AFE which we sent to
24 all participants showing the drilling and completion costs
25 for the -- it's marked 1-A -- it's the 1-M Clayton Well, the

SALLY W. ELOYD, C.S.R.

Rt. 1 Box 191-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 well we proposed and have drilled.

2 Q What are the total estimated costs for
3 a dry hole and a completed producer?

4 A \$177,500 for a dry hole and \$680,000 for
5 a potential triple completion.

6 Q Are these costs in line with those gen-
7 erally found in the area?

8 A Yes.

9 Q What is your recommendation as to a risk
10 factor for this well?

11 A We charge 200 percent, which we feel is
12 sufficient. We recover twice our money that we expend in
13 drilling the well before the non-participating partners back
14 in for their share.

15 Q And do you feel this well has sufficient
16 risk to justify the 200 percent?

17 A Yes.

18 Q In what ways is this a risky proposition?

19 A Well, any well you drill is a risky pro-
20 position. We feel like we have a lot of gas potential here
21 but until we complete the well we really don't know if we --
22 we have nothing marketable until we have it completed.

23 Q Was the Mesaverde marketable in the ori-
24 ginal well -- Clayton Well on this unit?

25 A No.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Q

So you feel the Mesaverde is a risky completion because of that?

A

Yes.

Q

And according to Exhibit Three there are not many wells --

A

There are only two Gallup wells in the area, PanAmerican or Amoco has one of them and we have the other one in the original Clayton.

Q

So in your opinion the Gallup is also a risky proposition?

A

Yes.

Q

Would you please refer to what has been marked as Exhibit Six and explain what that is?

A

Exhibit Six is our standard operating agreement, which we would expect our participants to sign on any well we drill.

Q

Would you please refer to page three of the COPAS section and state what Consolidated's recommendations are for charges while drilling and producing?

A

Yeah. We charge \$1387.50 for drilling well rate, the supervision and overhead during the drilling, and \$182 for single, and \$231 for a dual on a monthly basis for --

Q

Has a -- go ahead.

A

That's all.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87505
Phone (505) 455-7409

1 Q Has a letter been sent to the working
2 interest owners amending this operating agreement to provide
3 for a producing well rate for a triple zone?

4 A I believe so, yes.

5 Q Would you please refer to what has been
6 marked as Exhibit Seven and describe what that is?

7 A This is a letter from our Vice President
8 of Operations, which does amend the operating agreement,
9 to include a triple zone, which would be \$280 a month.

10 Q Are these costs in line with those found
11 in the area, in your opinion?

12 A Yes.

13 Q Does Consolidated wish to be designated
14 as operator of these units?

15 A Yes.

16 Q And in your opinion will the granting of
17 this application prevent waste and protect correlative rights?

18 A Yes.

19 Q Were Exhibits Two through Six prepared
20 by you or under your supervision and direction?

21 A Yes.

22 Q And Exhibit Seven was a letter sent by
23 a vice president of Consolidated?

24 A Yes.

25 MS. TESCHENDORF: At this time I'll offer

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Exhibits Two through Seven in evidence.

2 MR. NUTTER: Exhibits Two through Seven
3 will be admitted.

4 MS. TESCHENDORF: And I have no further
5 questions of this witness.

6
7 CROSS EXAMINATION

8 BY MR. NUTTER:

9 Q Mr. Savage, you mentioned that you charge
10 200 percent on voluntary com and I was looking at these
11 charges that are listed on page thirteen of the operating
12 agreement.

13 Is it 200 percent of the actual charges
14 that you take out of production?

15 A Yes, sir.

16 Q So what it amounts to is their share,
17 which is 100 percent, plus a 100 percent penalty, is that
18 it?

19 A Yes, sir.

20 Q Okay. And you have mentioned in your
21 exhibit -- or your vice president mentioned in Exhibit Seven
22 that the COPAS section on charges for supervision should in-
23 clude a provision for triple of an additional \$280. That's --
24 there wouldn't be any change on the drilling well rate.

25 A No, sir.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.A.R.

Rt. 1 Box 197-B
Santa Fe, New Mexico 87504
Phone (505) 435-7409

1 Q It would just be on the producing rate.
2 A Yes, sir.
3 Q So rather than -- it would be \$182 for
4 a dual, \$231 -- I mean \$182 for a single, \$231 for a dual,
5 and \$280 for a triple?

6 A Yes, sir.

7 Q Now you haven't asked for pooling of a
8 triple zone here today, so in the event you do complete in
9 the -- what is the third formation?

10 A It would be Mesaverde.

11 Q Or Dakota?

12 A Dakota, yes, Dakota.

13 Q And you haven't asked for anything here
14 on the Dakota, but it is already pooled on the Dakota, is
15 that it?

16 A Yes, sir. We have the Dakota pooled
17 originally.

18 Q I see. Now this well has been completed,
19 hasn't it?

20 A It's been drilled. It's not been com-
21 pleted.

22 Q It hasn't been potentialled yet?

23 A No, sir.

24 Q Completed or potentialled?

25 A No.

1 Q I see. Now, one of these exhibits under
2 here, your Exhibit Number Three, which shows the two Gallup
3 wells that are in the area, it shows the potential for the
4 one in Section 3 as being 554 Mcf, and what is the 1,200,050
5 that's shown there?

6 A That's cumulative production to 1-1-79.

7 Q And then on your well it shows 2-million,
8 so this well has made 2-billion cubic feet of gas, is that
9 it in the Gallup?

10 A Yes, sir, on the Gallup.

11 Q It's been a good well on the Gallup then,
12 hasn't it?

13 A Yes, it has.

14 Q What was its potential, do you recall?

15 A No, sir.

16 Q And then on Exhibit Number Two, some of
17 these wells in the -- the wells in the Mesaverde are shown
18 with a cumulative production, I guess, but we don't show any
19 cum for your Dakota well in the southwest quarter.

20 What's been the potential -- or the cum
21 on the Dakota zone here?

22 A I don't know. I don't have any informa-
23 tion on the Dakota in this area. We didn't prepare any, so -

24 Q I see.

25 A Primarily because we already pooled in

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 435-7409

1 the Dakota and didn't feel it was necessary.

2 Q And it's not a subject of this hearing,
3 actually, today.

4 A Yes, sir.

5 Q Okay.

6 MR. NUTTER: Are there any further ques-
7 tions of Mr. Savage? He may be excused.

8 Do you have anything further, Ms. Tes-
9 chendorf?

10 MS. TESCHENDORF: No, sir.

11 MR. NUTTER: Does anyone have anything
12 they wish to offer in Case Number 6827?

13 We'll take the case under advisement.

14
15 (Hearing concluded.)
16
17
18
19
20
21
22
23
24
25

SALLY W. BOYD, C.S.R.


Rt. 1 Box 151-B
Santa Fe, New Mexico 87501
Phone (505) 451-7409

REPORTER'S CERTIFICATE

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, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 435-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6827 heard by me on 3/12 1980.

 Examiner
Oil Conservation Division



BRUCE KING
GOVERNOR
LARRY KENOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

March 24, 1980

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-3434

Ms. Lynn Teschendorf
Attorney
Consolidated Oil & Gas, Inc.
Suite 1300
1860 Lincoln Street
Denver, Colorado 80295

Re: CASE NO. 6827
ORDER NO. R-6298

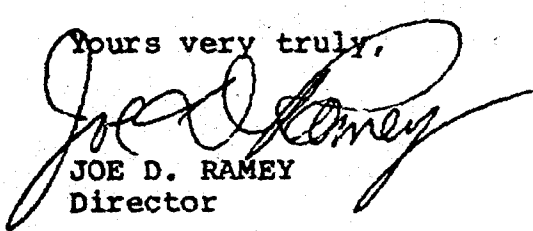
Applicant:

Consolidated Oil & Gas, Inc.

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 X

Other _____

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. 6827
Order No. R-6298

APPLICATION OF CONSOLIDATED OIL
& GAS, INC. FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 12, 1980,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 19th day of March, 1980, 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, Consolidated Oil & Gas, Inc., seeks
an order pooling all mineral interests in the Gallup formation
underlying the SE/4 of Section 2, Township 30 North, Range 12
West, NMPM, and in the Mesaverde formation underlying the S/2
of said Section 2, San Juan County, New Mexico.

(3) That the applicant has the right to drill and proposes
to drill a well at a standard location thereon and to complete
said well in both of the aforesaid formations.

(4) That there are interest owners in the proposed proration
units 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 units the opportunity to recover or receive
without unnecessary expense his just and fair share of the gas
in said pools, the subject application should be approved by

pooling all mineral interests, whatever they may be, within said units.

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

(7) That any non-consenting working interest owner in each of said proration units should be afforded the opportunity to pay his pro-rata share of estimated well costs for development of that proration unit to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner in each of said proration units that does not pay his share of estimated well costs should have withheld from production his pro-rata share of the reasonable well costs for development of that proration unit plus an additional 100 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 that 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 \$1387.50 per month should be fixed as a reasonable charge for supervision (combined fixed rates) during drilling operations; that \$182.00 per month for a single zone well, \$231.00 per month for a dual zone well, and \$280.00 per month for a triple zone well should be fixed as reasonable charges for supervision during production; and that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each zone and to each non-consenting working interest under each proration unit and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating each zone in the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

-3-
Case No. 6827
Order No. R-6298

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow in San Juan County, New Mexico, 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 April 1, 1980, 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 the Gallup formation underlying the SE/4 of Section 2, Township 30 North, Range 12 West, NMPM, and in the Mesaverde formation underlying the S/2 of said Section 2, San Juan County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit for the Gallup formation and a standard 320-acre gas spacing and proration unit for the Mesaverde formation, each of said units to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said units shall commence the drilling of said well on or before the first day of April, 1980, and shall thereafter continue the drilling of said well with due diligence at least to a depth sufficient to test the Gallup formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of April, 1980, 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 Consolidated Oil & Gas, Inc. is hereby designated the operator of the subject well and units.

(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 units 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 in each of the subject units shall have the right to pay his pro-rata share of estimated well costs for development of that proration unit 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 that 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, 100 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.

-5-

Case No. 6827
Order No. R-6298

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

(9) That \$1387.50 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) during drilling operations; that \$182.00 per month for a single zone well, \$231.00 per month for a dual zone well, and \$280.00 per month for a triple zone well are hereby fixed as reasonable charges for supervision during producing operations; and that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each zone and to each non-consenting working interest under each proration unit, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating each zone in said well, not in excess of what are reasonable, attributable to each non-consenting working interest.

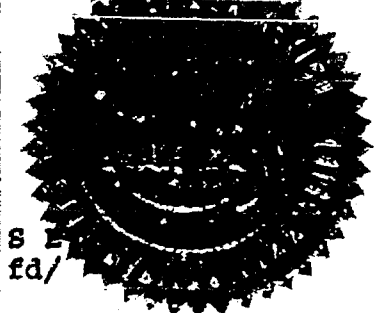
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests 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 San Juan 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

8
fd/

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

COG EXHIBIT NO. 1

CASE NO. 6827

CLAYTON #1-E WELL
575' from the South Line and 945' from the East Line of
Section 2, Township 30 North, Range 12 West, N.M.P.M.
San Juan County, New Mexico

	S/2 SW/4	N/2 SW/4	E/2 SE/4, W/2 SE/4	Communitized SE/4 - Gallup	Communitized S/2 - Mesaverde	Already Communitized S/2 - Dakota
John Blanchetti	---	1.587300%	1.587300%	1.587300%	1.190475%	1.190475%
Moulton Goff	1.428570%	---	---	---	.357142%	.357142%
Helen Karagouian, Executrix for the Louise Kohn Estate	1.428570%	---	---	---	.357142%	.347142%
Eugene P. Mathias	11.428580%	1.428570%	1.428570%	1.428570%	3.928573%	3.928573%
Betty Spellman, Attorney-in-Fact for Gladys Murphy	3.888890%	3.174610%	3.174610%	3.174610%	3.353180%	3.353180%
H. D. Oliver	---	3.015870%	3.015870%	3.015870%	2.261902%	2.261902%
Benjamin M. Taylor	1.428570%	1.428570%	1.428570%	1.428570%	1.428570%	1.428570%
Mary A. Chandler	7.142850%	7.142850%	7.142850%	7.142850%	7.142850%	7.142850%
Malcolm C. Todd	7.142860%	6.031750%	6.031750%	6.031750%	6.309528%	6.309528%
Harry R. Sherman	1.587300%	---	---	---	.396825%	.396825%
Nellie Troxel	---	3.015870%	3.015870%	3.015870%	2.261902%	2.261902%
Bruce Howard Lindsay	1.587300%	3.174610%	3.174610%	3.174610%	2.777783%	2.777783%
Western Distributing Company Employees Trust	1.171875%	2.148440%	2.148440%	2.148440%	1.904298%	1.904298%
Harold J. Bleakley	2.107748%	3.760038%	3.760038%	3.760038%	3.346965%	3.346965%
Candace Kelton Cox	1.053875%	1.680018%	1.680018%	1.680018%	1.673483%	1.673483%
Georgia Lee Kelton Bright	1.053874%	1.880019%	1.880019%	1.880019%	1.673483%	1.673483%
L. G. Krieger	.843099%	1.504015%	1.504015%	1.504015%	1.338786%	1.338786%
Anthony F. Zarlengo	1.686199%	3.008030%	3.008030%	3.008030%	2.677572%	2.677572%
Brooks Exploration, Inc.	31.250000%	31.250000%	31.250000%	31.250000%	31.250000%	31.250000%
Consolidated Oil & Gas, Inc.	23.769840%	24.569440%	24.569440%	24.569440%	24.369541%	24.369541%
	100.000000%	100.000000%	100.000000%	100.000000%	100.000000%	100.000000%



Consolidated Oil & Gas, Inc.

WELL COST ESTIMATE

AFE No. 1979-15

C.O.G. WI.

TO: Drill (X) Recomplete () Work Over ()

State New Mexico County San Juan

Flora Vista/Gallup/
Basin Dakota

Lease Name Clayton

Lease No.

Well No. 1-E

Location: 875' FSL & 945' FEL Sec. 2, T30N, R12W

DETAIL COST ESTIMATE

INTANGIBLE COSTS	QUANTITY	PRICE	COST OF DRY HOLE	COST OF PRODUCER
Superintendence	15/25	200	3,000	5,000
Labor			500	2,250
Hauling			1,500	4,500
Drilling				
To Drill	6800	13.00	88,500	88,500
Day Work - W/DP	2	4,500	9,000	9,000
Day Work - W/out Drill pipe	3	4,500	13,500	13,500
Other Completion Unit	25	2,000		50,000
Fuel			1,000	1,000
Water			3,000	4,000
Right of Way Damages			1,000	1,000
Drig. Mud & Chemicals			17,500	17,500
Electric & Radioactivity Logs			10,000	12,500
Coring & Core Analysis				
Acidizing & Fracturing				285,000
Drill Stem Tests				
Gun Perforating				7,500
Cement & Cementing Services			4,500	15,000
Shoes, Collars, & Centralizers			1,500	4,500
Welding			500	1,000
Road & Location			2,500	2,500
Bits & Coreheads				
Mud Logging				
Plugging Expense			7,500	
Directional Drilling Services				
Overhead			1,000	1,500
Tool & Equipment Rental				5,000
Contingencies (5%)			8,000	26,750
TOTAL INTANGIBLE COSTS			174,000	557,500
PERMANENT EQUIPMENT				
Conductor Pipe				
Surface Casing 8-5/8" OD	250	10.00	2,500	2,500
Prod. Casing 5-1/2" OD	6800	6.25		42,500
Tubing 1 1/2 & 1 1/2 " OD & 1" (8000)	6800/4500	2.00/1.75		28,500
Casing Head Assembly			1,000	1,000
Tubing Head Assembly				1,000
Xmas Tree & Manifold Assembly				7,500
Production Packer				4,500
Tubing Catcher				
Bottom Hole Choke				
Miscellaneous Connections				2,500
Battery & Production Unit				32,500
TOTAL Permanent Equipment			3,500	122,500
TOTAL COST OF COMPLETED WELL			177,500	680,000

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

EXHIBIT NO. 5

CASE NO. 6827

Date:

Recommended by:

APPROVED (Company):

Approved by:

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

COG EXHIBIT NO. 6

CASE NO. 6827

MODEL FORM OPERATING AGREEMENT-1956
Non-Federal Lands

OPERATING AGREEMENT

DATED

August 27, 1979

FOR UNIT AREA IN TOWNSHIP 30 North, RANGE 12 West

San Juan COUNTY, STATE OF New Mexico

TABLE OF CONTENTS

Paragraph Number	Title	Page
1.	Definitions	1
2.	Title Examination, Loss of Leases and Oil and Gas Interests	1
3.	Unleased Oil and Gas Interests	2
4.	Interests of Parties	2
5.	Operator of Unit	3
6.	Employees	3
7.	Test Well	3
8.	Costs and Expenses	3
9.	Operator's Lien	4
10.	Term of Agreement	4
11.	Limitation on Expenditures	4
12.	Operations by Less Than All Parties	5
13.	Right to Take Production in Kind	6
14.	Access to Unit Area	7
15.	Drilling Contracts	7
16.	Abandonment of Wells	7
17.	Delay Rentals and Shut-in Well Payments	8
18.	Preferential Right to Purchase	8
19.	Selection of New Operator	8
20.	Maintenance of Unit Ownership	9
21.	Resignation of Operator	9
22.	Liability of Parties	9
23.	Renewal or Extension of Leases	9
24.	Surrender of Leases	10
25.	Acreage or Cash Contributions	10
26.	Provision Concerning Taxation	10
27.	Insurance	11
28.	Claims and Lawsuits	11
29.	Force Majeure	11
30.	Notices	11
31.	Other Conditions	12

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 1st day of May, 1979, between
Consolidated Oil & Gas, Inc.

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

WITNESSETH, THAT:

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

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

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

A. Title Examination:

No well shall be drilled on the Unit Area or on lands communitized with lands in the Unit Area until after:

- (1) The title to the drill site tract has been examined by an attorney for the Operator, and
- (2) The title to the drill site tract has been approved by the examining attorney or such title has been accepted by all of the parties who are to participate in the drilling of the well.

The cost of the abstracts of title and the cost of the title examinations by attorneys other than staff attorneys of Operator that are necessary for examination of drill site tract titles or that are necessary for division order preparation and payment of royalty, overriding royalty and working interest shares of production from the wells and the cost of obtaining title curative material shall be borne by the parties in proportion to their respective interests.

~~obligations and of excess royalty, oil payments and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, ~~and the parties shall proceed to their performance as they are hereinafter stated.~~

B. Failure of Title:

~~After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.~~

C. Loss of Leases For Other Than Title Failure:

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

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

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

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

5. OPERATOR OF UNIT

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

6. EMPLOYEES

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

7. TEST WELL

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

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

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ~~six percent (6%)~~ ^{twelve percent (12%)} per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

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

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand Dollars (\$ 5,000.00)

except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 5,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

See Paragraph 31

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

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

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

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 24, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

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

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

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of ~~the initial test well.~~

13. RIGHT TO TAKE PRODUCTION IN KIND

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

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

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

14. ACCESS TO UNIT AREA

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

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

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

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

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Operator shall pay all delay rentals and shut-in well payments which may be required under the terms of the leases subject to this Operating Agreement and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. Upon being billed therefor, the other parties shall pay to Operator such proportionate part of any delay rental payment that may be attributable on an acreage basis to their interest in lands covered by such leases and their proportionate pro rata part of any shut-in well payments attributable to any well on the Unit Area. Operator shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no re-adjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 23 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party decide to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

19. SELECTION OF NEW OPERATOR

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

20. MAINTENANCE OF UNIT OWNERSHIP

No party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit Area and in wells equipment and production unless such disposition shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

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

21. RESIGNATION OF OPERATOR

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

22. LIABILITY OF PARTIES

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

23. RENEWAL OR EXTENSION OF LEASES

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

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

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

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

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

24. SURRENDER OF LEASES

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

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

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

25. ACREAGE OR CASH CONTRIBUTIONS

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

26. PROVISION CONCERNING TAXATION

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

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

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

27. 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. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit 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.

28. CLAIMS AND LAWSUITS

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

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

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

29. FORCE MAJEURE

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

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

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

30. NOTICES

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

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

31. OTHER CONDITIONS, IF ANY, ARE:

SUBSEQUENT OPERATIONS

A. If either party hereto shall desire that a well be drilled, reworked, deepened, or plugged back, on any particular location on the Property, then such party desiring to drill shall give to the other party (whether one or more) written notice thereof at the address or addresses herein provided, giving the location, proposed depth, and approximate cost. The other party shall have fifteen (15) days after receipt of such notice within which to inform the party proposing such operations whether or not it elects to participate in the cost thereof, such notice to be in writing. It is understood that consent to the drilling, reworking, deepening or plugging back of a well shall include all necessary expenditures of testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

B. If any party or parties hereto, herein called "Non-Consenting Party" (whether one or more) shall elect not to participate in the proposed operation of said well, either by notice to that effect, by failure to give notice within the aforesaid time limit of fifteen (15) days, or by failure to advance its share of the estimated costs of such operations in the manner and in the time limit provided above, then the parties participating in such operations herein called "Consenting Party" (whether one or more) shall have seventy-five (75) days after the expiration of said fifteen (15) days in which to commence said operations as designated in the notice thereof and to thereafter continue the same with due diligence. If the proposed operations are not commenced within said period, all rights and privileges accruing hereunder to Consenting Party by reason of Non-Consenting Party's election not to participate in the proposed operations shall thereupon terminate.

C. 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 ten (10) days after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest, 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.

D. 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, 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:

(i) 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 it participated in the well from the beginning of the operation; and

(ii) 200% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging back, testing and completing, after deducting any cash dry hole or bottom hole contributions received in support of said operations and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

E. 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, 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.

F. 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, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

G. 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.

H. Within ninety (90) 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.

I. 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.

32. CHANGE OF OPERATOR

At any time after an Operator has acted as Operator for one (1) year, a Non-Operator may give written notice to Operator and all other Non-Operators of its readiness to act as Operator, setting forth therein the more favorable financial terms and conditions upon which such Non-Operator would be prepared to act. If the Operator agrees in writing within sixty (60) days next following receipt of such notice to continue as Operator on the terms proposed, but otherwise in accordance with provisions of this Agreement, such terms shall become effective on the first day of the calendar month following such acceptance and such terms shall remain in effect for at least one (1) year thereafter. If within sixty (60) days next following receipt of such notice by Operator, Operator does not agree in writing with Non-Operators thenceforth to act as Operator on the basis offered by such Non-Operator shall thereupon become and be Operator on the basis so offered; PROVIDED that, if there are three or more parties to this Agreement, such Non-Operator must obtain the written consent of a majority in interest of all Non-Operators other than the then Operator before becoming and being Operator as aforesaid. Any Operator appointed pursuant to this clause or otherwise appointed shall not be liable to be removed from office pursuant to this clause unless and until such Operator shall have acted as such for at least one (1) year. No notice shall be served hereunder by any other party or parties during the said sixty (60) day period applicable with respect to any notice already served by another party.

33. NONDISCRIMINATION CLAUSE

The Unit Operator will comply with all provisions of Executive Order No. 11246 of September 24, 1965, as amended or supplemented, and of the rules, regulations and relevant orders of the Secretary of Labor pursuant thereto.

34. BURDENS

Any hereafter created overriding royalty, production payment or other interest constituting an interest in or a burden on any party's interest in any leasehold interest covered hereby shall be created expressly subject to the terms and conditions hereof, and shall be suspended and shall not be entitled to any part of the proceeds of production attributable to the interest of the party creating such burden so long as the interest of the party creating such burden is relinquished because the party does not consent to any operation resulting in such production, and no payments or obligations shall exist or accrue in favor of any such burdens during the time that the interest of the party creating the same in such production is relinquished.

EXHIBIT "C"

Attached to and made a part of Operating Agreement between
Consolidated Oil & Gas, Inc. as Operator and
Other Working Interest Owners as Non-Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of 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 twenty per cent (20%).

4. Material

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

5. Transportation

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

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

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

I. Overhead - Drilling and Producing Operations

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 1387.50
Producing Well Rate \$ Single zone-\$182.00
Dual zone-\$231.00

(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 \$ 25,000.00 :

A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00; plus

B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus

C. 2 % 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 3 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

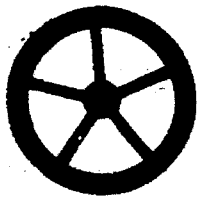
The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

1. Workmen's compensation insurance in accordance with the requirements of the laws of the State of New Mexico where work is conducted and employer's liability insurance with limitations of not less than One Hundred Thousand Dollars (\$100,000.00) each accident and One Hundred Thousand Dollars (\$100,000.00) aggregate for disease.

2. Public liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) as to any one person, and Three Hundred Thousand Dollars (\$300,000.00) as to any one accident, and property damage liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) for each accident.

3. Automobile public liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) for any one person injured in any one accident and Three Hundred Thousand Dollars (\$300,000.00) for more than one person injured in any one accident, and automobile property damage insurance with a limit of not less than One Hundred Thousand (\$100,000.00) to cover all automotive equipment.



Consolidated Oil & Gas, Inc.

LINCOLN TOWER BUILDING
1860 LINCOLN STREET
DENVER, COLORADO 80295
(303) 861-5252

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

COG EXHIBIT NO. 7

CASE NO. 6827

Working Interest Owners
(see attached list)

Re: Operating Agreement Dated
August 27, 1979, Clayton
Unit, S/2 Section 2, T30N,
R12W, San Juan County,
New Mexico

Gentlemen:

Under cover letter dated September 14, 1979, you were sent an operating agreement for the above-referenced unit. That agreement should be amended as follows: Exhibit "C", page 3, paragraph 1A, should include a provision for a producing well rate for a triple zone of \$280.00.

If you concur in the amendment described, please sign in the space provided below.

Very truly yours,

CONSOLIDATED OIL & GAS, INC.

Floyd E. Ellison, Jr.

Floyd E. Ellison, Jr.
Vice President - Operations

FEE:ccs

I agree to the above-described
amendment to the Clayton Unit
Operating Agreement dated
August 27, 1979.

Date: _____

Clayton No. 1-2
Operating Agreement
Working Interest Owners

Brooks Exploration, Inc.
2110 Western Federal Savings
718 Seventeenth Street
Denver, Colorado 80202

Eugene P. Mathias
12027 Venice Boulevard
Los Angeles, California 90066

Boatmen's National Bank of St. Louis
as Trustee for the Alma E. Griesedieck
Estate
Attn: M. Cryts
P. O. Box 7365, Main Post Office
St. Louis, Missouri 63166

Moulton B. Goff
28500 Bradley Road, Apt #255
Sun City, California 92381

Mary Stauffer
7813 East Second Street
Corney, California 90241

Western Distributing Company
Employees Trust
1800 Bassett Street
Denver, Colorado 80217

Malcolm C. Todd
2840 Long Beach Boulevard
Long Beach, CA 90806

Helena Karagozian, Executrix of
the Estate of Louise Kohn, Dec'd.
23713 Kivik Street
Woodland Hills, California 91367

Harold J. Bleakley
2800 South University Boulevard #135
Denver, Colorado 80210

6435 Georgia Lee Kelton Bright
6535 Pelham Court
San Jose, California 95123

Candace Kelton Cox
324 Sudbury Road
Concord, Massachusetts 01742

Anthony Zariengo
595 Capitol Life Center
Denver, Colorado 80203

Margery M. Krieger & People's Bank
& Trust Co.
Co-Trustees for the Estate of L. G.
Krieger
476 Oswego Court
Aurora, Colorado 80010

Wayne E. Oftedahl
218 Glenview
Elmhurst, Illinois 60125

John Bianchetti, Jr.
1300 West Victoria #7
Montbello, California 80640

Bruce Howard Lindsay
P. O. Box 1575
Newport Beach, California 92663

Benjamin M. Taylor
c/o Fred W. Caesar, Agent
3656 Mira Pacific Drive
Oceanside, California 92054

Roger K. Stewart
4782 E. Quail Creek Drive
Tucson, Arizona 85718

Harry R. Sherman
11806-C Moorpark Street
Studio City, California 91604

Betty L. Spellman, Att'y in Fact
for Gladys A. Murphy
2716 Daisy Avenue
Long Beach, California 90806

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

COG EXHIBIT NO. 1

CASE NO. 6827

CLAYTON #1-E WELL
875' from the South Line and 945' from the East Line of
Section 2, Township 30 North, Range 12 West, N.M.P.M.
San Juan County, New Mexico

	S/2 SW/4	N/2 SW/4	E/2 SE/4, W/2 SE/4	Communitized SE/4 - Gallup	Communitized S/2 - Mesaverde	Already Communitized S/2 - Dakota
John Blanchetti X ✓	----	1.587300%	1.587300%	1.587300%	1.190475%	1.190475%
Moulton Goff	1.428570%	---	---	---	.357142%	.357142%
Helen Karagosian, Executrix for the Louise Kohn Estate ✓	1.428570%	---	---	---	.357142%	.347142%
Eugene P. Mathias	11.428580%	1.428570%	1.428570%	1.428570%	3.928573%	3.928573%
Betty Spellman, Attorney-in-Fact for Gladys Murphy	3.888890%	3.174610%	3.174610%	3.174610%	3.353180%	3.353180%
H. D. Oliver ✓	---	3.015870%	3.015870%	3.015870%	2.261902%	2.261902%
Benjamin M. Taylor	1.428570%	1.428570%	1.428570%	1.428570%	1.428570%	1.428570%
Mary K. Stauffer ✓	7.142850%	7.142850%	7.142850%	7.142850%	7.142850%	7.142850%
Malcolm C. Todd	7.142860%	6.031750%	6.031750%	6.031750%	6.309528%	6.309528%
Harry R. Sherman	1.587300%	---	---	---	.396825%	.396825%
Nellie Troxel ✓	---	3.015870%	3.015870%	3.015870%	2.261902%	2.261902%
Bruce Howard Lindsay ✓	1.587300%	3.174610%	3.174610%	3.174610%	2.777783%	2.777783%
Western Distributing Company Employees Trust	1.171875%	2.148440%	2.148440%	2.148440%	1.904298%	1.904298%
Harold J. Bleakley	2.107748%	3.760038%	3.760038%	3.760038%	3.346965%	3.346965%
Candace Kelton Cox X	1.053875%	1.880018%	1.880018%	1.880018%	1.673483%	1.673483%
Georgia Lee Kelton bright X	1.053874%	1.880019%	1.880019%	1.880019%	1.673483%	1.673483%
L. G. Krieger	.843099%	1.504015%	1.504015%	1.504015%	1.338786%	1.338786%
Anthony F. Zarlengo	1.686199%	3.008030%	3.008030%	3.008030%	2.677572%	2.677572%
Brooks Exploration, Inc.	31.250000%	31.250000%	31.250000%	31.250000%	31.250000%	31.250000%
Consolidated Oil & Gas, Inc.	23.769840%	24.569440%	24.569440%	24.569440%	24.369541%	24.369541%
	100.000000%	100.000000%	100.000000%	100.000000%	100.000000%	100.000000%

X have signed M.V. but not over agreement

I have not signed
 over agreement
 for either form
 locate
 last hand
 in city



Consolidated Oil & Gas, Inc.

WELL COST ESTIMATE

AFE No. 1979-15

C.O.G. WI.

TO: Drill (X) Recomplete () Work Over ()

State New Mexico County San Juan

Flora Vista/Gallup/

Field Basin Dakota

Lease Name Clayton

Lease No. _____

Well No. 1-E 1-M

Location: 875' FSL & 945' FEL Sec. 2, T30N, R12W

DETAIL COST ESTIMATE

INTANGIBLE COSTS	QUANTITY	PRICE	COST OF DRY HOLE	COST OF PRODUCER
Superintendence	15/25	200	3,000	5,000
Labor			500	2,250
Hauling			1,500	4,500
Drilling				
To Drill	6800	13.00	88,500	88,500
Day Work - W/DP	2	4,500	9,000	9,000
Day Work - W/out Drill pipe	3	4,500	13,500	13,500
Other Completion Unit	25	2,000		50,000
Fuel			1,000	1,000
Water			3,000	4,000
Right of Way Damages			1,000	1,000
Drig. Mud & Chemicals			17,500	17,500
Electric & Radioactivity Logs			10,000	12,500
Coring & Core Analysis				
Acidizing & Fracturing				285,000
Drill Stem Tests				
Gun Perforating				7,500
Cement & Cementing Services			4,500	15,000
Shoes, Collars, & Centralizers			1,500	4,500
Welding			500	1,000
Road & Location			2,500	2,500
Bits & Coreheads				
Mud Logging				
Plugging Expense			7,500	
Directional Drilling Services				
Overhead			1,000	1,500
Tool & Equipment Rental				5,000
Contingencies (5%)			8,000	26,750
TOTAL INTANGIBLE COSTS			174,000	557,500
PERMANENT EQUIPMENT				
Conductor Pipe				
Surface Casing 8-5/8" OD	250	10.00	2,500	2,500
Prod. Casing 5-1/2" OD	6800	6.25		42,500
Tubing 1 1/2 & 1 1/2 " OD & 1" (8000)	6800/4500	2.00/1.75		28,500
Casing Head Assembly			1,000	1,000
Tubing Head Assembly				1,000
Xmas Tree & Manifold Assembly				7,500
Production Packer				4,500
Tubing Catcher				
Bottom Hole Choke				
Miscellaneous Connections				2,500
Battery & Production Unit				32,500
TOTAL Permanent Equipment			3,500	122,500
TOTAL COST OF COMPLETED WELL			177,500	680,000

Date: _____

Recommended by: W. J. Barry

APPROVED (Company): _____

Approved by: _____

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
<u>COG</u>	EXHIBIT NO. <u>6</u>
CASE NO.	<u>6827</u>

MODEL FORM OPERATING AGREEMENT—1956
Non-Federal Lands

OPERATING AGREEMENT

DATED

August 27, 1979

FOR UNIT AREA IN TOWNSHIP 30 North, RANGE 12 West

San Juan COUNTY, STATE OF New Mexico

TABLE OF CONTENTS

Paragraph Number	Title	Page
1.	Definitions	1
2.	Title Examination, Loss of Leases and Oil and Gas Interests	1
3.	Unleased Oil and Gas Interests	2
4.	Interests of Parties	2
5.	Operator of Unit	3
6.	Employees	3
7.	Test Well	3
8.	Costs and Expenses	3
9.	Operator's Lien	4
10.	Term of Agreement	4
11.	Limitation on Expenditures	4
12.	Operations by Less Than All Parties	5
13.	Right to Take Production in Kind	6
14.	Access to Unit Area	7
15.	Drilling Contracts	7
16.	Abandonment of Wells	7
17.	Delay Rentals and Shut-in Well Payments	8
18.	Preferential Right to Purchase	8
19.	Selection of New Operator	8
20.	Maintenance of Unit Ownership	9
21.	Resignation of Operator	9
22.	Liability of Parties	9
23.	Renewal or Extension of Leases	9
24.	Surrender of Leases	10
25.	Acreage or Cash Contributions	10
26.	Provision Concerning Taxation	10
27.	Insurance	11
28.	Claims and Lawsuits	11
29.	Force Majeure	11
30.	Notices	11
31.	Other Conditions	12

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 1st day of May, 19 79, between
Consolidated Oil & Gas, Inc.

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

WITNESSETH, THAT:

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

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

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

A. Title Examination:

No well shall be drilled on the Unit Area or on lands communitized with lands in the Unit Area until after:

- (1) The title to the drill site tract has been examined by an attorney for the Operator, and
- (2) The title to the drill site tract has been approved by the examining attorney or such title has been accepted by all of the parties who are to participate in the drilling of the well.

The cost of the abstracts of title and the cost of the title examinations by attorneys other than staff attorneys of Operator that are necessary for examination of drill site tract titles or that are necessary for division order preparation and payment of royalty, overriding royalty and working interest shares of production from the wells and the cost of obtaining title curative material shall be borne by the parties in proportion to their respective interests.

~~obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative ~~immediately, and the parties shall proceed to their performance as they are hereinafter stated.~~

B. Failure of Title:

~~After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.~~

C. Loss of Leases For Other Than Title Failure:

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

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

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

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

5. OPERATOR OF UNIT

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

6. EMPLOYEES

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

7. TEST WELL

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

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

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ~~six percent (6%)~~ ^{twelve percent (12%)} per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

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

11. LIMITATION ON EXPENDITURES

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

12. OPERATIONS BY LESS THAN ALL PARTIES

See Paragraph 31

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

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

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

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 24, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

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

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

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

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

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

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

14. ACCESS TO UNIT AREA

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

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

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

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

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Operator shall pay all delay rentals and shut-in well payments which may be required under the terms of the leases subject to this Operating Agreement and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. Upon being billed therefor, the other parties shall pay to Operator such proportionate part of any delay rental payment that may be attributable on an acreage basis to their interest in lands covered by such leases and their proportionate pro rata part of any shut-in well payments attributable to any well on the Unit Area. Operator shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no re-adjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 23 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

19. SELECTION OF NEW OPERATOR

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

20. MAINTENANCE OF UNIT OWNERSHIP

No party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit Area and in wells equipment and production unless such disposition shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

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

21. RESIGNATION OF OPERATOR

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

22. LIABILITY OF PARTIES

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

23. RENEWAL OR EXTENSION OF LEASES

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

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

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

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

The provisions in this section shall

24. SURRENDER OF LEASES

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

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

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

25. ACREAGE OR CASH CONTRIBUTIONS

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

26. PROVISION CONCERNING TAXATION

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

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

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

27. 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. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit 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.

28. CLAIMS AND LAWSUITS

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

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

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

29. FORCE MAJEURE

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

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

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

30. NOTICES

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

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

31. OTHER CONDITIONS, IF ANY, ARE:

SUBSEQUENT OPERATIONS

A. If either party hereto shall desire that a well be drilled, reworked, deepened, or plugged back, on any particular location on the Property, then such party desiring to drill shall give to the other party (whether one or more) written notice thereof at the address or addresses herein provided, giving the location, proposed depth, and approximate cost. The other party shall have fifteen (15) days after receipt of such notice within which to inform the party proposing such operations whether or not it elects to participate in the cost thereof, such notice to be in writing. It is understood that consent to the drilling, reworking, deepening or plugging back of a well shall include all necessary expenditures of testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

B. If any party or parties hereto, herein called "Non-Consenting Party" (whether one or more) shall elect not to participate in the proposed operation of said well, either by notice to that effect, by failure to give notice within the aforesaid time limit of fifteen (15) days, or by failure to advance its share of the estimated costs of such operations in the manner and in the time limit provided above, then the parties participating in such operations herein called "Consenting Party" (whether one or more) shall have seventy-five (75) days after the expiration of said fifteen (15) days in which to commence said operations as designated in the notice thereof and to thereafter continue the same with due diligence. If the proposed operations are not commenced within said period, all rights and privileges accruing hereunder to Consenting Party by reason of Non-Consenting Party's election not to participate in the proposed operations shall thereupon terminate.

C. 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 ten (10) days after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest, 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.

D. 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, 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:

(i) 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 it participated in the well from the beginning of the operation; and

(ii) 200% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging back, testing and completing, after deducting any cash dry hole or bottom hole contributions received in support of said operations and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

E. 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, 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.

F. 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, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

G. 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.

H. Within ninety (90) 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.

I. 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.

32. CHANGE OF OPERATOR

At any time after an Operator has acted as Operator for one (1) year, a Non-Operator may give written notice to Operator and all other Non-Operators of its readiness to act as Operator, setting forth therein the more favorable financial terms and conditions upon which such Non-Operator would be prepared to act. If the Operator agrees in writing within sixty (60) days next following receipt of such notice to continue as Operator on the terms proposed, but otherwise in accordance with provisions of this Agreement, such terms shall become effective on the first day of the calendar month following such acceptance and such terms shall remain in effect for at least one (1) year thereafter. If within sixty (60) days next following receipt of such notice by Operator, Operator does not agree in writing with Non-Operators thenceforth to act as Operator on the basis offered by such Non-Operator shall thereupon become and be Operator on the basis so offered; PROVIDED that, if there are three or more parties to this Agreement, such Non-Operator must obtain the written consent of a majority in interest of all Non-Operators other than the then Operator before becoming and being Operator as aforesaid. Any Operator appointed pursuant to this clause or otherwise appointed shall not be liable to be removed from office pursuant to this clause unless and until such Operator shall have acted as such for at least one (1) year. No notice shall be served hereunder by any other party or parties during the said sixty (60) day period applicable with respect to any notice already served by another party.

33. NONDISCRIMINATION CLAUSE

The Unit Operator will comply with all provisions of Executive Order No. 11246 of September 24, 1965, as amended or supplemented, and of the rules, regulations and relevant orders of the Secretary of Labor pursuant thereto.

34. BURDENS

Any hereafter created overriding royalty, production payment or other interest constituting an interest in or a burden on any party's interest in any leasehold interest covered hereby shall be created expressly subject to the terms and conditions hereof, and shall be suspended and shall not be entitled to any part of the proceeds of production attributable to the interest of the party creating such burden so long as the interest of the party creating such burden is relinquished because the party does not consent to any operation resulting in such production, and no payments or obligations shall exist or accrue in favor of any such burdens during the time that the interest of the party creating the same in such production is relinquished.

EXHIBIT "C"

Attached to and made a part of Operating Agreement between
Consolidated Oil & Gas, Inc. as Operator and
Other Working Interest Owners as Non-Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of 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 twenty per cent (20%).

4. Material

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

5. Transportation

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 1387.50

Producing Well Rate \$ Single zone-\$182.00

Dual zone-\$231.00

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

\$280.00 for triple

(a) Drilling Well Rate

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

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
 - [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00; plus

B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus

C. 2 % 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"

1. Workmen's compensation insurance in accordance with the requirements of the laws of the State of New Mexico where work is conducted and employer's liability insurance with limitations of not less than One Hundred Thousand Dollars (\$100,000.00) each accident and One Hundred Thousand Dollars (\$100,000.00) aggregate for disease.

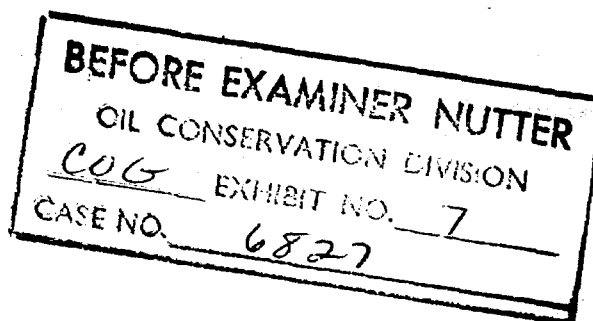
2. Public liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) as to any one person, and Three Hundred Thousand Dollars (\$300,000.00) as to any one accident, and property damage liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) for each accident.

3. Automobile public liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) for any one person injured in any one accident and Three Hundred Thousand Dollars (\$300,000.00) for more than one person injured in any one accident, and automobile property damage insurance with a limit of not less than One Hundred Thousand (\$100,000.00) to cover all automotive equipment.



Consolidated Oil & Gas, Inc.

LINCOLN TOWER BUILDING
1860 LINCOLN STREET
DENVER, COLORADO 80295
(303) 861-5232



Working Interest Owners
(see attached list)

Re: Operating Agreement Dated
August 27, 1979, Clayton
Unit, S/2 Section 2, T30N,
R12W, San Juan County,
New Mexico

Gentlemen:

Under cover letter dated September 14, 1979, you were sent an operating agreement for the above-referenced unit. That agreement should be amended as follows: Exhibit "C", page 3, paragraph 1A, should include a provision for a producing well rate for a triple zone of \$280.00.

If you concur in the amendment described, please sign in the space provided below.

Very truly yours,

CONSOLIDATED OIL & GAS, INC.

Floyd E. Ellison, Jr.

Floyd E. Ellison, Jr.
Vice President - Operations

FEE:ccs

I agree to the above-described
amendment to the Clayton Unit
Operating Agreement dated
August 27, 1979.

Date: _____

Clayton No. 1-2
Operating Agreement
Working Interest Owners

Brooks Exploration, Inc.
2110 Western Federal Savings
718 Seventeenth Street
Denver, Colorado 80202

Eugene P. Mathias
12027 Venice Boulevard
Los Angeles, California 90066

Boatmen's National Bank of St. Louis
as Trustee for the Alma E. Griesedieck
Estate

Attn: M. Cryts
P. O. Box 7365, Main Post Office
St. Louis, Missouri 63166

Moulton B. Goff
28500 Bradley Road, Apt #255
Sun City, California 92381

Mary Stauffer
7813 East Second Street
Corney, California 90241

Western Distributing Company
Employees Trust
1800 Bassett Street
Denver, Colorado 80217

Malcolm C. Todd
2840 Long Beach Boulevard
Long Beach, CA 90806

Helena Karagozian, Executrix of
the Estate of Louise Kohn, Dec'd.
23713 Kivik Street
Woodland Hills, California 91367

Harold J. Blackley
2800 South University Boulevard #135
Denver, Colorado 80210

Georgia Lee Kelton Bright
6535 Pelham Court
San Jose, California 95123

Candace Kelton Cox
324 Sudbury Road
Concord, Massachusetts 01742

Anthony Zarlengo
595 Capitol Life Center
Denver, Colorado 80203

Margery M. Krieger & People's Bank
& Trust Co.
Co-Trustees for the Estate of L. G.
Krieger
476 Oswego Court
Aurora, Colorado 80010

Wayne E. Oftedahl
218 Glenview
Elmhurst, Illinois 60125

John Bianchetti, Jr.
1300 West Victoria #7
Montbello, California 90640

Bruce Howard Lindsay
P. O. Box 1575
Newport Beach, California 92663

Benjamin M. Taylor
c/o Fred W. Caesar, Agent
3656 Mira Pacific Drive
Oceanside, California 92054

Roger K. Stewart
4782 E. Quail Creek Drive
Tucson, Arizona 85718

Harry R. Sherman
11806-C Moorpark Street
Studio City, California 91604

Betty L. Spellman, Att'y in Fact
for Gladys A. Murphy
2716 Daisy Avenue
Long Beach, California 90806

Docket No. 6-80

Dockets Nos. 8-80 and 9-80 are tentatively set for March 26 and April 9, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - MARCH 11, 1980

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

CASE 6609: (DE NOVO) (Continued and Readvertised)

Application of Napeco Inc. for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Strawn oil pool for its Benson Deep Unit Well No. 1 located in Unit O of Section 33, Township 18 South, Range 30 East, and special rules therefor, including 160-acre spacing and standard well locations.

Upon application of Yates Petroleum Corporation and Napeco Inc., this case will be heard De Novo pursuant to the provisions of Rule 1220. Applicants allege this is not an "oil" pool but is a "volatile" oil pool.

CASE 6823: Application of Amoco Production Company for 640-acre carbon dioxide gas well spacing, Harding, Quay, and Union Counties, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Rule 104 of the Division Rules and Regulations to require that wildcat and development carbon dioxide gas wells projected to the Tubbs or older formations in Harding, Quay, and Union Counties must be located on 640-acre spacing and proration units, and must be located no nearer than 1650 feet to the outer boundary of the tract and not nearer than 330 feet to any interior quarter-quarter section line.

Docket No. 7-80

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 12, 1980

**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. Stamers, Alternate Examiner:

- ALLOWABLE:** (1) Consideration of the allowable production of gas for April, 1980, from fifteen prorated pools in Lea, Eddy, and Chaves County, New Mexico.
- (2) Consideration of the allowable production of gas for April, 1980, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 6613: (Continued from February 27, 1980, Examiner Hearing) (This case will be dismissed.)

Application of Petroleum Development Corporation to amend Order No. R-6196, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks to amend Order No. R-6196 which authorized re-entry of a well at an unorthodox location in the Lusk-Morrow Gas Pool to be dedicated to the N/2 of Section 13, Township 19 South, Range 31 East. Applicant now seeks approval for a new revised location 750 feet from the North line and 660 feet from the West line of said Section 13.

CASE 6834: Application of Conoco Inc. for a dual completion and unorthodox well location, Lea County, New Mexico. (This case will be continued to March 26 and readvertised.)

Applicant, in the above-styled cause, seeks approval for the dual completion (conventional) of its SENU Burger Well No. 107 at an unorthodox location 2615 feet from the South and East lines of Section 24, Township 20 South, Range 38 East, to produce oil from the Blinebry Oil and Gas and Drinkard Pools.

CASE 6824: Application of American Trading and Production Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Talco Unit Area, comprising 4,800 acres, more or less, of State and Federal lands in Township 26 South, Range 35 East.

CASE 6815: (Continued and Readvertised)

Application of Florida Exploration Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Ross Draw Unit Well No. 8, a Wolfcamp gas well 1650 feet from the North and East lines of Section 27, Township 26 South, Range 30 East, the E/2 of said Section 27 being dedicated to the well.

CASE 6825:

Application of Husky Oil Company for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a finding that the drilling of its North Shore Woolworth Well No. 5 to be located in Unit E of Section 33, Township 24 South, Range 37 East, Jalmat Pool, is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing well.

CASE 6826:

Application of Tahoe Oil and Cattle Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Penrose Skelly Pool underlying the SE/4 SE/4 of Section 25, Township 21 South, Range 36 East, to be dedicated to its Bromlee Well No. 1 located thereon. Also to be considered will be the cost of recompleting said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in recompleting said well.

CASE 6827:

Application of Consolidated Oil & Gas, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Gallup formation underlying the SE/4 of Section 2, Township 30 North, Range 12 West, and in the Mesaverde 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6828:

Application of Etheldred T. Ross for three non-standard gas proration units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval of the three following non-standard gas proration units, all in Township 19 North, Range 30 East: a 40-acre unit comprising the SW/4 NE/4 of Section 12; and two 80-acre units in Section 14, the first comprising the N/2 NW/4 and the second comprising the N/2 SE/4; each of said units would be dedicated to a well to be drilled to the Tubb formation at a standard location thereon.

CASE 6829:

Application of Alpha Twenty-One Production Company for approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks findings that the drilling of its El Paso Tom Federal Wells Nos. 1, 2, and 3, in Units D, E, and F, respectively, of Section 33, Township 25 South, Range 37 East, Langlie Mattix Pool, is necessary to effectively and efficiently drain that portion of the existing proration unit which cannot be drained by the existing well on each of said well's respective proration unit.

CASE 6830:

Application of Enserch Exploration, Inc. for special pool rules or, in the alternative, a special gas-oil ratio, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks an order promulgating special pool rules for the South Peterson-Pennsylvanian Field including a special gas-oil ratio of 4,000 to 1, or in the alternative, establishing a special gas-oil ratio of 4,000 to 1 for its Lambirth Well No. 3, located in Unit G of Section 31, Township 5 South, Range 33 East.

CASE 6831:

Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the recompletion of its State "JH" Well No. 1 in the Wolfcamp thru Cisco formations at an unorthodox location 660 feet from the North and East lines of Section 25, Township 18 South, Range 24 East, the W/2 of said Section 25 to be dedicated to the well.

CASE 6832:

Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the recompletion of its Cities "JG" Well No. 1 in the Wolfcamp thru Cisco formations at an unorthodox location 660 feet from the South and East lines of Section 13, Township 18 South, Range 24 East, the E/2 of said Section 13 to be dedicated to the well.

CASE 6833:

Application of Harvey E. Yates Company for directional drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to directionally drill its Betenbough Well No. 1, the surface location of which is 660 feet from the North line and 1980 feet from the West line of Section 32, Township 13 South, Range 36 East, in such a manner as to bottom it within 100 feet of a point 660 feet from the North line and 1830 feet from the West line of said Section 32 in the Austin-Mississippian Pool.

CASE 6818: (Continued from February 27, 1980, Examiner Hearing)

Application of Tenneco Oil Company for an NCPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its State ML 11 Well No. 1 located in Unit N of Section 11, Township 19 South, Range 29 East.

CASE 6835: Application of Anadarko Production Company for an NCPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its New Mexico State "AB" Com. Well No. 1 located in Unit H of Section 36, Township 18 South, Range 28 East.

CASE 6836: Application of Anadarko Production Company for an NCPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination for its New Mexico "AA" State Well No. 1 located in Unit F of Section 35, Township 18 South, Range 28 East.

CASE 6837: Application of Curtis Little for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the W/2 of Section 7, Township 25 North, Range 3 West, 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6819: (Continued from February 27, 1980, Examiner Hearing)

Application of V-F Petroleum, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the McKee or Devonian formations, or both, underlying four 40-acre units, being the SE/4 SE/4, NE/4 SE/4, NW/4 SE/4, and SW/4 SE/4 of Section 21, Township 23 South, Range 37 East, North Teague Field, each 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 wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

BEFORE THE NEW MEXICO
OIL CONSERVATION DIVISION
ENERGY AND MINERALS DEPARTMENT

IN THE MATTER OF THE APPLICATION
OF CONSOLIDATED OIL & GAS, INC.,
FOR COMPULSORY POOLING, SAN JUAN
COUNTY, NEW MEXICO

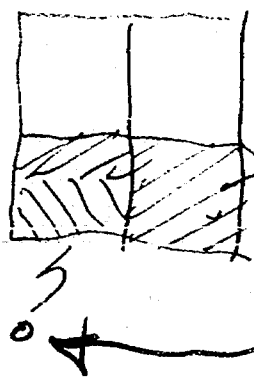
Case No. 6827

APPLICATION

Comes now Consolidated Oil & Gas, Inc., by its attorney, Lynn Teschendorf, and makes application pursuant to Section 70-2-17, NMSA 1978, for an order pooling all mineral interests in the Mesaverde and Gallup formations underlying the S/2 of Section 2, Township 30 North, Range 12 West, N.M.P.M., San Juan County, New Mexico, to be dedicated to a well drilled at a standard location thereon, and as grounds therefor states:

1. Applicant is the owner of 18.75% of the working interest in the S/2 of said Section 2 and has the right to drill a well on said unit.
2. Applicant proposes to dedicate said pooled unit to its Clayton No. 1-E located 875 feet from the south line and 945 feet from the east line of said Section 2.
3. Applicant has been unable to locate the following working interest owners and has therefore been unable to obtain voluntary agreements or farmouts:

- a. H. D. Oliver Working Interest 2.262%
- b. Nellie Troxel Working Interest 2.262%



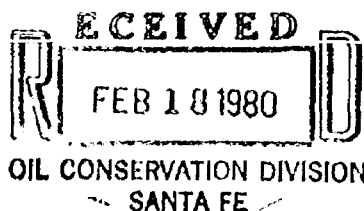
4. Applicant has sought and has been unable to obtain voluntary agreement for pooling from certain other owners of mineral interests in the S/2 of said Section 2.
5. In order to afford the applicant the opportunity to recover without unnecessary expense its just and fair share of the oil and gas underlying the subject lands, and in order to prevent waste and protect correlative rights, these interests should be pooled, and applicant should be designated as the operator of the well.

WHEREFORE, applicant requests that this matter be set for hearing and that an order be entered in accordance with the foregoing, including provisions for the allocation of the cost of drilling and completing said well, charges for supervision, and a charge for risk involved in drilling said well.

CONSOLIDATED OIL & GAS, INC.

By

Lynn Teschendorf
Lynn Teschendorf
Attorney for Applicant
Suite 1300
1860 Lincoln Street
Denver, Co 80295



BEFORE THE NEW MEXICO
OIL CONSERVATION DIVISION
ENERGY AND MINERALS DEPARTMENT

IN THE MATTER OF THE APPLICATION
OF CONSOLIDATED OIL & GAS, INC.,
FOR COMPULSORY POOLING, SAN JUAN
COUNTY, NEW MEXICO

Case No. 6827

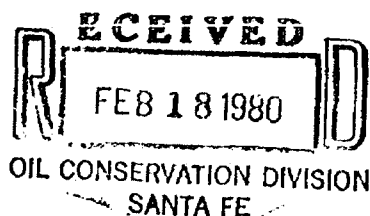
APPLICATION

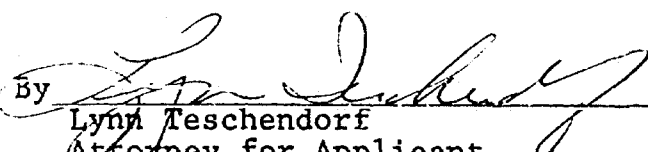
Comes now Consolidated Oil & Gas, Inc., by its attorney, Lynn Teschendorf, and makes application pursuant to Section 70-2-17, NMSA 1978, for an order pooling all mineral interests in the Mesaverde and Gallup formations underlying the S/2 of Section 2, Township 30 North, Range 12 West, N.M.P.M., San Juan County, New Mexico, to be dedicated to a well drilled at a standard location thereon, and as grounds therefor states:

1. Applicant is the owner of 18.75% of the working interest in the S/2 of said Section 2 and has the right to drill a well on said unit.
2. Applicant proposes to dedicate said pooled unit to its Clayton No. 1-E located 875 feet from the south line and 945 feet from the east line of said Section 2.
3. Applicant has been unable to locate the following working interest owners and has therefore been unable to obtain voluntary agreements or farmouts:
 - a. H. D. Oliver Working Interest 2.262%
 - b. Nellie Troxel Working Interest 2.262%
4. Applicant has sought and has been unable to obtain voluntary agreement for pooling from certain other owners of mineral interests in the S/2 of said Section 2.
5. In order to afford the applicant the opportunity to recover without unnecessary expense its just and fair share of the oil and gas underlying the subject lands, and in order to prevent waste and protect correlative rights, these interests should be pooled, and applicant should be designated as the operator of the well.

WHEREFORE, applicant requests that this matter be set for hearing and that an order be entered in accordance with the foregoing, including provisions for the allocation of the cost of drilling and completing said well, charges for supervision, and a charge for risk involved in drilling said well.

CONSOLIDATED OIL & GAS, INC.



By 
Lynn Teschendorf
Attorney for Applicant
Suite 1300
1860 Lincoln Street
Denver, Co 80295

BEFORE THE NEW MEXICO
OIL CONSERVATION DIVISION
ENERGY AND MINERALS DEPARTMENT

IN THE MATTER OF THE APPLICATION
OF CONSOLIDATED OIL & GAS, INC.,
FOR COMPULSORY POOLING, SAN JUAN
COUNTY, NEW MEXICO

Case No. 6827

APPLICATION


Comes now Consolidated Oil & Gas, Inc., by its attorney, Lynn Teschendorf, and makes application pursuant to Section 70-2-17, NMSA 1978, for an order pooling all mineral interests in the Mesaverde and Gallup formations underlying the S/2 of Section 2, Township 30 North, Range 12 West, N.M.P.M., San Juan County, New Mexico, to be dedicated to a well drilled at a standard location thereon, and as grounds therefor states:

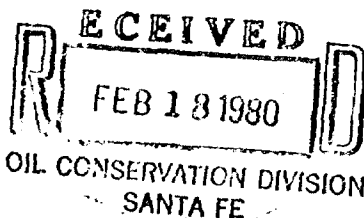
1. Applicant is the owner of 18.75% of the working interest in the S/2 of said Section 2 and has the right to drill a well on said unit.
2. Applicant proposes to dedicate said pooled unit to its Clayton No. 1-E located 875 feet from the south line and 945 feet from the east line of said Section 2.
3. Applicant has been unable to locate the following working interest owners and has therefore been unable to obtain voluntary agreements or farmouts:
 - a. H. D. Oliver Working Interest 2.262%
 - b. Nellie Troxel Working Interest 2.262%
4. Applicant has sought and has been unable to obtain voluntary agreement for pooling from certain other owners of mineral interests in the S/2 of said Section 2.
5. In order to afford the applicant the opportunity to recover without unnecessary expense its just and fair share of the oil and gas underlying the subject lands, and in order to prevent waste and protect correlative rights, these interests should be pooled, and applicant should be designated as the operator of the well.

WHEREFORE applicant requests that this matter be set for hearing and that an order be entered in accordance with the foregoing, including provisions for the allocation of the cost of drilling and completing said well, charges for supervision, and a charge for risk involved in drilling said well.

CONSOLIDATED OIL & GAS, INC.

By

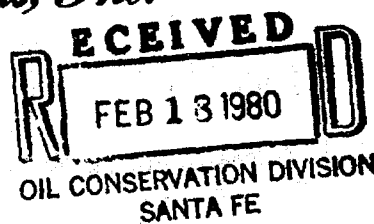

Lynn Teschendorf
Attorney for Applicant
Suite 1300
1860 Lincoln Street
Denver, Co 80295





LINCOLN TOWER BUILDING
1860 LINCOLN STREET
DENVER, COLORADO 80295
(303) 861-5252

Consolidated Oil & Gas, Inc.



February 14, 1980

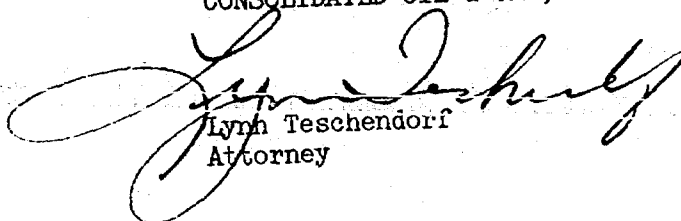
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

Enclosed please find an original and two copies of Consolidated Oil & Gas, Inc.'s application for compulsory pooling. I would appreciate your setting this case on the March 12 docket.

Yours very truly,

CONSOLIDATED OIL & GAS, INC.


Lynn Teschendorf
Attorney

LT:pb

Enclosures

DRAFT

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

dr/

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

CASE NO. 6827

Order No. R- 6298

APPLICATION OF CONSOLIDATED OIL
& GAS, INC. FOR COMPULSORY
POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 12
19 80, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.
NOW, on this day of March, 19 80, 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, Consolidated Oil & Gas, Inc.,
seeks an order pooling all mineral interests in the Gallup
formation underlying the SE/4
of Section 2, Township 30 North, Range 12 West
and in the Mesaverde formation underlying the S/2 of said Section 2
NMPM, San Juan County, New
Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon and to complete said well in both of the aforesaid formations.

(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 gas in said pools, the subject application should be approved by pooling all mineral interests, whatever they may be, within said units.

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

(7) That any non-consenting working interest owner ^{in each of said proration units} should be afforded the opportunity to pay his ^{pro-rata} share of estimated well ~~for development of that proration unit~~ 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 ^{in each of said proration units} that does not pay his share of estimated well costs should have withheld from production his ^{pro-rata} share of the reasonable well costs ~~for development of that proration unit~~ plus an additional 100 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 that 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.

that \$182.00 per month for a single zone well,
\$231.00 per month for a dual zone well, and
\$280.00 per month for a triple zone well should
be fixed as reasonable charges for

(11) That \$1387.50 per month should be fixed as a reasonable charge for supervision (combined fixed rates) ^{during drilling operations;} that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to ~~each zone and to~~ ^{under each proration unit} 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 ^{each zone in} 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 San Juan County, New Mexico,} 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 April 1, 1980, 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 the Gallup formation underlying the SE/4 of Section 2, Township 30 North, Range 12 West, and in the Mesaverde formation underlying the S/2 of said Section 2, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 160-acre gas spacing and proration unit ^{for the Gallup formation and a standard 320-acre 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 units shall commence the drilling of said well on or before the first day of April, 1980, and shall thereafter continue the drilling of said well with due diligence ^{at least} to a depth sufficient to test the Mesaverde Gallup formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of April, 1980, 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.

supervision during production and

proration unit for the Mesaverde formation; each of said units

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 Consolidated Oil & Gas, Inc. is hereby designated the operator of the subject well and units.

(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 units 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 ^{in each of the subject units} shall have the right to pay his ^{prorata} share of estimated well costs ^{for development of that proration unit} 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 that has paid his share of estimated costs in advance as provided

-5-

Case No.

Order No. R-

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, 100 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 \$1387.50 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) ^{during drilling operations; that \$ 182.00 per month for a single zone} that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to ^{each zone and to} each non-consenting working interest, ^{under each promotion unit,} and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating ^{each zone in said} each well, not in excess of what are reasonable, attributable to each non-consenting working interest.

\$280.00 per month for a triple zone well, one well fixed as reasonable charge for supervision (drilling, production operations) and

will be \$231.00 per month for a dual zone well, and

-6-
Case
Order No.

(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 interests 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 San Juan 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.

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
C06 EXHIBIT NO. 6
CASE NO. 6827

MODEL FORM OPERATING AGREEMENT-1956
Non-Federal Lands

OPERATING AGREEMENT

DATED

August 27, 1979

FOR UNIT AREA IN TOWNSHIP 30 North, RANGE 12 West

San Juan COUNTY, STATE OF New Mexico

TABLE OF CONTENTS

Paragraph Number	Title	Page
1.	Definitions	1
2.	Title Examination, Loss of Leases and Oil and Gas Interests	1
3.	Unleased Oil and Gas Interests	2
4.	Interests of Parties	2
5.	Operator of Unit	3
6.	Employees	3
7.	Test Well	3
8.	Costs and Expenses	3
9.	Operator's Lien	4
10.	Term of Agreement	4
11.	Limitation on Expenditures	4
12.	Operations by Less Than All Parties	5
13.	Right to Take Production in Kind	6
14.	Access to Unit Area	7
15.	Drilling Contracts	7
16.	Abandonment of Wells	7
17.	Delay Rentals and Shut-in Well Payments	8
18.	Preferential Right to Purchase	8
19.	Selection of New Operator	8
20.	Maintenance of Unit Ownership	9
21.	Resignation of Operator	9
22.	Liability of Parties	9
23.	Renewal or Extension of Leases	9
24.	Surrender of Leases	10
25.	Acreage or Cash Contributions	10
26.	Provision Concerning Taxation	10
27.	Insurance	11
28.	Claims and Lawsuits	11
29.	Force Majeure	11
30.	Notices	11
31.	Other Conditions	12

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 1st day of May, 1979, between
Consolidated Oil & Gas, Inc.

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

WITNESSETH, THAT:

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

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

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

A. Title Examination:

No well shall be drilled on the Unit Area or on lands communitized with lands in the Unit Area until after:

- (1) The title to the drill site tract has been examined by an attorney for the Operator, and
- (2) The title to the drill site tract has been approved by the examining attorney or such title has been accepted by all of the parties who are to participate in the drilling of the well.

The cost of the abstracts of title and the cost of the title examinations by attorneys other than staff attorneys of Operator that are necessary for examination of drill site tract titles or that are necessary for division order preparation and payment of royalty, overriding royalty and working interest shares of production from the wells and the cost of obtaining title curative material shall be borne by the parties in proportion to their respective interests.

~~obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, ~~and the parties shall proceed to their performance as they are hereinafter stated.~~

B. Failure of Title:

~~After all titles are approved or accepted,~~ any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure:

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

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

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

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

5. OPERATOR OF UNIT

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

6. EMPLOYEES

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

7. TEST WELL

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

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

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ~~six percent (6%)~~ ^{twelve percent (12%)} per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

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

11. LIMITATION ON EXPENDITURES

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

12. OPERATIONS BY LESS THAN ALL PARTIES

See Paragraph 31

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

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

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

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 24, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

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

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

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

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

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

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

14. ACCESS TO UNIT AREA

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

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

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

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

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Operator shall pay all delay rentals and shut-in well payments which may be required under the terms of the leases subject to this Operating Agreement and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. Upon being billed therefor, the other parties shall pay to Operator such proportionate part of any delay rental payment that may be attributable on an acreage basis to their interest in lands covered by such leases and their proportionate pro rata part of any shut-in well payments attributable to any well on the Unit Area. Operator shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no re-adjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 23 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

19. SELECTION OF NEW OPERATOR

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

20. MAINTENANCE OF UNIT OWNERSHIP

No party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit Area and in wells equipment and production unless such disposition shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

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

21. RESIGNATION OF OPERATOR

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

22. LIABILITY OF PARTIES

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

23. RENEWAL OR EXTENSION OF LEASES

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

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

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

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

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

24. SURRENDER OF LEASES

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

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

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

25. ACREAGE OR CASH CONTRIBUTIONS

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

26. PROVISION CONCERNING TAXATION

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

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

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

27. 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. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit 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.

28. CLAIMS AND LAWSUITS

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

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

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

29. FORCE MAJEURE

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

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

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

30. NOTICES

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

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

31. OTHER CONDITIONS, IF ANY, ARE:

SUBSEQUENT OPERATIONS

A. If either party hereto shall desire that a well be drilled, reworked, deepened, or plugged back, on any particular location on the Property, then such party desiring to drill shall give to the other party (whether one or more) written notice thereof at the address or addresses herein provided, giving the location, proposed depth, and approximate cost. The other party shall have fifteen (15) days after receipt of such notice within which to inform the party proposing such operations whether or not it elects to participate in the cost thereof, such notice to be in writing. It is understood that consent to the drilling, reworking, deepening or plugging back of a well shall include all necessary expenditures of testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

B. If any party or parties hereto, herein called "Non-Consenting Party" (whether one or more) shall elect not to participate in the proposed operation of said well, either by notice to that effect, by failure to give notice within the aforesaid time limit of fifteen (15) days, or by failure to advance its share of the estimated costs of such operations in the manner and in the time limit provided above, then the parties participating in such operations herein called "Consenting Party" (whether one or more) shall have seventy-five (75) days after the expiration of said fifteen (15) days in which to commence said operations as designated in the notice thereof and to thereafter continue the same with due diligence. If the proposed operations are not commenced within said period, all rights and privileges accruing hereunder to Consenting Party by reason of Non-Consenting Party's election not to participate in the proposed operations shall thereupon terminate.

C. 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 ten (10) days after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest, 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.

D. 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, 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:

(i) 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 it participated in the well from the beginning of the operation; and

(ii) 200% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging back, testing and completing, after deducting any cash dry hole or bottom hole contributions received in support of said operations and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

E. 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, 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.

F. 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, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

G. 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.

H. Within ninety (90) 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.

I. 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.

32. CHANGE OF OPERATOR

At any time after an Operator has acted as Operator for one (1) year, a Non-Operator may give written notice to Operator and all other Non-Operators of its readiness to act as Operator, setting forth therein the more favorable financial terms and conditions upon which such Non-Operator would be prepared to act. If the Operator agrees in writing within sixty (60) days next following receipt of such notice to continue as Operator on the terms proposed, but otherwise in accordance with provisions of this Agreement, such terms shall become effective on the first day of the calendar month following such acceptance and such terms shall remain in effect for at least one (1) year thereafter. If within sixty (60) days next following receipt of such notice by Operator, Operator does not agree in writing with Non-Operators thenceforth to act as Operator on the basis offered by such Non-Operator shall thereupon become and be Operator on the basis so offered; PROVIDED that, if there are three or more parties to this Agreement, such Non-Operator must obtain the written consent of a majority in interest of all Non-Operators other than the then Operator before becoming and being Operator as aforesaid. Any Operator appointed pursuant to this clause or otherwise appointed shall not be liable to be removed from office pursuant to this clause unless and until such Operator shall have acted as such for at least one (1) year. No notice shall be served hereunder by any other party or parties during the said sixty (60) day period applicable with respect to any notice already served by another party.

33. NONDISCRIMINATION CLAUSE

The Unit Operator will comply with all provisions of Executive Order No. 11246 of September 24, 1965, as amended or supplemented, and of the rules, regulations and relevant orders of the Secretary of Labor pursuant thereto.

34. BURDENS

Any hereafter created overriding royalty, production payment or other interest constituting an interest in or a burden on any party's interest in any leasehold interest covered hereby shall be created expressly subject to the terms and conditions hereof, and shall be suspended and shall not be entitled to any part of the proceeds of production attributable to the interest of the party creating such burden so long as the interest of the party creating such burden is relinquished because the party does not consent to any operation resulting in such production, and no payments or obligations shall exist or accrue in favor of any such burdens during the time that the interest of the party creating the same in such production is relinquished.

EXHIBIT "C"

Attached to and made a part of Operating Agreement between
Consolidated Oil & Gas, Inc. as Operator and
Other Working Interest Owners as Non-Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of 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 twenty per cent (20%).

4. Material

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

5. Transportation

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

I. 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 \$ 1387.50
Producing Well Rate \$ Single zone-\$182.00

- (2) Application of Overhead - Dual zone-\$231.00
Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00:

A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00; plus

B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus

C. 2 % 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 3 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"

1. Workmen's compensation insurance in accordance with the requirements of the laws of the State of New Mexico where work is conducted and employer's liability insurance with limitations of not less than One Hundred Thousand Dollars (\$100,000.00) each accident and One Hundred Thousand Dollars (\$100,000.00) aggregate for disease.

2. Public liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) as to any one person, and Three Hundred Thousand Dollars (\$300,000.00) as to any one accident, and property damage liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) for each accident.

3. Automobile public liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) for any one person injured in any one accident and Three Hundred Thousand Dollars (\$300,000.00) for more than one person injured in any one accident, and automobile property damage insurance with a limit of not less than One Hundred Thousand (\$100,000.00) to cover all automotive equipment.