

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

**APPLICATION OF RIDGE RUNNER RESOURCES
OPERATING, LLC FOR COMPULSORY POOLING,
NON-STANDARD SPACING AND PRORATION UNIT,
LEA COUNTY, NEW MEXICO.**

Case No. 20619

PRE-HEARING STATEMENT

William J. Savage and Amtex Energy, Inc. (collectively "Amtex") provide this Pre-Hearing Statement for the Division hearing as required by Rule 19.15.4.13B NMAC.

APPEARANCES

APPLICANT

Ridge Runner Resources
Operating LLC

ATTORNEY

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OPPONENT

Amtex Energy, Inc.

ATTORNEY

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STATEMENT OF THE CASE

Ridge Runner Resources Operating LLC ("Ridge Runner") seeks an order pooling the mineral interests of various parties, including Amtex, for its Perseus State No. 2H well. Ridge Runner seeks to drill within the vertical limits of the Pearl Bone

Spring, South Pool (Pool Code 49685), underlying the E/2W/2 of Section 35, Township 19 South, Range 35 East, NMPM and the E/2W/2 of Section 2, Township 20 South, Range 35 East, NMPM, Lea County, New Mexico.

Amtex objects to the application and requests it be dismissed on the following grounds:

(a) The Division lacks authority under NMSA 1978 § 70-2-17(C) to grant this application. The acreage comprising the E/2W/2 of Section 35 is already subject to a voluntary agreement in the form of a Joint Operating Agreement (“JOA”) which designates Amtex Energy as the operator. A partial copy of the JOA is attached as Exhibit A. Ridge Runner cannot establish that the parties in the proposed spacing unit have not agreed to pool their interests, at least as to the E/2W/2 of Section 35. Because the E/2W/2 of Section 35 is already subject of a voluntary agreement by the working interest owners to pool their interests, this application must be denied.

(b) The JOA has an agreed procedure for the drilling of wells in the area of mutual interest, which includes the E/2W/2 of Section 35. Amtex has already invoked that procedure as the designated operator by sending proposals to the working interest owners by letter dated April 25, 2019 for the drilling of a horizontal oil well in the 2nd Bone Spring formation covering the E/2W/2 of Section 35 as well as the E/2SW/4 of Section 26, both in T-219-S, R-35-E, Lea County. A majority of the working interest owners have already approved the well. The approval of Piper Petroleum Co. is attached as Exhibit B. Any action by the Division to force pool acreage which is already subject to a voluntary agreement is statutorily unauthorized, and is particularly

inappropriate where the parties are already in the process of developing the acreage under their voluntary agreement.

(c) Even if a force pooling application were authorized, which is denied, the Division lacks the authority under the current statutes, rules and regulations to approve Ridge Runner's compulsory pooling application for a requested project area and non-standard oil spacing and proration unit that comprises separate contiguous and existing 40 acre oil spacing units for a horizontal well in the Bone Springs formation. This is particularly true where Ridge Runner owned no interest in the E/2W/2 of Section 35 at the time it filed its application. Amtex and Mr. Savage, on the other hand, own over 70% of the working interest in Section 35.

(d) Even if a force pooling application were authorized, which is denied, Ridge Runner has failed to make a good faith effort to secure voluntary agreement. Rather, Ridge Runner has ignored the parties' voluntary agreement and has initiated this force pooling proceeding after notice that Amtex has already taken steps pursuant to the JOA to drill a well in the target formation. Such conduct is prima facie evidence of bad faith.

(e) Even if a force pooling application were authorized, which is denied, Ridge Runner lacks the experience and knowledge to justify an order by the Division designating it the operator of a horizontal well in the Bone Spring formation.

(f) Even if a force pooling application were authorized, which is denied, Ridge Runner cannot support any risk penalty for its proposed well.

(g) Application of a 200% risk penalty will mean that the correlative rights of Amtex and other working interest owners will not be protected because they would forfeit their interest in the proposed well if they are force pooled;

(h) By statute, §70-2-17, the Legislature has provided that the maximum risk penalty, i.e., the amount consenting owners can recover from nonconsenting owners, is 200%, which means the nonconsenting owner will relinquish his or her right to receive his or her share of production revenue until the consenting parties recover two times the nonconsenting owner's share of expenses, and any order assessing a risk penalty should so stipulate.

PROPOSED EVIDENCE

OPPONENT

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
William Savage (engineer)	45 minutes	10 approx.
Tate Savage (landman)	30 minutes	10 approx.

APPLICANT

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
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PROCEDURAL MATTERS

None at this time.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By /s/ J. E. Gallegos
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Attorneys for Amtex Energy, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on counsel of record by electronic mail this 3rd day of July 2019:

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padillalaw@qwestoffice.net

/s/ J. E. Gallegos
J. E. Gallegos

A.A.P.L. FORM 610-1982
MODEL FORM OPERATING AGREEMENT



EAST PEARL PROSPECT

OPERATING AGREEMENT

DATED

October 1, 19 92,

OPERATOR Amtex Energy, Inc.

CONTRACT AREA S/2 SW/4 of Section 23, all of Section 26

and all of Section 35, Township 19 South, Range 35 East

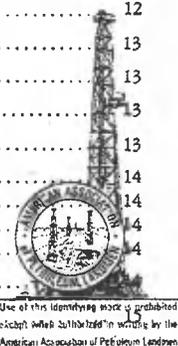
COUNTY OR PARISH OF Lea **STATE OF** New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 2408 CONTINENTAL LIFE BUILDING,
FORT WORTH, TEXAS, 76102, APPROVED FORM.
A.A.P.L. NO. 610 - 1982 REVISED

Exhibit A

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Use of this identifying mark is prohibited except when authorized in writing by the American Association of Petroleum Landmen.

OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

ARTICLE II. EXHIBITS

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

- [X] A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to this agreement,
(2) Restrictions, if any, as to depths, formations, or substances,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes.
[] B. Exhibit "B", Form of Lease.
[X] C. Exhibit "C", Accounting Procedure.
[X] D. Exhibit "D", Insurance.
[] E. Exhibit "E", Gas Balancing Agreement.
[] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
[] G. Exhibit "G", Tax Partnership.

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



ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of the oil and gas leases which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

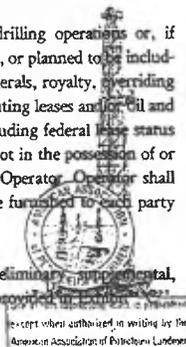
- 1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
- 2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

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



ARTICLE IV
continued

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

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

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

16 B. Loss of Title:

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

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

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

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

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

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

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

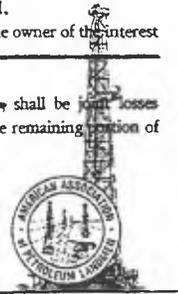
43 ~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in~~
44 ~~payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,~~
45 ~~there shall be no monetary liability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

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

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

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

63 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
65 the Contract Area.
66
67
68
69
70



Use of this document is prohibited
except when authorized in writing by the
American Association of Petroleum Landowners

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of March, 1993, Operator shall commence the drilling of a well for oil and gas at the following location:

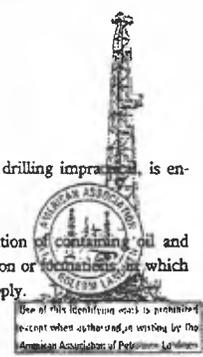
2,310' FWL x 2,030' FSL, Section 26, T-19S, R-35E, Lea County, New Mexico

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

a depth sufficient to test the Cisco or 11,400',

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

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



ARTICLE VI
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1, shall thereafter apply.
3
4
5

6 **B. Subsequent Operations:**
7

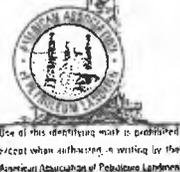
8 1. **Proposed Operations:** Should any party hereto desire to drill any well on the Contract Area other than the well provided
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.
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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accord-
30 dance with the provisions hereof as if no prior proposal had been made.
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34 2. **Operations by Less than All Parties:** If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and condi-
43 tions of this agreement.
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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.
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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,
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ARTICLE VI

continued

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

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11 300%
12 (a) ~~400%~~ 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 ~~400%~~ ^{300%} of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

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21 (b) 500 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 500 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties ~~five~~ ^{five} hundred percent (~~500%~~ ^{500%}) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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

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



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ARTICLE VI

continued

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

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

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

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

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

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

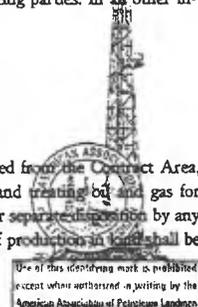
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49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's
50 salvageable materials and equipment down to the depth at which the sidetracking operation is initiated, determined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

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

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

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

written



ARTICLE VI
continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.
2

3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all production.
6

7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it,
9 but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-
10 taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to
11 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
12 not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such
13 reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event
14 for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate com-
15 merce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.
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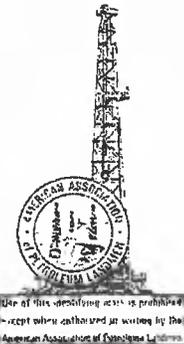
17 D. Access to Contract Area and Information:

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

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29 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
30 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
31 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
32 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
33 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
34 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
35 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
36 operations in search of oil and/or gas subject to the provisions of Article VI.B.
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38 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
39 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
40 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
41 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
42 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
43 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
44 parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of
45 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
46 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
47 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
48 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
49 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-
50 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-
51 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit
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ARTICLE VI

continued

"B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

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

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

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

~~If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.~~

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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



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ARTICLE VII

continued

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

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

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

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten Thousand Dollars (\$ 10,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Ten Thousand Dollars (\$ 10,000.00) but less than the amount first set forth above in this paragraph.

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

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the ~~operator and billed to the joint account~~ ~~party it pertains to, subject to such conditions as are set forth in their respective operating agreements.~~ In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.3.

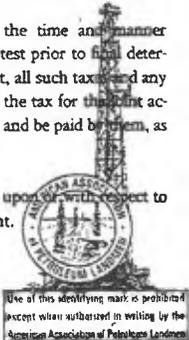
Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking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

F. Taxes:

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

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

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



Use of this identifying mark is prohibited except when authorized in writing by the American Association of Petroleum Engineers

ARTICLE VII
continued

1 G. Insurance:

2
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9
10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12
13 ARTICLE VIII
14 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

15
16 A. Surrender of Leases:

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

20
21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

35
36 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering
37 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage
38 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this
39 agreement.

40
41 B. Renewal or Extension of Leases:

42
43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
44 shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
47 interests held at that time by the parties in the Contract Area.

48
49 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

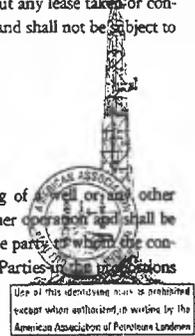
53
54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
55 by the acquiring party.

56
57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to
61 the provisions of this agreement.

62
63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64
65 C. Acreage or Cash Contributions:

66
67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
69 applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the con-
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions



ARTICLE VIII

continued

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

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

9 D. Maintenance of Uniform Interest:

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

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

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

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

29 E. Waiver of Rights to Partition:

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

35 ~~F. Preferential Right to Purchase.~~

37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
38 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the
39 name and address of the prospective purchaser (who must be ready, willing and able to purchase, the purchase price, and all other terms
40 of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase
41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-
42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-
43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to
44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-
45 pany or to a subsidiary of a parent company, or to any company in which any one party was a majority of the stock.~~

47 ARTICLE IX.

48 INTERNAL REVENUE CODE ELECTION

50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to exe-
56 cute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.



ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand and no/100 Dollars (\$ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any lease subject to this agreement shall be treated as a claim or a suit against all parties hereto.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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



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ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS



ARTICLE XV.
OTHER PROVISIONS

- A. If the operator is required hereunder to pay ad valorem tax based in whole or in part upon separate valuations of each party's working interest, then not withstanding anything herein to the contrary, charges to the Joint Account shall be made to the parties hereto in accordance with the percentage of tax value generated by each party's working interest.
- B. Notwithstanding the provisions of Article VI B 2 hereof as to any well drilled on the Unit Area, including the test well provided for in Article VI A hereof, any party who elects not to participate in the drilling or completion of any well described in Article VI A or proposed to be drilled on the Unit Area as provided in Article VI B I hereof, shall forfeit all of his or its interest in said well and the proration unit around such well, shall immediately assign to the other parties thereto who have elected to participate in the operations in said well in their respective proportions all of his or its interest in the acreage so forfeited. Any such party who so forfeits his or its interest in any such acreage shall be entitled to retain his or its interest in any well drilled on the Unit Area in which such party participated, or in subsequent wells outside of the forfeited acreage. If any well drilled on forfeited acreage is plugged and abandoned, the participating parties shall immediately re-assign the forfeited interest back to the forfeiting parties.
- C. Notwithstanding anything contained herein, any party who creates the necessity of separate measurement facilities by assignment or otherwise, shall bear the total cost of purchase, installation and maintenance of such separate measurement facilities.
- D. In the event that a Non-Operator defaults on payment of its share of expenses owing to the Operator and the Operator chooses to resort to legal proceedings to collect, then the Operator shall have the right to charge the Non-Operator who has defaulted for attorney fees, legal expenses, and court cost incurred by the Operator together with interest as provided for in this Operating Agreement.
- E. Notwithstanding anything contained herein, Amtex Energy, Inc. hereby agrees to resign as operator and call for an election of a new operator in the event William J. Savage, Amtex Energy, Inc., and any entity owned or controlled by William J. Savage, no longer owns working interest in the wells covered by this operating agreement. A successor operator shall be elected as provided in Paragraph V.B.2.

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ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October 19 92.

OPERATOR

AMTEX ENERGY, INC.

William J. Savage
William J. Savage
President

NON-OPERATORS

JOHN C. OXLEY d/b/a OXLEY PETROLEUM

C.C.G. ENTERPRISES, INC.

John C. Oxley

Curtis C. Gunn, Sr.
President

TRIAD ENERGY CORPORATION

PIPER PETROLEUM COMPANY

Samuel K. Bradshaw
President

John H. Wilson II
~~Vice~~ President
ATTEST:

Ronda L. Clarke

McRAE EXPLORATION & PRODUCTION, INC.

GUNN MINERAL TRUST, Curtis C. Gunn, Sr.
and Ameritrust Texas N.A., Trustees

By: _____
Title: _____

Curtis C. Gunn, Sr.
Trustee

MVC, INC.

Nolan Hirsch
President

Walter F. Brown

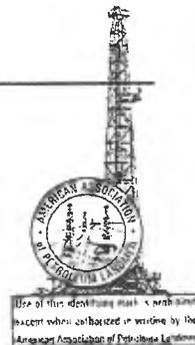
William J. Savage
William J. Savage

Joe F. Mills

Raymond G. Clanin

Mark A. Trieb

Philip C. Vogel



ACKNOWLEDGEMENT

STATE OF OKLAHOMA
COUNTY OF TULSA

This instrument was acknowledged before me on the ____ day of _____, 1992, by John C. Oxley, Owner of Oxley Petroleum.

Notary Public
State of Oklahoma

My Commission Expires:

CORPORATE ACKNOWLEDGEMENT

STATE OF TEXAS
COUNTY OF BEXAR

This instrument was acknowledged before me on the ____ day of _____, 1992, by Curtis C. Gunn, Sr., President of C.C.G. Enterprises, Inc.

Notary Public
State of Texas

My Commission Expires:

CORPORATE ACKNOWLEDGEMENT

STATE OF TEXAS
COUNTY OF HARRIS

This instrument was acknowledged before me on the ____ day of _____, 1992, by Samuel K. Bradshaw, President of Triad Energy Corporation.

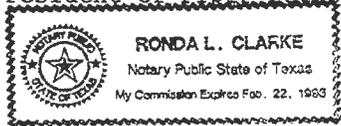
Notary Public
State of Texas

My Commission Expires:

CORPORATE ACKNOWLEDGEMENT

STATE OF TEXAS
COUNTY OF TARRANT

This instrument was acknowledged before me on the 29th day of October, 1992, by John H. Wilson II, ~~Wise~~ President of Piper Petroleum Company.



Ronda L. Clarke

Notary Public
State of Texas

My Commission Expires:
2/22/93

CORPORATE ACKNOWLEDGEMENT

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This instrument was acknowledged before me on the ____ day of _____, 1992, by _____ of McRae Exploration & Production, Inc.

Notary Public
State of Texas

My Commission Expires:

TRUST ACKNOWLEDGEMENT

STATE OF TEXAS §
 §
COUNTY OF BEXAR §

This instrument was acknowledged before me on the ____ day of _____, 1992, by Curtis C. Gunn, Sr., Trustee of Gunn Mineral Trust.

Notary Public
State of Texas

My Commission Expires:

CORPORATE ACKNOWLEDGEMENT

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the ____ day of _____, 1992, by Nolan Hirsch, President of MVC, Inc.

Notary Public
State of Texas

My Commission Expires:

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF TEXAS §
 §
COUNTY OF BEXAR §

This instrument was acknowledged before me on the ____ day of _____, 1992, by Walter F. Brown.

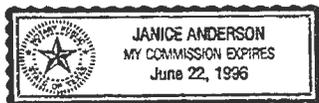
Notary Public
State of Texas

My Commission Expires:

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the 21st day of October, 1992, by William J. Savage.



Janice Anderson
Notary Public
State of Texas

My Commission Expires:
6-22-96

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF CALIFORNIA §
 §
COUNTY OF _____ §

This instrument was acknowledged before me on the ____ day of _____, 1992, by Raymond G. Clanin.

Notary Public
State of California

My Commission Expires:

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the ____ day of _____, 1992, by Mark A. Trieb.

Notary Public
State of Texas

My Commission Expires:

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF OKLAHOMA §
 §
COUNTY OF _____ §

This instrument was acknowledged before me on the ____ day of _____, 1992, by Philip C. Vogel.

Notary Public
State of Oklahoma

My Commission Expires:

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF OKLAHOMA §
 §
COUNTY OF TULSA §

This instrument was acknowledged before me on the ____ day of
_____, 1992, by Joe F. Mills.

Notary Public
State of Oklahoma

My Commission Expires:

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated October 1, 1992 between Amtex Energy, Inc. as Operator, and John C. Oxley d/b/a Oxley Petroleum, et al., as Non-Operator working interest owners.

(1) Lands subject to this agreement:

The parties hereto recognize that there shall be an area of mutual interest established in the three (3) leases covering 1280 acres, more or less, being the S/2 SW/4 of Section 23; NW/4, NE/4, SE/4, E/2 SW/4 and SW/4 SW/4 of Section 26; and NW/4, NE/4, SE/4, E/2 SW/4 and SW/4 SW/4 of Section 35, all in T-19S, R-35E, Lea County, New Mexico. Also included in this area of mutual interest is the NW/4 SW/4 of Section 26 and NW/4 SW/4 of Section 35, T-19S, R-35E, Lea County, New Mexico, 80 acres, more or less, being the deep rights below the unitized interval defined in the Unit Agreement for the East Pearl Queen Unit dated May 23, 1963, recorded in Book 203, Page 176, Miscellaneous Records of Lea County, New Mexico. In the event that any party to this agreement acquires an interest or enters into an agreement to acquire an interest in such lands, such party shall promptly offer in writing, to the other parties, the right to participate on the basis of each party bearing its proportionate share of the costs of such interest on the basis indicated on an after casing point basis. The non-acquiring party shall have fifteen (15) days from its receipt of notice to respond. Failure to respond shall be deemed that party's election not to participate.

(2) Depth Restriction:

None in the above described 1280 acres, more or less. However, the above described 80 acres, more or less, being the NW/4 SW/4 of Sections 26 and 35, T-19S, R-35E, Lea County, New Mexico, reserves the shallow rights above the base of the unitized interval defined in the Unit Agreement for the East Pearl Queen Unit.

(3) Names, Addresses and Percentages of Parties to this Agreement:

	Before Casing Point W.I.%	After Casing Point W.I.%
John C. Oxley d/b/a Oxley Petroleum Williams Center Tower I, Suite 1300 1 West 3rd Street Tulsa, Oklahoma 74103-3530	33.33333	25.00
Walter F. Brown A-107 Petroleum Center 900 N.E. Loop 410 San Antonio, Texas 78209	20.00000	15.00
McRae Exploration & Production, Inc. 10333 Richmond, Suite 860 Houston, Texas 77042	13.33333	10.00
Gunn Mineral Trust Curtis C. Gunn, Sr. and Ameritrust Texas N.A., Trustees P. O. Box 33400 San Antonio, Texas 78265-3400	6.66667	5.00

P. O. Box 470158
Fort Worth, TX 76147
Office: (817) 720-5225
Fax: (817) 720-5227



AMTEX ENERGY, INC.

April 25, 2019

Certified Mail

Piper Petroleum Company
4747 Research Forest Dr
Suite 180-315
The Woodlands, TX 77381

RE: **Revised Horizontal New Drill Well Proposal – Record State 3523 Well No. 501H**
SHL: 2,000' FWL x 100' FSL.
BHL: 2,000' FWL x 2,296' FSL.
E2W2 Section 35 and E2SW4 Section 26
Township 19 South, Range 35 East, N.M.P.M.
Lea County, New Mexico

Revised Horizontal New Drill Well Proposal – Record State 3523 Well No. 502H
SHL: 675' FWL x 100' FSL.
BHL: 675' FWL x 2,296' FSL.
W2W2 Section 35 and W2SW4 Section 26
Township 19 South, Range 35 East, N.M.P.M.
Lea County, New Mexico

Dear Co-Owner:

Amtex Energy, Inc. ("Amtex") recently sent well proposals dated 3/25/2019 covering Sections 35, 26, and 23, T-19-S, R-35-E, in Lea County, New Mexico ("Original Well Proposal"), which you have received. Due to operational and strategic changes, Amtex hereby cancels and retracts the Original Well Proposal and hereby proposes the drilling and completion of these same two wells with the revised lateral lengths as detailed below:

- 1.) the **Record State 3523 Well No. 501H** (API #: TBD), to a depth sufficient to adequately test the 2nd Bone Spring formation. The horizontal target depth will be approximately 10,300' +/- . This well shall be drilled horizontally from the S to the N on the East one half of the West one half (E2W2) of Section 35, T-19-S, R-35-E and the East one half of the South West quarter (E2SW4) of Section 26, T-19-S, R-35-E, and drilled and completed with a total measured depth of 18,184' +/- . Included herewith is our Authority for Expenditure ("AFE") in the total gross amount of \$9,028,152, being the total estimated cost to deepen and complete said formations.
- 2.) the **Record State 3523 Well No. 502H** (API #: TBD), to a depth sufficient to adequately test the 2nd Bone Spring formation. The horizontal target depth will be approximately 10,300' +/- . This well shall be drilled horizontally from the S to the N on the West one half of the West one half (W2W2) of Section 35, T-19-S, R-35-E, the West one half of the South West quarter (W2SW4) of Section 26, T-19-S, R-35-E, and drilled and completed with a total measured depth of 18,184' +/- . Included herewith is our Authority for Expenditure ("AFE") in the total gross amount of \$9,028,152, being the total estimated cost to deepen and complete said formations.

Pursuant to the governing Joint Operating Agreement ("JOA") dated 10/1/1992 with Amtex Energy Inc. as the Operator, each non-operating interest owner has 30 days after receipt of this proposal within which to notify Amtex whether they elect to participate or not in the proposed operation. **Please note the penalties for non-consent are detailed in Article XV B of the JOA.**

Please advise us of the election of your interest. If you elect to consent to participation in these proposed operations, please indicate as such on this ballot letter and sign and return the ballot letter and one copy of the AFE within 30 days of receipt of this notice. If you elect not to consent, please make the appropriate selection on the ballot letter and return the ballot letter to me at the address listed on this letterhead. If you fail to respond within 30 days after receipt, you will be deemed to elect not to participate. You may also email your response to both bsavage@amtenergy.com and tle.savage@amtenergy.com.

Should you have any questions, please do not hesitate to contact me at 817-706-5174

Regards,

Amtex Energy, Inc.

Tate F. Savage, RPI.
Business Development/Land Manager

TFS/ng

Enclosure: Authorization For Expenditure ("AFE") for the Record State 3523 Well No. 501H & 502H project proposal.

Exhibit B

I/We hereby elect to participate in the proposed operations of the Record State 3523 Well No. 501H

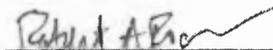
I/We hereby elect NOT to participate in the proposed operations of the Record State 3523 Well No. 501H



Piper Petroleum Company
By: Robert A. Roark
Title: Director

I/We hereby elect to participate in the proposed operations of the Record State 3523 Well No. 502H

I/We hereby elect NOT to participate in the proposed operations of the Record State 3523 Well No. 502H



Piper Petroleum Company
By: Robert A. Roark
Title: Director

AMTEX ENERGY, INC.
AUTHORIZATION FOR EXPENDITURE

Well Name: <u>Record State 3523 Well No. 501H</u>		Prospect: <u>East Pearl Record Area - 1.5 Mile Horizontal</u>		
Location: <u>SHL: 100' FSL & 2,000' FWL, sec. 35 T19S-R35E, Lea Co, NM;</u> <u>BHL: 2,296' FSL & 2,000' FWL, sec. 26 T19S-R35E, Lea Co, NM</u>		County: <u>Lea</u> ST: <u>NM</u>		
Section: <u>26.35</u> Bkt: <u> </u>	Survey: <u> </u>	TNP: <u>19S</u> RNG: <u>35E</u>	Prop. Dpth: <u>TVD 10,300'</u>	
INTANGIBLE COSTS				
Permits and Surveys	291	\$6,402	501	\$2,000
Location, Roads, Pits & Site Preparation	302	\$50,000	502	\$10,000
Location, Excavation & Other	303			
Day Work \$15,000 DH Days 50 ACP Days # Per Day	304	\$600,000	504	
Fuel & Power	305	\$48,750	514	
Mud & Chemicals	306	\$157,500	507	
Chemicals and Additives Corrosion Inhibitor		\$4,000		
Cementing Surface and Intermediate	308	\$75,000	508	
Logging, Wireline & Coring Services-Habitats	309	\$17,000	509	\$250,000
Casing, Tubing & Snubbing Services	310	\$30,000	510	\$90,000
Mud Logging \$850 Per Day 17 Days Curve & Lateral Only	311	\$27,250		
Stimulation - C & J Energy Services			512	\$3,750,000
Stimulation Rentals & Other			513	
Water & Other Includes Water Recycle Pond & New Water Well	314	\$60,000	514	\$450,000
Bits	315	\$6,000	515	\$1,000
Inspection & Repair Services	316	\$50,000	516	\$20,000
Misc. Air & Pumping Services	317		517	\$2,000
Testing	318		518	\$80,000
Completion / Workover Rig			519	\$29,000
Rig Mobilization	320	\$100,000		
Transportation	321	\$5,000	521	\$20,000
Welding and Construction	322	\$1,000	522	
Engineering & Contract Supervision	323	\$50,000	523	
Directional Services	324	\$450,000		
Equipment & Fishing Tool Rental, Cool Tubing	325	\$10,000	525	\$100,000
Well / Lease Legal	326		526	
Well / Lease Insurance	327		527	\$4,000
Intangible Supplies	328	\$11,250	528	\$3,750
Damages	329	\$18,000	529	\$15,000
Pipeline, Road, Electrical R/W & Easements	330	\$5,000	530	\$8,000
Pipeline Interconnect			531	
Comply & Separator	332	\$10,000	532	\$30,000
Overhead Fixed Rate	333	\$78,300	533	\$21,000
Well Abandonment	334		534	
Contingencies 2% (TCP) 1% (CC)	335	\$150,000	535	\$112,500
Miscellaneous	336	\$75,000	536	\$75,000
Cemented Production Casing	337	\$30,000		
Technical Services	339	\$29,000		\$60,000
Safety	341	\$4,000		
TOTAL		\$2,850,102		\$8,131,050
TANGIBLE COSTS				
Casing 10.75" x 32'	201			
Casing 10.75" x 32' 1" 760' 13.38" 54.5# H40 STC @ \$35.00/ft	201	\$59,500		
Casing 16.75" x 110' 5" 400' 9.58" 40# J55 STC @ \$30.00/ft	203	\$102,000		
Casing 16.75" x 32'	204			
Production Casing 22,000' 5 1/2" 208 P-110 @ \$25.00/ft	405	\$412,500		
Tubing 10" x 110' 11,000' 2 7/8 5.5# N80 8rd @ \$6.00 w/GRT			406	\$63,000
Drilling Head	207	\$15,000		
Tubing Head & Upper Section			408	\$27,000
Sucker Rods			409	
Packer Pump & Subsurface Equipment			410	
Artificial Lift Systems Gas Lift			411	\$27,000
Pumping Unit			412	
Surface Pumps & Prime Movers			413	
Tanks - Steel			414	\$90,000
Well Equipment - Other			415	\$43,000
Separation Equipment			416	\$94,000
Gas Treating Equipment			417	
Heater Treaters, Line Heaters			418	\$36,000
Metering Equipment			419	
Line Pipe - Gas Gathering and Transportation			420	
Misc. Fittings, Valves, Line Pipe and Accessories			421	\$144,000
Cathodic Protection			422	
Electrical Installations			423	\$36,000
Production Equipment Installation			424	\$40,000
Pipeline Construction			425	
TOTAL		\$649,000		\$698,000
SUBTOTAL		\$3,299,102		\$6,729,050
TOTAL WELL COST		\$9,028,152		

Prepared by: Amtext Energy, Inc.

Date: 4/24/2019

Company Approval Amtext Energy, Inc.

Date: 4/24/2019

* Joint Owner Interest: _____ Joint Owner Cost: TOTAL*

Piper Petroleum Company


By: Robert A. Rouse
Title: Director

Joint Owner: _____ Joint Owner Approval _____

Date: _____

AMTEX ENERGY, INC.
AUTHORIZATION FOR EXPENDITURE

Well Name: Record State 3523 Well No. 602H Project: East Pearl Record Area - 1.5 Mile Horizontal
 Location: SHL: 100' FSL & 675' FWL, sec. 35 T19S-R35E, Lea Co. NM; County: Lea ST: NM
BHL: 2,296' FSL & 675' FWL, sec. 26 T19S-R35E, Lea Co. NM
 Section: 26,35 Block: Survey: TNP: 19S RNG: 35E Prop. Dpth: TVD 10,300'

INTANGIBLE COSTS		CODE	TCP	CODE	CG
Permits and Surveys					
Location Record Plus & Site Preparation		301	\$5,200	501	\$2,000
Location Preparation & Order		302	\$00,000	502	\$10,000
Day Work	\$14,000	303	\$600,000	503	
Per Day		304	\$48,750	510	
Fluid & Pressure		305	\$157,500	507	
Fluid & Chemicals		306	\$4,000		
Chemicals and Additives	Company Inhibitor	307	\$25,000		
Completion Surface and Intermediate		308	\$25,000	508	
Logging	Wireline & Core Services-Habitual	309	\$17,100	509	\$250,000
Casing, Tubing & Drilling Services		310	\$30,000	510	\$50,000
Mud Logging	\$850 Per Day	311	\$27,750		
Stimulation - C & J Energy Services				512	\$3,750,000
Stimulation - Rammer & Obar				513	
Water & Other	Includes Water Service Ponds & New Water Well	314	\$500,000	514	\$450,000
Bits		315	\$16,000	515	\$1,000
Insulators & Repair Services		316	\$50,000	516	\$20,000
Misc. Air & Pumping Services		317		517	\$1,000
Trenching		318		518	\$30,000
Completion / Workover Rig				519	\$26,000
Rig Mobilization		320	\$100,000		
Transportation		321	\$50,000	521	\$20,000
Mining and Construction		322	\$3,000	522	
Engineering & Contract Supervision		323	\$50,000	523	
Diagnostic Services		324	\$450,000		
Equipment & Fishing Tool Rental, Coil Tubing		325	\$10,000	525	\$100,000
Well / Lease Lease		326		526	
Well / Lease Insurance		327		527	\$2,000
Intangible Expenses		328	\$11,750	528	\$3,750
Drillpipe		329	\$15,000	529	\$15,000
Pipeline Road / Electrical RO / U & E Elements		330	\$20,000	530	\$0,000
Pipeline Infrastructure				531	
Company Substitution		332	\$10,000	532	\$38,000
Overhead Fixed Rate		333	\$28,000	533	\$21,000
Well Abandonment		334		534	
Contingencies	2% (TCP) 1% (CG)	335	\$100,000	535	\$117,500
Miscellaneous		336	\$75,000	536	\$75,000
Estimated Production Claims		337	\$30,000		
Technical Services		338	\$20,000		\$50,000
Safety		341	\$4,000		
TOTAL			\$2,450,100		\$5,134,050
TANGIBLE COSTS					
Casing (10" - 12")		301			
Casing (10" - 12") - 9' - 7' 700' (1.50' 54.90 H40) STC @ \$35,000'		302	\$54,000		
Casing (8" - 10") - 4,000' 9' 10" @ \$55 STC @ \$31,000'		303	\$124,000		
Casing (6" - 8")		304			
Production Casing 2" / 40' @ 140' 200' @ 125,000'		405	\$49,000		
Tubing 2" - 4" @ 1,000' 2" @ 5.50' 300' @ 16.00' @ 300'				410	\$55,000
Tubing Head		207	\$15,000		
Tubing Head / Upper Section				438	\$27,000
Stucker Rods				420	
Power Pumps & Submersible Equipment				419	
Artificial Lift Systems - Gas Lift				411	\$27,000
Pumping Unit				412	
Crane Pumps & Pump Motors				413	
Tanks - Steel				414	\$96,000
Well Equipment - Other				415	\$43,000
Separation Equipment				416	\$54,000
Gas Treating Equipment				417	
Heater Treater, Line Heaters				418	\$30,000
Mechanical Equipment				419	
Line Pipe - Gas Gathering and Transportation				420	
Misc. Fittings, Valves, Line Pipe and Apparatus				421	\$144,000
Corrosion Protection				422	
Electric Insulation				423	\$20,000
Production Equipment Installation				424	\$60,000
Pipeline Construction				425	
TOTAL			\$649,000		\$688,000
SUBTOTAL			\$3,298,100		\$5,722,050
TOTAL WELL COST			\$9,028,152		

Prepared by: Amtext Energy, Inc. Date: 4/24/2019

Company Approval: Amtext Energy, Inc. Date: 4/24/2019

Joint Owner Interest: _____ Joint Owner Cost: TOTAL

By: [Signature]
Title: President

Joint Owner: _____ Joint Owner Approval: _____ Date: _____